

Santiago, 14 de Julio de 2014

Señores  
Superintendencia de Valores y Seguros  
**PRESENTE**



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14/07/2014 - 17:29

Operador: ESALINAS

Nro. Inscrip:115v - División Control Financiero Valores



SUPERINTENDENCIA  
VALORES Y SEGUROS

Ref.: Acompaña documento que indica.  
**EMPRESAS CMPC S.A.**  
**Inscripción Registro de Valores N° 115**

De nuestra consideración:

En conformidad con lo dispuesto por la Norma de Carácter General N°30 de esa Superintendencia, adjunto a la presente encontrará una copia del documento de información de Empresas CMPC S.A. denominado *Informational Memorandum*, para ser entregado a inversionistas en el extranjero, con el objeto de dar a conocer la compañía y el aumento de capital mediante la emisión de acciones de pago inscritas bajo el número 1002 en el Registro de Valores de esa Superintendencia, cuyo período de opción preferente se encuentra en curso y termina el próximo 25 de Julio. Copia traducida del documento adjunto les será enviada a la brevedad posible.

Sin otro particular, les saluda atentamente,

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Hernán Rodríguez Wilson  
**Gerente General**  
**Empresas CMPC S.A.**

## Informational Memorandum



## EMPRESAS CMPC S.A.

We are conducting a marketing effort of the rights to subscribe our common shares to certain institutional investors outside of Chile and the United States in reliance on Regulation S of the U.S. Securities Act of 1933, as amended (the “Securities Act”), and to qualified investors (as defined in Directive 2003/71/EC and amendments thereto, including Directive 2010/73/EU (the “Prospectus Directive”)) in any Member State of the European Economic Area which has implemented the Prospectus Directive.

This informational memorandum is not a prospectus prepared in accordance with the Prospectus Directive, as implemented in any Member State of the European Economic Area.

**Investing in the rights to subscribe to our common shares involves significant risks. See “Risk Factors” beginning on page 39 for a discussion of certain factors you should consider before investing in the rights to subscribe to our common shares.**

**Our common shares, the rights to subscribe to our common shares and the marketing thereof have not been approved or disapproved by the U.S. Securities and Exchange Commission (the “SEC”), any state securities commission in the United States or any other U.S. regulatory authority, nor have any of the foregoing authorities passed upon or endorsed the merits of the rights to subscribe our common shares or the marketing thereof or the accuracy or adequacy of this informational memorandum. Any representation to the contrary is a criminal offence in the United States.**

Neither our common shares nor the rights to subscribe to our common shares have been, and will not be, registered under the Securities Act or the securities laws of any other jurisdiction other than Chile. The rights to subscribe our common shares are being marketed only to non-U.S. persons located outside of the United States in reliance on Regulation S of the Securities Act. See “Transfer Restrictions” on page 13 for a description of restrictions on transfer of the rights to our common shares.

### Advisors

**J.P.Morgan**

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## IMPORTANT NOTICE TO INVESTORS

We are responsible for the information contained in this informational memorandum. In making your investment decision, you should rely only on the information contained in this informational memorandum and on the information referred to our common shares and the rights to subscribe to them, available in the offices of the Superintendencia de Valores y Seguros (Av. Libertador Bernardo O'Higgins 1449, Santiago, Chile) and in the main offices of Empresas CMPC S.A. (Agustinas 1343, Santiago, Chile), in addition to your own due diligence of our company and this offering. We have not authorized any other person to provide you with different information. If any person provides you with different or inconsistent information, you should not rely on it. You should assume that the information appearing in this informational memorandum is accurate as of the date on the front cover of this informational memorandum only. Our business, financial condition, results of operations, cash flow and/or prospects may have changed since that date. The delivery of this informational memorandum will under no circumstances imply that the information herein is correct as of any date subsequent to the date on the cover of this informational memorandum.

This informational memorandum is confidential, and we have prepared it for use solely in connection with the marketing effort of the rights to subscribe our common shares. This informational memorandum is personal to the person to whom it has been delivered. Distribution of this informational memorandum to any person other than the person to whom it has been delivered and those persons, if any, retained to advise that offeree with respect thereto is unauthorized and any disclosure of any of its contents without our prior written consent is prohibited. Each person, by accepting delivery of this informational memorandum, agrees to the foregoing and agrees to make no photocopies of this informational memorandum, in whole or in part. **Any person in the United States who obtains a copy of this document is required to disregard it.**

The rights to subscribe our shares marketed through this informational memorandum are subject to restrictions on transferability and resale, and may not be transferred or resold in the United States except as permitted under the Securities Act and applicable U.S. state securities laws pursuant to registration or exemption from them. You should be aware that you may be required to bear the financial risks of this investment for an indefinite period of time. In making an investment decision, you must rely on your own examination of our business and the terms of this offering, including the merits and risks involved.

This informational memorandum may only be used where it is legal to market the rights to subscribe our common shares and we are not marketing the rights to subscribe our common shares in any jurisdiction where such marketing is not permitted. You must comply with all applicable laws and regulations in force in any jurisdiction in which you purchase, sell or exercise rights to purchase our common shares or possess or distribute this informational memorandum and must obtain any consent, approval or permission required for your purchase, offer, sale or exercise of rights to purchase of our common shares under the laws and regulations in force in any jurisdiction to which you are subject or in which you make such purchases, offers, sales or exercise, and neither we nor any advisor will have any responsibility therefor.

This informational memorandum has been prepared on the basis that marketing the rights to subscribe our common shares in any Member State of the European Economic Area which has

implemented the Prospectus Directive (each, a “Relevant Member State”) will only be made to qualified investors in that Member State within the meaning of the Prospectus Directive or otherwise in circumstances that do not require us to publish a prospectus for the marketing of rights to subscribe our common shares. Accordingly, any person making or intending to market in that Relevant Member State the rights to subscribe our common shares may only do so in circumstances in which no obligation arises for us to publish a prospectus pursuant to Article 3 of the Prospectus Directive in relation to such marketing effort. Neither we nor any advisor has authorised, nor do we or they authorise, the making of any marketing effort of rights to subscribe our common shares in circumstances in which an obligation arises for us or any international manager to publish a prospectus for such marketing effort.

Neither the communication of this informational memorandum nor any other marketing material relating to the rights to subscribe our common shares is being made, and this informational memorandum has not been approved, by an authorized person for the purposes of Section 21 of the Financial Services and Markets Act 2000. Accordingly, this informational memorandum is only being distributed to and is only directed at (i) persons who are outside the United Kingdom; (ii) investment professionals falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the “Order”); or (iii) high net worth companies and other persons to whom it may lawfully be communicated, falling within Articles 49(2)(a) to (d) of the Order (all such persons together being referred to as “relevant persons”). Any marketing activity to which this informational memorandum relates will only be available to, and will only be engaged with, relevant persons. Any person who is not a relevant person should not act or rely on this informational memorandum or any of its contents.

No representation or warranty, express or implied, is made by any advisor as to the accuracy or completeness of any of the information set out in this informational memorandum, and nothing contained herein is or shall be relied upon as a promise or representation by any advisor, whether as to the past or the future.

You acknowledge and agree that you have had the opportunity to ask questions of, and receive answers from us, concerning our company, business, results of operations, financial condition, cash flow and prospects and concerning the Company. You also acknowledge and agree that we have made available to you or your agents all information requested by you or on your behalf relating to the Company, including this informational memorandum. You further acknowledge and agree that you will be deemed to have made the representations and warranties set forth in “Transfer Restrictions.”

Our common shares and the rights to subscribe to them have been publicly registered in Chile in the securities register of the Superintendencia de Valores y Seguros and, hence, are being publicly offered in Chile in accordance to Chilean law during its preemptive period, which expires on July 25<sup>th</sup>, 2014.

## CERTAIN TERMS AND CONVENTIONS

### General

Unless otherwise indicated or the context otherwise requires, all references in this informational memorandum to the “Company”, “CMPC”, “we”, “our”, “ours”, “us” or similar terms refer to Empresas CMPC S.A. together with its consolidated subsidiaries.

### Currency Presentation

In this informational memorandum, references to “US\$”, “U.S. dollars” and “dollars” are to United States dollars.

References to “UF” are to *Unidades de Fomento*. The UF is an inflation-indexed Chilean monetary unit with a value in Chilean pesos that is adjusted daily to reflect changes in the official consumer price index of the *Instituto Nacional de Estadísticas* (the “Chilean National Institute of Statistics”). The UF is revalued in monthly cycles. Each day in the period beginning on the tenth day of the current month through the ninth day of the succeeding month, the nominal peso value of the UF is indexed up (or down in the event of deflation) in order to reflect a proportionate amount of the change in the Chilean consumer price index during the prior calendar month. As of December 31, 2009, 2010, 2011, 2012 and 2013 and March 31, 2014, the value of the UF was Ch\$ 20,942.88, Ch\$ 21,455.55, Ch\$ 22,294.03, Ch\$ 22,840.75, Ch\$ 23,209.56 and Ch\$ 23,606.97, respectively.

## ENFORCEMENT OF CIVIL LIABILITIES

We are a corporation (*sociedad anónima abierta*) organized under the laws of Chile and subject to rules applicable to Chilean public corporations. Substantially all of our directors and officers reside principally in Chile. All or a substantial portion of our assets and the assets of these persons are located outside of jurisdictions other than Chile. As a result, it may not be possible for investors to effect service of process upon us or such persons within jurisdictions other than Chile or to enforce against us or them in jurisdictions other than Chile courts judgments predicated upon the civil liability provisions of the laws of jurisdictions other than Chile, including any judgments predicated upon the civil liability provisions of the federal securities laws of the United States, England or the Netherlands.

You should consult with counsel to determine whether a treaty exists between Chile and your jurisdiction for the reciprocal enforcement of foreign judgments.

A final, conclusive and non-appealable judgment against the Company rendered by any English or Netherlands court would be recognized by the Supreme Court of Chile pursuant to an Exequatur proceeding and be enforceable before the courts of Chile without re-examination of the merits under the following circumstances (the satisfaction or non satisfaction of which would be determined by the Supreme Court of Chile):

- (a) If there is a treaty between Chile and England or between Chile and the Netherlands, the provisions of such treaty will be applied;
- (b) If there is no such treaty, the foreign judgment will be enforced if there is reciprocity as to the enforcement of judgments (i.e., the English court or the Netherlands court would enforce judgments of a Chilean court under comparable circumstances);
- (c) If it can be proved that there is no such reciprocity the foreign judgment cannot be enforced in Chile;
- (d) Where (a), (b) and (c) are not applicable, i.e., if reciprocity cannot be proved, the foreign judgment will be enforceable in Chile if it has not been rendered by default within the meaning of Chilean law. In this regard, please note that foreign judgments will be enforced by Chilean courts, provided that (i) they do not contain anything contrary to the laws of the Republic of Chile, (ii) they are not in conflict with the national jurisdiction, (iii) the defendant has been duly served process of the action or complaint resulting in such judgment, and has not been prevented from availing itself of its means of defense, and (iv) the judgment is final under the laws of the country in which it has been rendered. We are of the opinion that the foreign judgment would not be considered to have been rendered by default if personal service of process was made upon an agent of the relevant defendant, assuming that such manner of service is valid under the corresponding applicable law, unless the defendant is able to prove that due to other reasons it was prevented from assuming its defense. The requirement that the defendant has been duly served process and that it has not been prevented from availing itself of its means of defense are factual issues that must be established when enforcing a foreign judgment in Chile. Under Chilean law, the service of process by means of mailing copies to the defendant will not be deemed effective to cause proper service of process and, consequently,

any foreign judgment rendered in a legal proceeding in which process was served by means of mailing copies to the defendant may be then effectively contested by it in Chile; and

(e) In any event, the foreign judgment shall not be contrary to the public policy of Chile.

We have been advised by our external Chilean counsel that with respect to public policy of Chile and the enforcement of the obligations of the Company and foreign judgments with respect thereto, generally, any provisions purporting to authorize conclusive determinations by any person, whether for interest, indemnities, costs or otherwise, may not be enforceable if they are based upon a determination which is so arbitrary and unreasonable as to be contrary to basic and fundamental principles of the law of Chile. Also, disclaimers of liability will only be enforceable if there is no gross negligence or willful misconduct on the part of the person benefiting from such disclaimers. Also, to the extent any section of the Agreement authorizes a party to exercise self-help remedies or entitles a person to benefit from enforcement proceeds resulting from foreclosure of collateral in respect of which a third party holds a security interest, any such section may be deemed to be contrary to basic and fundamental principles of Chilean law. We are not aware of any other provisions that may violate public policy.

Upon compliance with the above and provided the foreign judgment is presented to the Supreme Court of Chile, in a duly legalized (by the competent Chilean Consul) form and translated by an official translator of the Ministry of Foreign Affairs of Chile, and previously authenticated by the judicial authority of the relevant jurisdiction stating that the foreign judgment was validly rendered and is binding on the parties in accordance with the laws of such jurisdiction, the courts in Chile will enforce a final, conclusive and unappealable judgment for the payment of money rendered by any English court or the Netherlands court, in accordance with the procedure contemplated for the enforcement of final and conclusive judgments in the Chilean Civil Procedure Code. The Supreme Court of Chile will hear whatever presentation the party against whom enforcement is sought wishes to make.



## **PRESENTATION OF FINANCIAL AND OTHER INFORMATION**

### **Adoption of IFRS**

The U.S. dollar is our functional currency, as most of our financial activities, including most of our sales, are transacted in U.S. dollars.. For Chilean statutory reporting purposes, effective as of January 1, 2009, we were required to prepare our annual audited consolidated financial statements and our unaudited interim consolidated financial statements in accordance with IFRS. Therefore, our financial statements as of and for the year ended December 31, 2009 were our first annual audited consolidated financial statements required to be prepared in accordance with IFRS.

### **Financial Statements**

This informational memorandum includes our audited consolidated financial statements as of and for the fiscal years ended December 31, 2012 and 2013, together with the notes thereto, prepared in accordance with IFRS. Our audited consolidated financial statements have been audited by PwC (years 2009, 2010, 2011), Deloitte (year 2012) and Ernst & Young (year 2013).

### **Effect of Rounding**

Certain figures included in this informational memorandum have been rounded for ease of presentation. Percentage figures included in this informational memorandum have not in all cases been calculated on the basis of such rounded figures but on the basis of such amounts prior to rounding. For this reason, certain percentage amounts in this informational memorandum may vary from those obtained by performing the same calculations using the figures in our consolidated financial statements. Certain other amounts that appear in this informational memorandum may not sum to total due to rounding.

### **Market Data**

We obtained the market and competitive position data, including market forecasts, used throughout this informational memorandum from internal surveys, market research, publicly available information and industry publications. We included data from reports prepared by Hawkins Wright and our own internal studies. Industry publications, including those referenced here, generally state that the information presented therein has been obtained from sources believed to be reliable but that the accuracy and completeness of such information is not guaranteed. Similarly, internal surveys, industry forecasts and market research, while believed to be reliable, have not been independently verified, and none of us or our advisors makes any representation as to the accuracy of such information.

## **CAUTIONARY DISCLOSURE REGARDING FORWARD-LOOKING STATEMENTS**

We have made statements in this informational memorandum that constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements appear throughout this informational memorandum. Examples of such forward-looking statements include:

- statements of our plans, objectives or goals, including those related to anticipated trends, competition or regulation;
- statements about our future economic performance and that of Chile or other countries in which we operate;
- statements about our exposure to market risks, including interest rate risks, foreign exchange risk and equity price risk; and
- statements of assumptions underlying such statements.

The sections of this informational memorandum that contain forward-looking statements include, without limitation, “Company Overview.” Words such as “believes”, “expects”, “anticipates”, “projects”, “intends”, “should”, “could”, “may”, “seeks”, “aim”, “combined”, “estimates”, “probability”, “risk”, “target”, “goal”, “objective”, “future” or similar expressions are intended to identify forward-looking statements but are not the exclusive means of identifying such statements. Forward-looking statements are not guarantees of future performance and involve risks and uncertainties, and actual results may differ materially and adversely from those described in such forward-looking statements included in this informational memorandum as a result of various factors (including, without limitation, the actions of competitors, future global economic conditions, market conditions, foreign exchange rates and operating and financial risks), many of which are beyond our control. The occurrence of any such factors not currently expected by us would significantly alter the results set forth in these statements.

You should understand that the following important factors, in addition to those discussed elsewhere in this informational memorandum, could affect our future results and could cause those results or other outcomes to differ materially and adversely from those expressed in our forward-looking statements:

- changes in general economic, business, political or other conditions in Chile or elsewhere in Latin America;
- changes in, or our failure to comply with, Chilean and foreign laws and regulations;
- changes in taxes;
- changes in competition and pricing environments;
- our inability to hedge certain risks economically;

- changes in technology;
- our ability to service our debt, fund our working capital requirements and comply with financial covenants in certain of our debt instruments;
- our ability to fund and implement our capital expenditure programs;
- the maintenance of relationships with customers;
- future demand for forestry and wood products in our export markets;
- international prices for forestry and wood products;
- the condition of our forests;
- possible shortages of energy, including electricity;
- the state of the Chilean, Argentine, Brazilian, Uruguayan, Mexican, Peruvian, Colombian, Ecuadorian and world economies and manufacturing industries;
- the relative value of the Chilean peso, Argentine peso, Brazilian real, Uruguayan peso, Mexican peso, Peruvian nuevo sol and Colombian peso compared to other currencies;
- inflation;
- changes in consumer spending and saving habits;
- the effects of earthquakes, floods, tsunamis or other catastrophic events;
- a change of control;
- the effects from competition;
- increases in interest rates;
- changes in our regulatory environment, including our ability to comply with new or stricter environmental regulations and to resolve environmental liabilities; and
- the factors described under “Risk Factors” beginning on page 39.

The forward-looking statements contained in this document speak only as of the date of this informational memorandum, and we do not undertake to update any forward-looking statement to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events.

## AVAILABLE INFORMATION

We are currently required to file quarterly and annual reports in Spanish and issue *hechos esenciales* or *hechos relevantes* (notices of essential or material events) to the Superintendencia de Valores y Seguros (“SVS”), and provide copies of such reports and notices to the Santiago Stock Exchange and to any other Chilean stock exchange where our shares are listed. All such reports are available at [www.svs.cl](http://www.svs.cl). These reports and notices and any information contained in, or accessible through, our website are not incorporated by reference in, and do not constitute a part of, this informational memorandum.

## LEGEND OF **RESPONSIBILITY**

“THE *SUPERINTENDENCIA DE VALORES Y SEGUROS* DOES NOT GIVE A STATEMENT ABOUT THE QUALITY OF THE SECURITIES MARKETED FOR INVESTMENT. THE INFORMATION IN THIS INFORMATIONAL MEMORANDUM IS THE SOLE RESPONSIBILITY OF THE ISSUER”.

## **INFORMATION RELATED TO OUR SHARES**

### **Capital and Shares**

- a) Subscribed and paid Capital: US\$ 1,206,714,146.6.
- b) Number of subscribed and paid shares: 2,375,000,000 shares.

### **Share Series**

The capital is divided into ordinary shares. There are no share series.

### **Relationship between Shareholders, Creditors and other Security-holders**

The total amount of shares referred to in the section “Information Related to Our Shares – Capital and Shares – b)” are subscribed and paid for. Thus, the shareholders of the Company have the rights and obligations established by Chilean law 18.046 on Corporations and other applicable rules. There are no contracts, pacts, agreements or conventions which alter the legal and regulatory dispositions which regulate the relationship between the shareholders, creditors or any other holder of issued securities by the company. The company has not issued any stock convertible bonds.

### **Credit Rating**

- a) Fitch Chile Clasificadora de Riesgo Ltda.: First Class Level 1.
- b) ICR Empresa Clasificadora de Riesgo Ltda.: First Class Level 1.

## **SUMMARY OF THE CAPITAL INCREASE**

### **Issuer and Offering Identification**

- a) Name: EMPRESAS CMPC S.A.
- b) Informal Name: CMPC.
- c) R.U.T.: 90.222.000-3.
- d) Chief Executive Office: Agustinas 1343, comuna de Santiago.
- e) Phone: 441-2000.
- f) Fax: 671-1957.
- g) Email: investorrelations@cmpec.cl
- h) Web Page: www.cmpec.cl.

### **Issuance of New Shares**

- a) Maximum amount of the issuance: US\$ 250,000,000.
- b) Total number of shares for this issuance: 125,000,000 (one hundred and twenty five million) common shares, from the same and unique series.
- c) Percentage of shares projected to be issued/total number of shares subscribed at the end of the issuance: 5%.
- d) Projected dilution at the end of the issuance: 5%.

Shareholders who hold common stock will receive transferable share rights providing the right to subscribe for new shares of common stock. One share right will entitle the holder to purchase one new share of common stock at the subscription price of Ch\$ 1,100 per share.

Share rights may be exercised during the 30-day period from June 25, 2014 through July 25, 2014. Any share rights that are not exercised within this period will expire on July 25, 2014.

### **Nominal Value**

The shares have no nominal value.

### **Share Price**

\$1,100 Chilean pesos per share, in accordance with our ordinary board of directors meeting held on June 5, 2014.

### **Trading Markets**

The rights to subscribe our common shares will be traded in the Bolsa de Comercio de Santiago (the "Santiago Stock Exchange").

## **Use of Proceeds**

The funds obtained from the issue of shares will be used to finance part of the Guaíba II project, which involves the construction of an additional line of pulp production in Brazil with an annual capacity of 1,300,000 tons. In addition to this source of funding, such project is being funded with the capital increase made in June 2013, with a local credit in Brazil's National Bank for Economic and Social Development, with credits for imported equipment provided by Agencies Export (Finnvera for equipment from Finland and EKN for equipment from Sweden), with debt issues in the local and international market and the sale of non-core assets held by the Company. All these resources fully finance the project, estimated at US\$ 2.1 billion.



## **CORPORATE APPROVAL OF THE CAPITAL INCREASE**

### **Shareholder's Meeting**

The capital increase was approved by the 54<sup>th</sup> extraordinary shareholder's meeting of Empresas CMPC S.A. and recorded as a public deed on May 7, 2014 by the notary office of Mr. Humberto Quezada Moreno, under public deed number 4865-2014.

### **Publication Date and Extract:**

The extract of the public deed recording the act of the 54<sup>th</sup> extraordinary shareholders meeting of Empresas CMPC S.A. was registered on page 36,055, number 22,541 of the year 2014, in the Commercial Registry of the Conservador de Bienes Raíces of Santiago and was published on the Official Newspaper on May 17, 2014.

## **TRANSFER RESTRICTIONS**

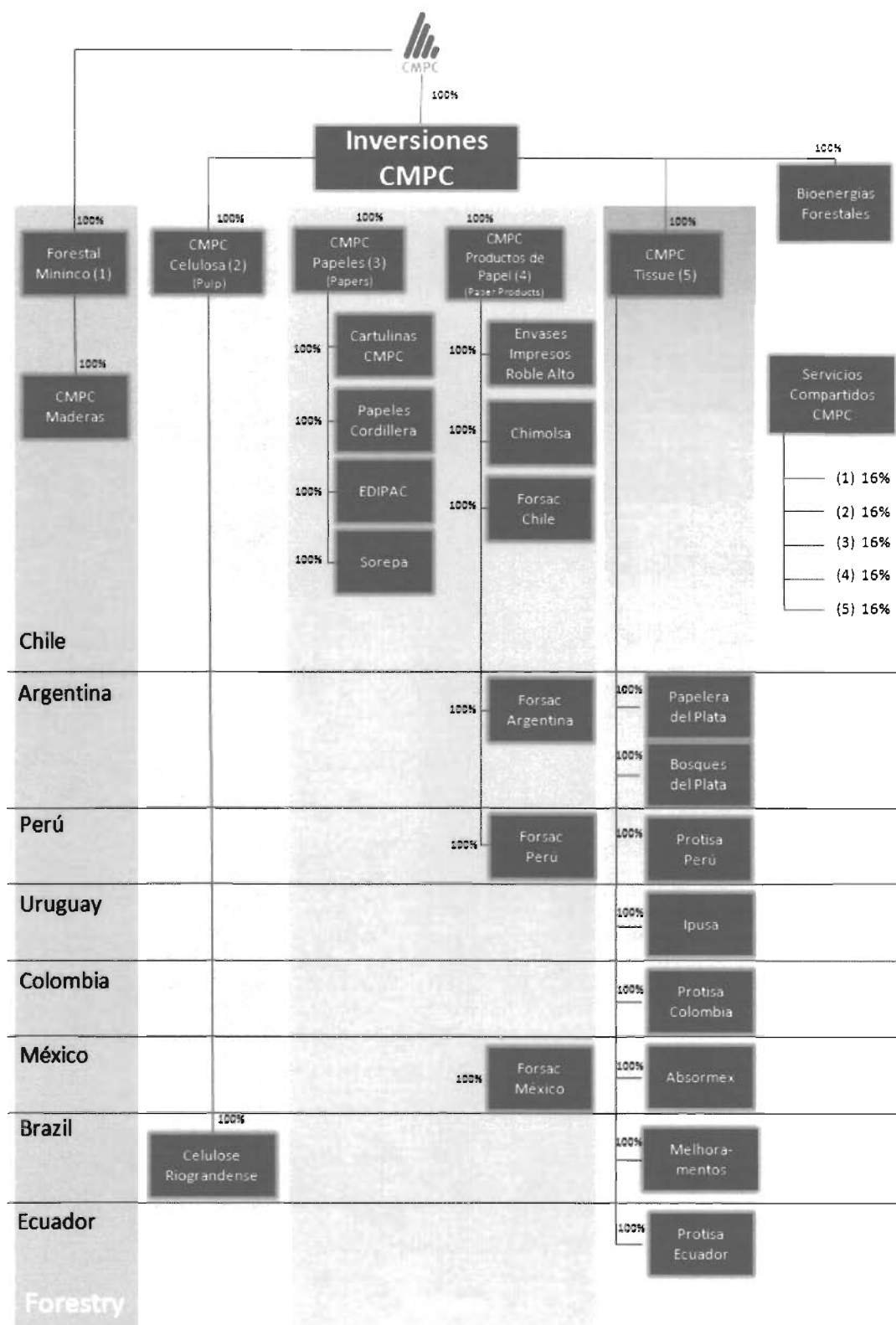
Our common shares, the rights to subscribe our common shares and the marketing thereof have not been, and will not be, registered under the Securities Act and, therefore and are being marketed only outside of the United States to certain persons who qualify as non-U.S. persons under Regulation S of the Securities Act.

## **COMPANY OVERVIEW**

### **Historic Overview**

We are one of the major producers of forestry products in Latin America. Our main products are pulpwood, sawn wood, remanufactured wood and plywood, softwood and hardwood pulp, packaging paper, corrugated boxes and other packaging products, boxboard, tissue and sanitary products. Any reference in this informational memorandum to our business includes the consolidated figures of all the companies controlled by us. We are divided into four business lines which, coordinated at a strategic level and sharing support functions, act independently in order to address markets with different products and different dynamics. Three of these business areas (those outside the forest management and wood products, such as Pulp, Paper and Tissue) are consolidated under Inversiones CMPC S.A., which is our wholly-owned direct subsidiary. Given the strong dependence and vertical integration of these businesses, we will provide a description of all our business areas, including the forestry division.

Our current simplified corporate structure can be seen in the figure below:



Source: CMPC

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Empresas CMPC S.A. used to be known as Compañía Manufacturera de Papeles y Cartones S.A. Our history dates back to 1920 when two paper manufacturers Ebbinghaus, Haensel & Cía. and Comunidad Fábrica de Cartón Maipú merged.

During the first half of the 20<sup>th</sup> century, while the Chilean economy was characterized by import substitution and high tariffs, we focused on diversifying our production, covering a wide variety of papers. Because of this diversification, we became the main paper products supplier in Chile during the 1960s.

Due to Chilean market growth we started to produce our own pulp in the Laja mill. The growing forestry plantations that we established as well as the need for economies of scales led us to produce more pulp than what was demanded in the local market. Thus, by the end of the 1960s, we started exporting pulp in addition to newsprint and wood.

In 1991, we made our first investment abroad, by purchasing the diaper mill Química Estrella San Luis S.A. in Argentina.

In 1993, we sold 50% of our subsidiary, Prosan, to Procter & Gamble, aiming to establish a joint venture to develop the disposable diaper and sanitary products market in Chile, Argentina, Bolivia, Uruguay and Paraguay. In 1998 we sold our remaining 50% stake in Prosan.

In 1994, we acquired the tissue paper producer IPUSA in Uruguay. Continuing with our tissue operations expansion process, in 1996 we acquired Papelera del Plata S.A in Argentina. That same year we started a tissue operation in Peru through our subsidiary Protisa. In 1998, we built our second tissue paper production plant in Argentina, consolidating our position as one of the major suppliers of tissue products throughout Latin America.

In 1995 we acquired a 20% stake in the Santa Fe pulp mill from Scott Paper.

Between late 1997 and early 1998, we consolidated our pulp operation by acquiring full control in the Santa Fe and Pacífico mills, respectively. In two separate operations we acquired the remaining 80% stake in the Santa Fe mill from Royal Dutch/Shell and Citibank, and a 53.5% stake in the Pacífico mill from Simpson Paper and IFC.

Boxboard production increased in 1998, which allowed us to export to new markets. In 1999, we entered the Peruvian multiwall bags market.

Moreover, in 2001, we started operating a new production line of corrugated boxes in Til-Til, Chile.

Between 2002 and 2005, we carried out different projects, including the startup of a new corrugated paper machine in the Puente Alto mill; the acquisition of the Forestal y Agrícola Monteáguila plantations, respectively, which increased our eucalyptus plantations by 32 hectares; the modernization of the Mulchen sawmill; and the addition of a new tissue paper production line in the Talagante mill, with a capacity of 30 thousand tons per year.

It is also worth noting that in 2005 the boxboard mill located in Maule, Chile increased our production capacity by 80 thousand tons per year.

In 2006, we bought the assets of Forestal Copihue, composed mainly of radiate pine plantations in the Maule region, a remanufacture mill, a sawmill, a pole impregnating mill and a door manufacture mill.

Likewise, in 2006, we acquired Absormex, a Mexican producer of diapers and tissue paper with facilities in the cities of Altamira and Monterrey, Mexico.

Other highlights during 2006 included the expansion of the corrugated paper machine in Puente Alto, Chile increasing its capacity to 340 thousand tons per year. The boxboard mill located in Valdivia, Chile increased its capacity by 20 thousand tons/year. In addition, in late 2006, the Santa Fe II mill started its operations, reaching full productive capacity in a record time of 170 days. With this project, we increased our pulp production capacity to two million tons per year.

In 2007, we purchased more than 28 thousand hectares of forests and land in the Maule and Los Lagos regions of Chile. In that same year we acquired the diaper manufacture Drypers Andina in Colombia.

The expansion of the boxboard mill located in Maule concluded in 2008, reaching a capacity of 360 thousand tons per year. During that same year, new tissue machines started operating in Argentina, Peru, Uruguay and Mexico (this last one in January 2009), increasing our regional capacity in more than 100 thousand tons per year.

In 2009, we experienced a major expansion process. During June of that year, we entered the Brazilian tissue paper market through the acquisition of Melhoramentos Papéis. This investment increased our regional tissue paper capacity by 75 thousand tons per year.

In December 2009 we acquired the Guaíba mill from Aracruz in the State of Rio Grande do Sul, Brazil. The operation involved a disbursement of approximately US\$ 1.37 billion. The acquired assets include 212,000 hectares of land, (of which 102,000 were planted with eucalyptus and the other 23,000 planted with other species) a nursery with a 30 million seedling capacity, a hardwood pulp line with a 450 thousand tons capacity per year, a printing and writing paper integrated mill with a 60 thousand ton capacity, an industrial site, and environmental permits and licenses for the expansion project for 1.3 million tons of additional hardwood capacity.

In 2010, we concluded the first stage of our debottlenecking project in the Santa Fe II mill, which increased its annual production capacity from 780,000 to 940,000 tons of hardwood pulp. That same year, we continued to execute our regional expansion plan in the tissue business, and in August, started operating a double width tissue paper machine in our Altamira mill in Mexico. During that same month, the first tissue mill in Gachancipá, Colombia, commenced operations. Both investments increased our regional production capacity by approximately 80 thousand tons of tissue paper per year.

In March 2011, our board of directors proposed to carry out a merger between us and our subsidiary Industrias Forestales S.A. (“Inforsa”, currently known as “Papeles Rio Vergara S.A.”), with the purpose of consolidating the operational integration between both companies. For that purpose, in September 2011 we carried out a split of our shares and a capital increase for these new shares to be exchanged for the shares corresponding to the minority interest of Inforsa.

During the first quarter of 2012, we concluded the second stage of our debottlenecking project in the Santa Fe II mill, adding 200,000 tons of hardwood production capacity per year. Also, a new biomass-fueled electric energy turbo generator started operating in the Santa Fe mill, increasing our generation capacity by 90 megawatts (“MW”). In terms of certifications, we obtained the Forest Stewardship Council (“FSC”) Certification for our Chilean and Brazilian plantations during 2012. By the end of 2012, we acquired 100,000 hectares of forestry land in Losango, Brazil.

During the second quarter of 2013, a new double width tissue machine commenced operations in the Talagante Tissue Mill, with a total investment of US\$ 78 million. Today, this machine is running at full capacity. Subsequently, a new multiwall bag mill was installed in Guadalajara, Mexico. This was completed with the addition of two production lines that started operating during the second quarter of 2013. During the fourth quarter of that same year, a new plywood mill located in Mininco commenced operations, doubling our production capacity of plywood panels and requiring a US\$ 120 million total investment. During the fourth quarter of 2013, a new distribution center started operating in Caieiras, Brazil, which required a total investment of US\$ 25 million. During the fourth quarter of 2013 we also renovated the N°8 Tissue Paper machine in that same mill to optimize its efficiency and increase its production by 15 thousand tons of extra capacity with a US\$ 17 million investment.

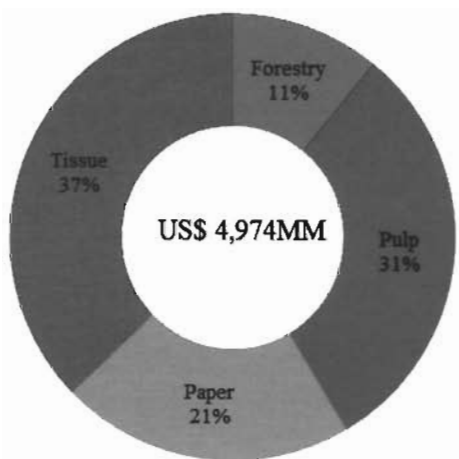
During 2013, we started the construction of line II in the Celulose Rio Grandense subsidiary located in Guaíba, Brazil. This project will require a US\$ 2.1 billion investment and will increase the mill’s capacity by 1.3 million tons of eucalyptus pulp per year. Furthermore, we announced the termination of newsprint production with the closure of Papeles Rio Vergara (Nacimiento mill in the Bio Bio region).

Finally, on December 5, 2013, we filed a *Hecho Relevante* with the SVS stating that our Board of Directors decided to carry out a reorganization of the Company’s paper and packaging businesses looking to achieve operational efficiencies and take advantage of synergies. Under the reorganization plan adopted by the Board of Directors, CMPC Paper Products and CMPC Papers will be combined. The Paper Products subsidiaries that manufacture cardboard boxes, Envases Impresos S.A. and Envases Roble Alto S.A. will also merge. The new subsidiary will be organized as part of CMPC Papers, as will the other Paper Products subsidiaries, Forsac S.A. and Chimolsa S.A.

In 2014, CMPC's Board of Directors approved a new production line for its Mexican Tissue Operations, which will mean a US\$ 127 million investment, including a new tissue paper machine and several conversion lines.

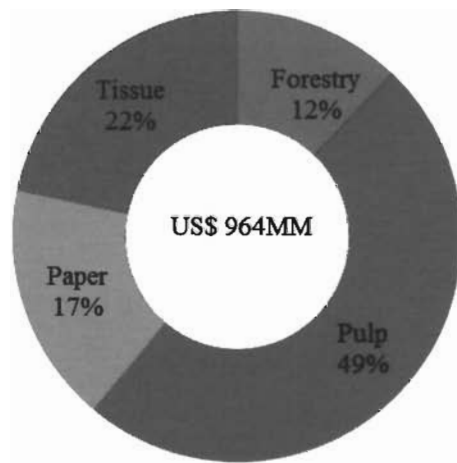
Below you can see the distribution of sales and EBITDA by business:

**Sales Breakdown by Business Area**  
**(LTM as of December 2013)**



*Source: CMPC*

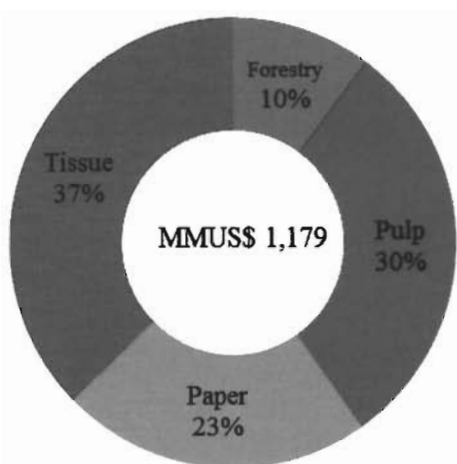
**EBITDA Breakdown by Business Area**  
**(LTM as of December 2013)**



*Source: CMPC*

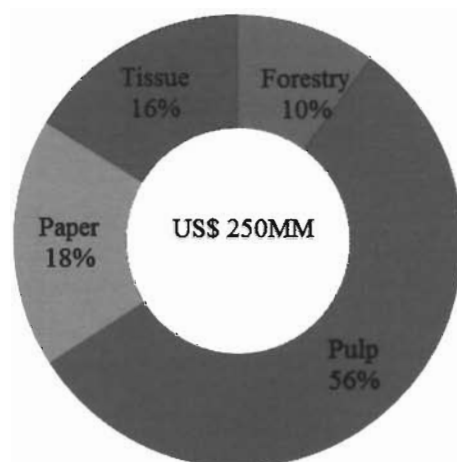


**Sales Breakdown by Business Area**  
**(1Q14)**



*Source: CMPC*

**EBITDA Breakdown by Business Area**  
**(1Q14)**



*Source: CMPC*

Our strategy is to position ourselves as a leader in the pulp and paper industry, with high presence in multiple segments through our business areas. These units, which are vertically integrated and share support functions, seek to efficiently serve a diverse customer in markets with different competitive dynamics. We are always seeking to take advantage of sustainable growth and provide adequate conditions for our workers.

Our business strategy is carried out through the following initiatives.

- Increase the growth rate, yield and quality of plantations through improved forest management techniques.
- Efficiently operate the facilities with adequate technology in terms of scale, flexibility, costs, and life span, always guided by high security and environmental protection standards.
- Serve a diverse, strategically chosen customer base, aiming to establish long term relationships.
- Improve the skills and capabilities of employees, contributing to their personal development and thereby achieving a strong identity and commitment with CMPC.
- Cultivate a balanced long term relationship with the communities in which CMPC operates.
- Grow selectively, taking advantage of our experience in the forestry industry and the ability to build and operate efficient systems.
- Build strong brands, especially in the Tissue business.
- Expand all business areas in growing markets through acquisition or direct investment.
- Maintain a conservative financial policy, which allows us to adjust to economic cycles and take advantage of the opportunities arising from them.

We have a high asset diversification, operating 38 industrial mills in Chile, Brazil, Argentina, Peru, Mexico, Colombia, Uruguay and Ecuador. Furthermore, a constant maintenance and investment program allows us to have world class assets. The following table provides a breakdown of our mills and installed capacity by product as of December 2013.

Productive Capacity	
Sawn Wood	1.0 million m <sup>3</sup> /year
Remanufactured wood	190 thousand m <sup>3</sup> /year
Plywood	500 thousand m <sup>3</sup> /year
Softwood Pulp	840 thousand Ton/year
Hardwood Pulp	1,955 thousand Ton/year
Corrugated Paper	330 thousand Ton/year
Boxboard	431 thousand Ton/year
Tissue Paper	617 thousand Ton/year
Corrugated Boxes	285 thousand Ton/year
Multiwall Bags	93 thousand Ton/year
Molded Pulp Trays	18 thousand Ton/year

Mill	Business / Product	Location
<b>Forestry</b>		
Bucalemu	Sawn Wood	Chile
Nacimiento	Sawn Wood	Chile
Mulchén	Sawn Wood	Chile
Los Angeles	Remanufactured Wood	Chile
Coronel	Remanufactured Wood	Chile
Plywood	Plywood	Chile
<b>Pulp</b>		
Pacifico	Softwood Pulp	Chile
Laja	Softwood Pulp	Chile
Santa Fe	Hardwood Pulp	Chile
Guaíba	Hardwood Pulp	Brazil
<b>Papers</b>		
Puente Alto	Corrugated Paper	Chile

Maule	Boxboard	Chile
Valdivia	Boxboard	Chile
Laja	Sackraft	Chile
Guaíba	Printing & Writing Paper	Brazil
<b>Tissue</b>		
Puente Alto	Tissue	Chile
Talagante	Tissue	Chile
Zárate	Tissue	Argentina
Naschel	Tissue	Argentina
Pando	Tissue	Uruguay
Santa Anita	Tissue	Peru
Altamira	Tissue	Mexico
Monterrey	Tissue	Mexico
Gachancipá	Tissue	Colombia
Santander de Q.	Tissue	Colombia
Caieiras	Tissue/CTMP	Brazil
Mogi das Cruzes	Tissue	Brazil
Guaíba	Tissue	Brazil
Guayaquil	Tissue	Ecuador
<b>Paper Products</b>		
Buín	Corrugated Boxes	Chile
Quilicura	Corrugated Boxes	Chile
Til Til	Corrugated Boxes	Chile
Osorno	Corrugated Boxes	Chile
Chillán	Multiwall Bags	Chile
Hinojo	Multiwall Bags	Argentina
Lima	Multiwall Bags	Peru
Guadalajara	Multiwall Bags	Mexico
Chimolsa	Molded Pulp Trays	Chile

*Source: CMPC*

## **Business Areas**

### ***Forestry Business***

#### ***Products and Markets***

This business area manages our forestry assets with the purpose of providing wood for the production of pulp and other solid wood products such as sawn wood, remanufactured wood and plywood.

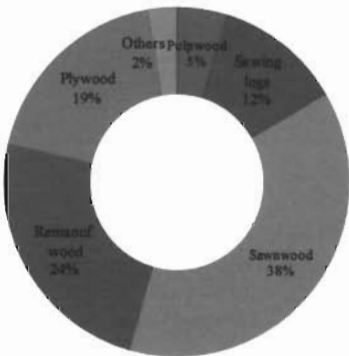
We own more than a million hectares spread across Chile, Brazil and Argentina, of which 677 thousand are planted. As of December 2013, we had an installed capacity of 1.7 million cubic meters of solid wood products per year, including sawn wood, remanufactured wood and plywood.

The forestry business sells sawn wood, remanufactured wood and plywood to third parties, all of which are produced from Chilean *radiata* pine. In addition, this segment also sells eucalyptus pulpwood and pine pulpwood and saw logs. This business area manages and supplies eucalyptus and pine pulpwood, as well as biomass to our other pulp and paper mills. Today, we own 3 sawmills, 2 remanufacturing plants and a plywood facility.

Our competitive advantage compared to other forestry competitors is based on the fast growth cycle of our raw materials. The Chilean *radiata* pine can be harvested at the age of 15 years for pulp purposes, whereas its growth cycle for solid wood products manufacture takes 22 to 24 years. By way of comparison, Northern Hemisphere producers take between 50 to 80 years to harvest pine to manufacture solid wood products. As a consequence, Chilean producers require less time and surface in order to produce a specific amount of wood compared to North American or European producers, reducing handling, logistics and maintenance expenses.

We also plant eucalyptus in Chile and Brazil, which is mainly used for pulpwood purposes. The main species we plant are *globulus* and *nitens* in Chile and *grandis* and *saligna* in Brazil. The growth cycle for these species is 10 to 14 years in Chile, whereas in Brazil they take 7 years. These cycles are significantly lower when compared to Northern Hemisphere producers.

**Third Parties Revenue  
Breakdown by Product  
(LTM December 2013)**

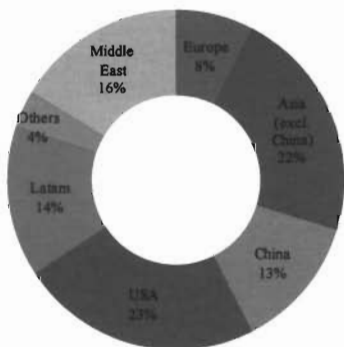


Source: CMPC

**Third Parties Revenue  
Breakdown by Product  
(1Q14)**



**Forestry Exports  
Breakdown by Destination  
(2013, tons)**



The majority of our forestry area revenues are export sales. The main export markets are USA, Japan, the Middle East and Europe. In 2013, this segment sold its products to approximately 300 clients in more than 40 countries.

#### *Forestry Reserves*

As part of this business division strategic plan, we avoid the acquisition of native forests. We have structured our manufacturing processes in Chile from *radiata* pine and eucalyptus. Since the first forestry acquisition in 1936, we have continuously increased our forestry reserves

through the acquisition and establishment of new plantations. As of December 2013, we had 329 thousand hectares of *radiata* pine and 153 thousand hectares of eucalyptus planted in Chile as well as 14 thousand hectares of *ponderosa* and *oregón* pine in Coyhaique, Chile.

Eucalyptus has a strategic value for us given its high rate of growth and density compared to other species. This allows us to have greater volumes harvested in comparatively small areas. The *globulus* species has a superior density, resulting in higher pulp production rates. The *nitens* species, originally from Tasmania, is highly resistant to cold temperatures. The lower density of this specie is offset by a faster growth rate under the Chilean climate.

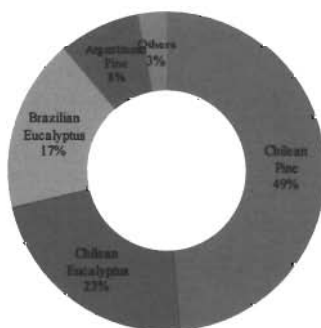
Our Chilean *radiata* pine and eucalyptus plantations are mainly located between the Bio Bio and Aurarania Regions in Chile, close to our main production facilities and ports.

In Brazil, we own approximately 118 thousand hectares of eucalyptus plantations and 7 thousand hectares of unplanted land.

We have also approximately 59 thousand hectares planted in Argentina, mainly with *taeda* and *elliotti* pine species, that present even higher growth rates when compared to *radiata* pine.

Our forestry assets composition by species is as follows:

#### **Plantation Breakdown by Specie (As of December 2013)**

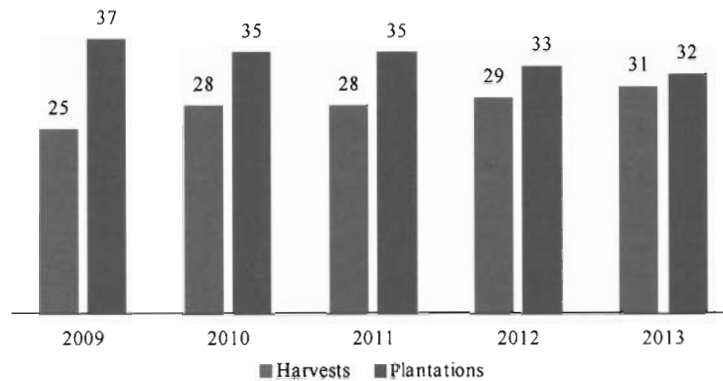


Source: CMPC

#### ***Plantations***

In 2013, we planted approximately 32 thousand hectares in Chile, Argentina and Brazil (34% pine and 33% eucalyptus in Chile, 6% in Argentina and 26% in Brazil), which is equivalent to 1.05 times the hectares harvested the same period. During the last 5 years, we have planted on average more than 1.3 times the hectares harvested each year. We expect to gradually increase the hectares harvested until equilibrium is reached.

#### **Annual Plantations and Harvests (in thousand hectares)**



Source: CMPC

In addition, we manage 4 nurseries (2 in Chile, 1 in Argentina and 1 in Brazil) where pine and eucalyptus plants from seeds and genetically selected specimens are developed. The utilization of modern selection techniques for choosing the seedlings of the most productive trees has allowed us to achieve important benefits during the last years. We estimate that these new generations of pine plantations are 25.1% more productive when compared with those harvested recently. Today, *Nietens* eucalyptus are 10% more productive compared to 15 years ago, whereas globulus eucalyptus are 22.8% more productive than those 15 years ago.

#### Forestry Management

We manage our forests with the objective of maximizing the present economic value of our forestry reserves, satisfying the restrictions of our vertical integration and our internal pulp requirements.

The forestry management treatment applied to a determined *radiata* pine plantation varies depending on land characteristics, climate and distance to sawmills and pulp mills. Plantations on high productivity land, which represent approximately 57% of the total, are intensively managed with the purpose of having knot-free sawn wood. Obtaining lumber free of knots requires thinning and pruning forests at different stages of tree growth. Plantations in lower quality land are less intensively managed (mainly through thinning), in order to obtain an efficient mix of pulp logs and saw logs. When these forests are located close to our pulp mills, plantations are reserved only for pulpwood purposes, letting them grow without being thinned and pruned.

Thinning is the process in which the best trees of a determined plantation are selected, removing the less productive ones. As a consequence, the most efficient trees have more space to grow. CMPC thins approximately 86% of its *radiata* pine plantations. The trees removed during the thinning process are used as pulpwood afterwards. Pruning is the process in which the branches that produce nodes are removed. CMPC prunes approximately 78% of its *radiata* pine plantations. Once the *radiata* pine has been thinned and pruned, it is harvested for three main uses: the inferior portion is used for knot free solid wood production, the medium part is

used for solid wood products and the upper portion is used for pulp production.

We supply an important portion of our pulpwood needs from third parties, allowing the best *radiata* pine plantations to be used for value added products.

Eucalyptus plantations are neither thinned nor pruned. They are only used for hardwood pulp manufacturing purposes.

We have independent contractors for specific forestry activities in Chile, including planting, maintaining, thinning, pruning, harvesting, transporting and constructing access roads. Today, we have agreements with approximately 230 contractors in Chile, Argentina and Brazil which together employ more than 10 thousand people. We aim to establish long term relationships with our contractors based on competitive conditions.

#### *Land acquisitions*

Our land ownership has grown from 415 thousand hectares in 1992 up to 1,048 thousand hectares in December 2013, spread throughout Chile, Brazil and Argentina. Although we have acquired planted land, most of our forests come from unplanted land which was planted afterwards.

#### *Fire Control*

We have an extensive fire control program, which includes firewalls, observation towers and a prevention area. In addition, we use helicopters and planes with the purpose of monitoring our forestry reserves and minimizing the damages in case a fire occurs. We seek to coordinate fire fighting activities with other forestry companies.

#### *Pest and Disease Control*

We have developed modern techniques to protect our plantations from pests and diseases. To achieve the above, biologic, mechanical and chemical processes are executed.

#### *Forestry Regulation*

Forestry management and exploitation in Chile is regulated by the *Ley Forestal* of 1931 and its modifications, such as the *Decreto Ley 701* of 1974 (“DL 701”). Both of them impose several restrictions to forest management and exploitation, establishing standards for fire prevention and fines for the harvest and destruction of trees that violate the forest management standards established by law. Finally, this regulation also establishes that reforestation of harvested areas is mandatory.

#### *Forest Certification*

All of our land, forests and the management related to them is certified under ISO 14001 (an environmental regulation); OHSAS 18001 (a security and a healthy occupation regulation); CERTFOR – PEFC and Chain of Custody (a forest sustainable management regulation). In December 2012, the FSC certification was achieved for our forests in Chile.

Our forests in Argentina are certified under ISO 14001, which reflects a responsible environmental management.

Our forests in Brazil are certified under ISO 14001. In addition, these forests are certified under Certflor NBR 14789, and its chain of custody is qualified under Certflor NBR 14790. In August 2012, CMPC Celulose Riograndense obtained FSC certification for its forestry base.

We have a voluntary commitment that rejects native forest replacement for forest plantations. The Company follows the principles of forest sustainability by implementing optimal environmental and social practices.

We base 100% of our wood supply from commercial plantations. The Company does not use native forests.

#### *Production facilities*

Our solid wood facilities in Chile are located close to our forestry base. We have 2 remanufacturing plants with an annual production capacity of 190 thousand cubic meters, a plywood facility with 500 thousand cubic meters of annual production and 3 sawmills which produced over a million cubic meters of sawn wood per year.

#### *Logistics and Distribution*

Our solid wood products are transported by truck and train. We use service contracts with truck managers. The trucks carry products from plantations to our own facilities as well as third party facilities.

In the case of solid wood exports, these products are distributed either by truck or train to the San Vicente, Lirquén and Coronel ports, all of them located in the Bio Bio Region of Chile, from where they are shipped to several distribution centers around the world. In order to keep transport costs in competitive levels, we seek to coordinate the transportation of some of our forestry products with other Chilean producers.

#### ***Pulp Business***

##### *Products and Markets*

We operate our pulp business through our subsidiary CMPC Celulosa S.A. We have an installed capacity of 2.8 million tons per year, which represents 5% of global market pulp supply. 93% of our pulp is sold internationally to approximately 370 clients in more than 35 countries in Europe, Asia, America and Oceania, supplying over 280 production facilities.

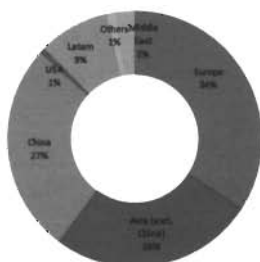


The main products manufactured by this business division are:

*Long Fiber Pulp (or softwood pulp)*: produced in the Laja and Páficico mills from *radiata* pine. Most of this pulp is bleached, characterized by its long and strong fibers. The annual production capacity of long fiber pulp is 840 thousand tons. In addition, the Laja plant has paper machines that produce kraft paper for the manufacture of paper bags.

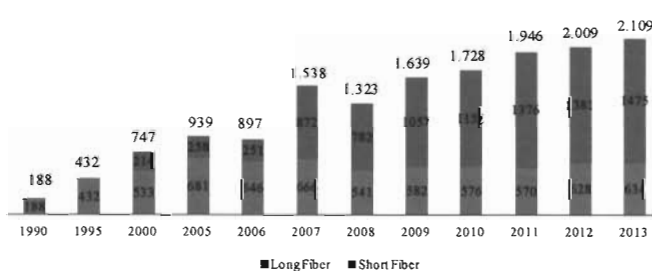
*Short Fiber Pulp (or hardwood pulp)*: produced from eucalyptus fibers in the Santa Fe I and Santa Fe II mills in Chile, and in the Guaíba mill in Brazil. This kind of pulp has excellent properties for the manufacture of fine printing papers, as well as to produce high quality tissue papers. Our annual short fiber production capacity is 1,950 thousand tons. In addition, the Guaíba mill has paper machines for the production of printing and writing papers which are mainly sold in the local market.

**Pulp Export Breakdown by Country 2013 (tons)**



Source: CMPC

**Third Parties Pulp Sales Evolution (in thousand tons)**



Source: CMPC

In 2013, we produced approximately 2.6 million tons of pulp, 15% of which was consumed locally, mainly by our other subsidiaries.

Although there are many types of pulp, this product behaves as a commodity. As a consequence, we emphasize the establishment of long-term relationships with our customers by providing a competitive product in terms of price, with high quality standards and excellent service. Our pulp has high quality properties because we do not mix different tree species in the elaboration process.

#### *Production Process*

Our four pulp mills operate using a kraft process. This procedure consists in the separation through chemical agents of wood fibers from the lignin, which is the substance that binds them. In this process, pulpwood is chipped and cooked with chemicals in a digester. Afterwards, wood fibers are washed and bleached by a process in which oxygen and other bleaching agents such as chlorine dioxide are used. Finally, the fibers are dried and processed into sheets which are packed for transport to customers. It is important to highlight that the lignin extracted

during the process is used to power steam boilers that provide most of the energy used in the plants.

### *Pulp mills*

We operate four pulp mills: Laja, Pacífico, Santa Fe and Guaíba.

The Laja mill started its operations in 1959, being the first kraft pulp mill in Chile and the second in Latin America. This mill is partially integrated in the production of pulp and paper. This facility ended a renovation process in 2012, increasing its production capacity by 110 thousand tons annually, improving its cost structure and its environmental performance.

The Pacífico mill started operations in 1993, as being one of the most modern and efficient long fiber mills worldwide. In order to take advantage of the Pacífico mill energy surplus, in 2003 we connected this mill with the Papeles Rio Vergara and Santa Fe facilities through an electric grid.

The Santa Fe I mill started manufacturing eucalyptus short fiber pulp in 1991. At the end of 2006, the Santa Fe II mill started operations, adding 780 thousand tons of hardwood pulp capacity per year. We executed capacity expansion project between 2010 and 2012, boosting production into 1.14 million tons of short fiber pulp per year.

In 2009, we undertook the biggest investment in our history by acquiring the Guaíba unit from the Brazilian company Aracruz. The Guaíba unit had one of the highest productivity rates and levels of compliance with environmental standards, making it comparable to other state of the art mills. In addition, this mill had all the environmental licenses and permits required for a 1.3 million ton hardwood capacity expansion. The expansion of the Guaíba mill was approved in December 2012 by our Board of Directors. The construction started during the second quarter of 2013 and is expected to conclude during the second quarter of 2015.

The three mills that we operate in Chile have ISO 14001, ISO 9001 and OHSAS 18001 environmental certifications. The Guaíba mill in Brazil also has ISO 9001 and ISO 14001 environmental certifications.

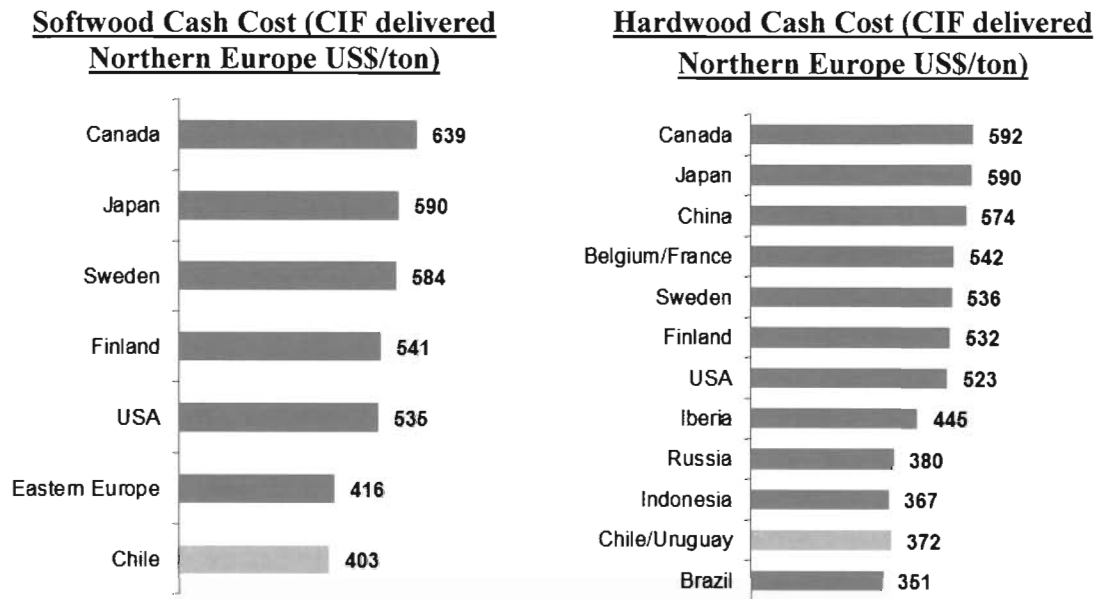
### *Fiber supply*

We normally buy *radiata* pine fibers from third parties in order to supply about 50% to 60% of our pulpwood needs. This allows us to use our own wood resources for more value added products, increasing the value of our forests.

Regarding eucalyptus fiber supply for our mills in Chile and Brazil, our large forestry base allows us to supply roughly 95% of our pulpwood needs internally.

### *Production costs*

Based on the information provided by *Hawkins Wright*, one of the most recognized pulp and paper consultancy firms, the average cash cost (production and commercialization cost not considering the cost of capital) of softwood pulp produced in Chile and delivered to northern Europe is significantly lower than the average cash cost of soft wood pulp products in the United States and Scandinavian countries. Cash costs for Chilean and Brazilian hardwood are also considerably lower than hardwood cash costs for most of the world's producers.



Source: *Hawkins Wright* (December 2013)

We significantly increased the amount of wood harvested since the opening of the Santa Fe II mill in 2006 and the Guaíba mill acquisition in 2009. We were thus able to generate economies of scale and transfer know-how between the teams in Chile and Brazil.

#### *Transport and Distribution*

We export pulp from Chile through the San Vicente, Lirquén and Coronel ports. San Vicente is a port owned by the Chilean State, operated privately under a long-term concession. Lirquén and Coronel are private ports. All of these ports are between 90 to 160 kilometers away from our pulp facilities. We have long term contracts with these ports, which includes storage and loading services.

The Guaíba mill has its own shipping terminal, from where barges are loaded and dispatched with pulp 260 kilometers to the south through the *Lago dos Patos* until they reach the Río Grande Port. From there, pulp is shipped worldwide.

We export pulp directly or through several distribution centers in Europe, North America, Latin America and Asia, where we maintain inventory before delivering to clients. Standard contracts

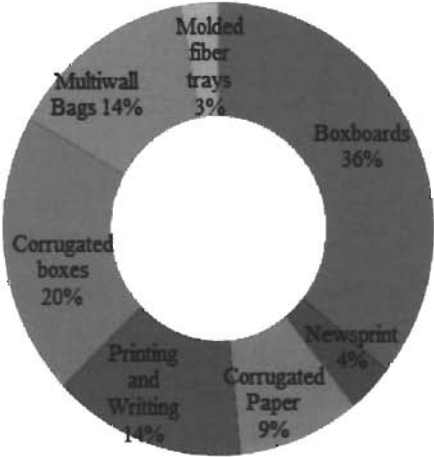
allow inventory storage for a determined period of time without charge, so we manage this process to ensure that the arrival of ships does not exceed this period. We currently have eleven storage warehouses in foreign ports.

Despite the distances to the European and Asian markets from Chile, transport costs are comparable to our competitors given the trade flow that Chile has with those markets and the advantages that we have to negotiate given our large major export volumes. The acquisition of the Guaíba unit in Rio Grande do Sul in Brazil allowed us to achieve significant synergies, as well as to reorganize logistics, optimizing shipments while reducing costs.

**Paper Division**

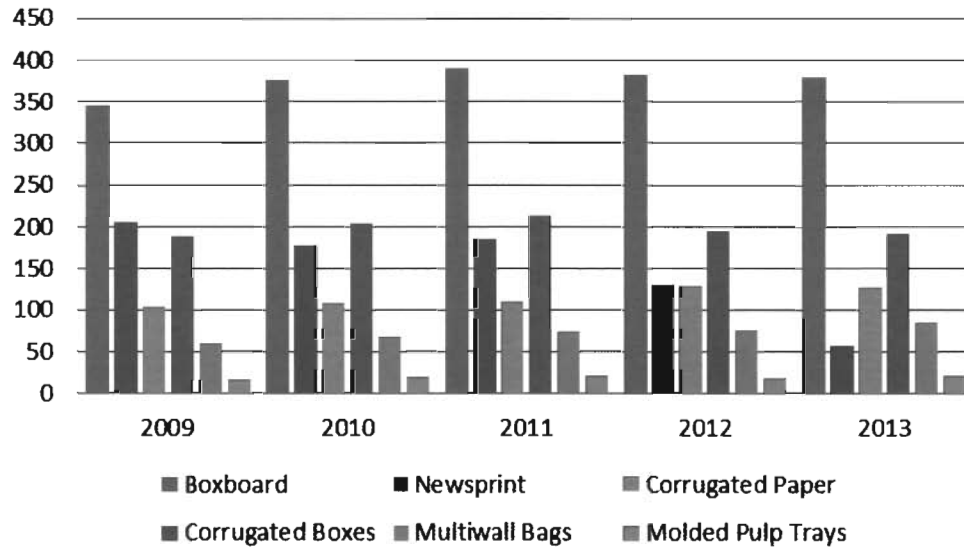
Our paper division includes boxboard, multiwall bags and a packaging area that covers corrugated paper, corrugated boxes and molded pulp trays. Our paper division includes a subsidiary dedicated to paper collection and the largest paper distribution company in Chile.

**Sales to third parties 2013**  
**by Product (Tons)**



*Source: CMPC*

**Paper Division sales trend**  
**by product (Thousands of Tons.)**



Source: CMPC

Our paper division benefits from its wide distribution channels, low production costs, and an intensive use of recycled paper, keeping a diversified base of paper and packaging products. Furthermore, our reorganization, announced in December 2013, will allow new operational efficiencies and synergies.

#### *Boxboard*

Boxboard is an intermediate product sold for the production of packaging boxes, such as packaging for cereals, cosmetics, medicines, detergents and cigarettes, among other products. We have increased our production, reaching 431 thousand tons a year, thus becoming a relevant exporter to Latin America, Europe and Asia.

With a capacity of 431 thousand tons a year, we are the only local supplier of boxboard. We export 83% of our production to more than 500 clients in more than 50 countries. We have two operational mills: Maule and Valdivia, both located in Chile, which produce high quality boxboard. We have a wide distribution and sales network in Latin America, Europe, the United States, Asia and the rest of the world.

The low production costs (due to low raw material costs), plus the high technology in our mills, allow us to produce high quality boxboards without losing competitiveness in the region.

#### *Newsprint*

In November 2013, we closed our operations in our newsprint mill due to the current deficiencies of the Chilean energy system and the high energy consumption of this product. During 2013, the mill operated with only one of its productive lines, which resulted in an annual production of 65 thousand tons.

#### *Multiwall bags*

We produce multiwall bags in Chile, Argentina, Peru and Mexico. This product is used as packaging for cement, plaster, lime, sugar, chemicals, animal food and other products. During 2013, we had a 97% share in the Chilean multiwall bag market. This was due to the high quality of the sackraft paper produced in the Laja mill, a competitive cost structure and long term relationships with the largest cement companies in Chile.

In Argentina, the multiwall bags market is highly competitive and we had a 23% market share during 2013.

The volume of multiwall bags in the Peruvian market is greater than the volume in the Chilean market, because the distribution of cement in bulk in Peru is not as extensive as in Chile. We are the leader in the Peruvian market, offering high quality products at low cost. We have signed contracts with the main cement companies, allowing us to obtain a 92% market share in 2013.

In 2009, a multiwall bag mill was installed in Guadalajara, Mexico. In 2013, we had obtained a 24% market share in Mexico.

#### *Packaging paper and corrugated paper*

Corrugated paper is used mainly to produce corrugated boxes. Our main client is Envases Impresos Roble Alto, which is our subsidiary. The production of corrugated paper increased significantly after the construction of a new paper machine for the Puente Alto mill in 2001. This paper machine produces *liner paper* (the one that faces the exterior of corrugated boxes) and *waiver paper* (the one that goes inside the box), with recycled paper being the main raw material. In addition, this type of paper could be used for interior building solutions, packaging paper, manufacturing of pipes and cardboard corners for the manufacturing and horticultural industries.

The corrugated paper that we produce (through our subsidiary *Papeles Cordillera*) comes mainly from recovered paper and recycled paper. This has a positive economic and environmental impact, indirectly creating jobs for approximately one thousand collectors and avoiding the need for large volumes of paper and paperboards coming from landfills.

With an annual capacity of 320 thousand tons, we are the national leader in the production of corrugated paper. The main suppliers worldwide of this type of paper are from Spain, Finland, United States, Canada, South Africa, China and Brazil.

Papeles Cordillera is mainly focused in the Chilean market, where it leads in all product categories. This market has grown an average of 5% during the last five years. The part of the production that is not sold in Chile is exported throughout Latin America.

The prices of these products in Chile follow international prices, and their movements are beyond our control. Among the factors that affect the price are: global demand, availability of recycled paper, production capacity and inventories worldwide, the strategy of the main forestry and integrated paper companies and availability of substitute products.

In June 2013 our Board of Directors approved a cogeneration energy generation facility for the

Puente Alto mill. The project will add approximately 44 MW of energy and 80 tons of steam per hour. Total investment is estimated at US\$ 70 million and is expected to start operations in the third quarter of 2015.

### *Corrugated boxes*

We sell most of our production of corrugated boxes in Chile, where we lead with a 37% of market share as of December 2013. This is due to the quality and consistency of our manufactured products, customer service and our competitive cost structure. In this segment, our main customers are fresh fruit, salmon and wine exporters, as well as certain industrial companies.

### *Molded pulp trays*

Molded pulp trays are used mainly by fresh fruit exporters and egg producers. Chimolsa, which is one of our subsidiaries, is the leader in Chile in the production and sale of these types of products, with more than 90% market share.

### *Paper distribution*

Printing and writing paper (P&W) is used for printing, photocopy and writing. The prices of this product follow international prices.

CMPC distributes this type of paper in Chile through our subsidiary, EDIPAC S.A. (“EDIPAC”), which imports P&W paper from different suppliers. EDIPAC has more than 36% market share in P&W, considering *cut-size* papers other white paper for the graphic industry.

EDIPAC also distributes boxboards, packaging paper, paper products and all products manufactured by our different mills. In order to complement our wide variety of products, EDIPAC imports papers that we do not produce, such as *couche* and carbonless paper. EDIPAC has more than 3 thousand clients in Chile, and distributes 116 thousand tons per year.

### *Recycled paper*

We are committed to intensive use of recycled paper for the production of tissue products and packaging products. We have specialized companies in the recycled paper industry in Chile, Argentina, Peru, Mexico and Colombia. These companies are devoted to the collection process, classification, packaging and delivery.

## ***Tissue Division***

### *Products and markets*

Our tissue division is engaged in the production of tissue paper (toilet paper, paper towels, paper napkins and facial tissues) and sanitary products (baby and adult diapers and women’s sanitary towels).

We are one of the leading producers of tissue products in Latin America, with presence in Chile

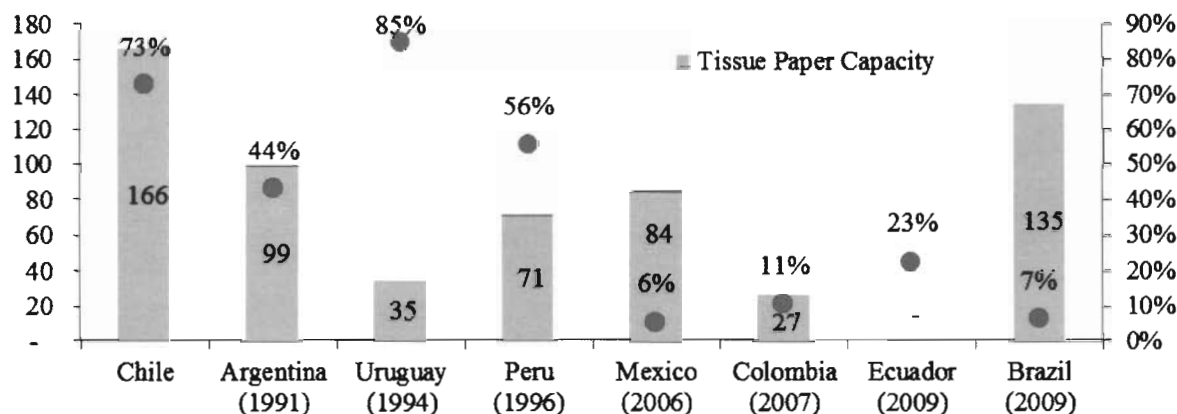
(through our subsidiary CMPC Tissue), Argentina (through our subsidiary Papelera del Plata), Brazil (through our subsidiary Melhoramentos Papéis), Peru (through our subsidiary Protisa Peru), Mexico (through our subsidiary Absormex), Uruguay (through our subsidiary Ipusa), Colombia (through our subsidiary Drypers Andina and Protisa Colombia) and Ecuador (through our subsidiary Protisa Ecuador).

We have developed a solid positioning of brands based on our wide network and ability to offer a great variety of products in each market segment. We have presence in most supermarket chains, wholesalers and pharmacies in Latin America. This is the result of an important effort made by our tissue business, which has almost doubled its installed capacity between 2006 and 2013.

In recent years, our tissue sales have increased steadily. However, per capita consumption of these products in South America is still lower than per capita consumption in developed countries, because the demand for these products depends heavily on the income level of the population.

We expect that the demand for these products will grow as income levels increase in the region, which gives us a great opportunity.

#### Market share in Tissue Paper (December 2013)

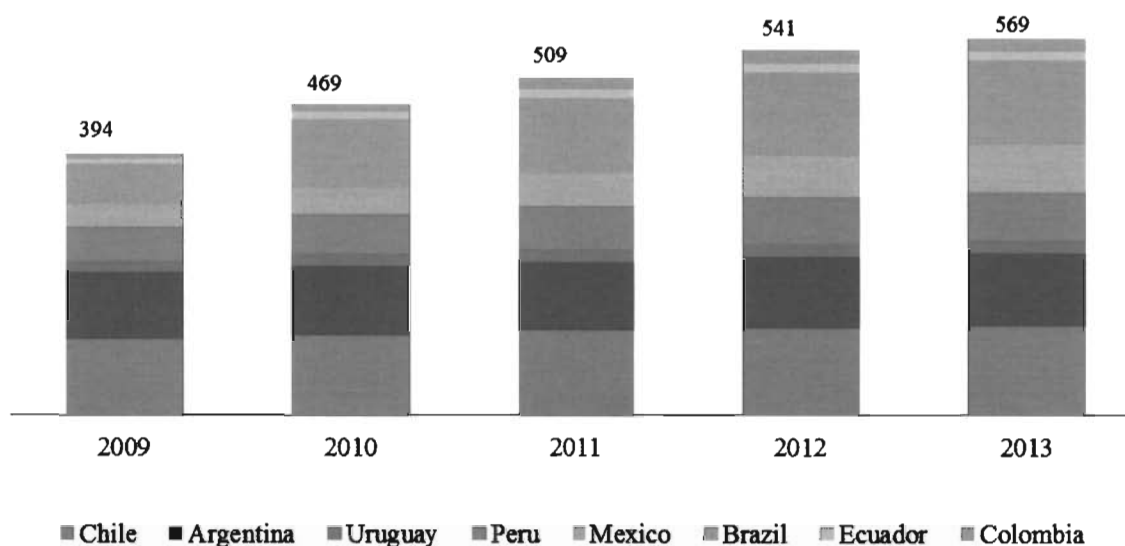


Source: CMPC

#### Sales trend in Tissue Paper



**(As of December 2013, in thousands of tons)**



Source: CMPC

We offer a wide variety of products, from low price to high quality products. Our tissue products are generally sold through our own brands, some of which have reach high recognition levels by consumers. One of our most recognized brands is Elite® brand, the regional brand that we use in most of the countries where we are established.

CMPC also sells to companies and institutions with specific products for the consumption “Away from home”, with a special marketing and productive strategy focus in these kind of clients. This segment has shown a significant growth in recent years.

In addition to paper products, we also participate in the market of baby and adult diapers, and women’s sanitary towels in Chile, Argentina, Brazil, Peru, Mexico, Uruguay, Colombia and Ecuador under the following brands: Babysec, Cotidian, Ladysoft, Confidence and Chicolastic, among others.

We make significant investments in advertising and marketing to strengthen the position of our brands.

#### *Productive mills*

We have 22 tissue production and conversion mills, with an annual capacity of 617 metric tons. We also have diaper mills with a combined capacity of approximately 2,574 million units per year. A brief description of the facilities is below.

- Puente Alto (Chile). It was built in 1980 and has three tissue paper machines and six converting lines. Today, the mill is focused in the production of tissue paper for the low and medium income segment, using recycled paper from the Sorepa recycling mill

located in the same area. The Puente Alto mill also has three baby diaper machines, one adult diaper machine and one machine for the production of women's sanitary towels.

- Talagante (Chile). It was built in 1995. It has three tissue paper machines, one of which is double width, and eight converting lines, mainly dedicated to the production of tissue paper and paper towels. The Talagante mill also has twenty converting lines for the production of paper napkins and facial tissues. In September 2013 our Board of Directors approved a cogeneration energy generation facility for the Talagante mill. This cogeneration energy generation facility will add 20 MW and 25 tons of steam per hour. The total investment will be around US\$ 32 million and it will begin operations in the third quarter of 2015.
- Zárate (Argentina). It was built in 1995 and is one of the largest tissue mills in Latin America. This mill has three tissue paper machines, one of which is double width, twelve converting lines for tissue paper productions and paper towels, and eleven lines for the production of paper napkins and facial tissues.
- Nachel (Argentina). It was acquired from Papelera del Plata in 1995 and has four diaper machines and two women's sanitary towels machines.
- Ipusa (Uruguay). It was acquired in 1994. It was built in 1987 and has two tissue paper machines and eleven converting lines, five of them for toilet paper and towel paper, and the rest for paper napkins and facial tissues. The second tissue paper machine was built in December 2008, with an annual capacity of 21 thousand tons per year, yielding a total capacity of 35 thousand tons per year. This mill also has two paper machines for the production of baby diapers and one for the production of women's sanitary towels.
- Protisa Peru (Peru). It began its operations in February 1998 with one tissue paper machine. The mill currently has three tissue paper machines, the last of which began operating in May 2008. The mill has fifteen converting lines for toilet paper, paper towels, paper napkins and facial tissues. It also has three machines for the production of diapers and one for women's sanitary towels.
- Drypers Andina (Colombia). This mill is located in Santander de Quilichao, Valle Cauca, Colombia. It has two paper machines for the production of diapers under the brand of Babysec and other private brands.
- Protisa Colombia (Colombia). This mill is located in Gachancipá in the north of Bogotá. It began operations in September 2010 and is our newest mill. The mill has an annual capacity of 27 thousand tons per year and has six converting lines for toilet paper, paper towels and paper napkins.

- Absormex (Mexico). Absormex has three mills, one in Altamira close to the city of Tampico, and two in Monterrey. Absormex produces and distributes tissue products (toilet paper, paper towels, paper napkins and facial tissues) and sanitary products. We acquired Absormex in February 2006 and currently has nineteen converting lines, seven baby diapers machines, on adult diapers machine and one women's sanitary towels machine. In March 2013 our Board of Directors announced the addition of a new tissue paper machine for the Altamira mill. The new machine will have an annual capacity of 50 thousand tons and will begin operations in the thrid quarter of 2015. This project, which includes cogenerating energy generation facility and converting lines, will have an investment of US\$ 160 million.
- Melhoramentos Papéis (Brazil). We acquired Melhoramentos Papéis in June 2009 for US\$ 61 million. Melhoramentos Papéis has mills in Caieiras and Mogi das Cruzes, close to Sao Paulo, which gives us an aggregate capacity of 135 thousand tons of tissue paper per year. Caieiras also has converting lines for sanitary products. In addition, the subsidiary has a converting line of tissue paper in Guaíba (Rio Grande do Sul) and another one is expected to operate in Recife (Pernambuco).
- Protisa Ecuador (Ecuador). It has four converting tissue paper converting lines: one for toilet paper, two for paper napkins and one for diapers.

#### *Transportation and Distribution*

Tissue products are not usually traded internationally due to high transportation costs. That is why most of the markets need local production mills. We have production mills in Chile, Argentina, Brazil, Peru, Mexico, Uruguay, Colombia and Ecuador.

Low fiber costs, high technology and business experience, has positioned us as one of the most prestigious low cost producers in Latin America.

We distribute more than 60% of our products through our own distribution centers directly to a wide client base, including supermarkets and institutional clients. Sales to intermediaries accounts for the remaining sales in this product line. As mentioned above, we are present in several supermarket chains, wholesalers and pharmacies in Latin America.

## RISK FACTORS

We and our subsidiaries are exposed to different market, financial and operational risks in its different business areas. We seek to identify and manage these risks in the most adequate way in order to minimize potential adverse effects. Our Board of Directors sets the strategy and general guidelines whereas the Administration manages our risks in a decentralized way through the different business areas. At a corporate level, the Finance Department and the Internal Audit Department coordinate and control the proper execution of the preventive policies and mitigation of the main identified risks.

Regarding Corporate Governance, we are led by a board of directors, consisting of seven members elected by the shareholders meeting, who stay as directors for three years.

Chilean law 18,046 of *Sociedades Anónimas* provides that the main objective of the board of directors is to manage us. This law addresses, among other issues, the way the Board of Directors should act, setting forth their attributions, obligations and responsibilities.

Our board of directors also represents us in the judicial and extrajudicial sphere in all acts required for the fulfillment of our corporate objective. To achieve this objective, The Board of Directors has all management and disposition powers that the law or bylaws establishes, and that are not exclusive to our general shareholders meeting.

Our board of directors meets on a monthly basis to evaluate and guide our development with respect to economic, environmental and social matters. The salaries of the members of our board of directors vary in accordance with the dividend given to the shareholders. Directors don't receive salaries for the achievement of any economic, social or environmental objective.

Shareholders can express their points of view regarding our management during our ordinary and extraordinary shareholder meetings.

### Market Risk

A considerable percentage of our sales come from products that are considered *commodities*, whose prices depend on the conditions prevailing in the international market over which we have no control. Among the most important of these factors are the fluctuations in world demand (largely determined by economic conditions in Asia, North America, Europe and Latin America), changes in the installed capacity of the industry, the level of inventories, business strategies and competitive advantages of the big players in the forestry industry, the availability of substitute products and the stage in the product's life cycle.

We have a diversified portfolio in terms of products and markets, with more than 30,000 customers worldwide. This gives us business flexibility and risk diversification.

Bleached kraft pulp is our main product category, which represents close to 28% of our consolidated sales and is sold to more than 270 customers in 44 countries in Asia, Europe, America and Oceania. We benefit from business diversification and vertical integration of our

operations, getting flexibility to manage our exposure to pulp prices. The impact caused by a possible decline in pulp prices is partially offset by higher margins on sales of products with higher processing, especially tissue and boxboard.

## **Financial Risks**

Our main financial risks are: risk of the financial market conditions (including exchange rate risk and interest rate risk), credit risk and liquidity risk.

Our policy is to concentrate much of our financial operations of borrowing and investment of funds, foreign exchange and derivatives in our subsidiary Inversiones CMPC S.A. This is intended to optimize resources, achieve economies of scale and improve operational control. Indebtedness at the subsidiary level occurs only when there are advantageous and favorable conditions.

### ***Risk of financial market conditions***

#### ***Exchange Rate Risk***

We are currently exposed to fluctuations in exchange rates, which can be expressed in two ways. The first is the difference caused from the eventual accounting mismatch between assets and liabilities in the financial position statement denominated in currencies that are not our functional currency, which in this case is the U.S. dollar. The second comes from our income and costs that, directly or indirectly, are denominated in currencies that are not our functional currency.

During the period ended in March 31, 2014, our exports accounted for approximately 44% of our total sales, the main destinations being the markets of Asia, Europe, Latin America and the United States. Most of these export sales were denominated in U.S. dollars.

Our domestic sales in Chile and those of our subsidiaries in Argentina, Peru, Uruguay, Mexico, Ecuador, Brazil and Colombia, in their respective countries, accounted for 56% of our total sales. These sales were divided equally between local currencies and U.S. dollars.

It is estimated that the revenue stream in U.S. dollars or indexed to U.S. dollars reached 63% of our total sales on March 31, 2014. On the expenditure side, raw materials, materials, and the spare parts required for the processes as well as the investments in fixed assets, are also mostly dollar-denominated or indexed to U.S. dollars.

In particular cases, sales are made or payment commitments are acquired in currencies different from the U.S. dollar. To avoid exchange risk from non-dollar currencies, we undertake hedging using derivatives in order to fix the exchange rates in question. As of March 31, 2014 a significant proportion of the estimated sales of boxboard and solid wood products in Europe, denominated in Euros, have been covered until 2017. We have covered a substantial proportion of the investment required for the Guaíba II project denominated in Brazilian reais until 2015.

Considering that our flow structure is highly indexed to the U.S. dollar, liabilities have been acquired mainly in this currency. In the case of foreign subsidiaries, since they receive revenues in local currencies, part of their debt is acquired in local currencies in order to reduce the economic and accounting mismatches. Other mechanisms used to reduce accounting mismatches are managing our investment portfolio's currency denomination, the occasional acquisition of short-term forward operations and, in some cases, subject by limits previously approved by the Board of Directors, the subscription of structures with options; which represent a small amount in relation to our total sales.

### *Interest Rate Risk*

We manage our debt's interest rate structure through derivatives in order to adjust and limit the interest costs to the most likely interest rate scenario. Our financial investments are preferably remunerated at fixed interest rates, eliminating the risk of fluctuations in the interest rate market.

We have floating rate financial liabilities of up to US\$ 194 million as of March 31, 2014 (US\$ 318 million as of December 31, 2013) and therefore are exposed to changes in interest payments due to changes in the interest rate. For example, if the rate presents a fluctuation of 10% (over the average funding interest rate of 1.51% as of March 31, 2014 and 1.75% as of December 31, 2013) this implies a fluctuation of annual interest costs in approximately US\$ 0.29 million (US\$ 0.56 million as of December 31, 2013).

### *Credit Risk*

Credit risk comes mainly from the eventual insolvency of some of our clients, and therefore, from the capacity to collect accounts receivables and to concrete committed transactions.

We manage these exposures through the review and continued analysis of the payment capacity of our clients in an internal Credit Committee meeting, which is supplied with information from several sources, and through risk transfer (using credit letters or credit insurance) or guarantees, that provide all together the coverage of practically the total export sales and approximately half of our total sales.

The effective management of credit risk, and the wide distribution and diversification of sales, have resulted in a very low loss ratio for our credit portfolio, which in the last years has been less than 0.1% of the sales.

There is also credit risk in the execution of financial operations (counterparty risk). This risk occurs when there is a possibility that the counterparty of a financial contract is unable to meet the financial obligations contracted, making us incur a loss. To reduce this risk in its financial operations, we set exposure limits for each financial institution, which are periodically approved by our Board of Directors. It is our policy to operate only with banks and financial institutions with a similar or higher credit rating than our's.

### ***Liquidity Risk***

This risk would occur in the event that we could not fulfill our obligations as a result of insufficient liquidity. We manages these risks through appropriate distribution, extending maturity and reducing the amount of debt, as well as maintaining an adequate liquidity reserve and a prudent management of our operational and investment funds.

It is our policy to concentrate our financial liabilities in our subsidiary Inversiones CMPC S.A., which funds the operational subsidiaries. Debts are contracted through bank loans and bonds placed both in international markets and in the local market. Indebtedness at the subsidiary level occurs only when there are advantageous and favorable conditions.

We have an international credit rating of BBB- by Standard & Poor's, Baa3 by Moody's and BBB+ by Fitch Ratings.

Our Board of Directors, together with our Management, has established a policy to have more restrictive financial ratios than those required by lenders.

Our Board of Directors and Management will constantly pursue compliance with these objectives.

### **Operational Risks**

Our operational risks are managed by our business divisions according to policies and standards that we define.

The objective of operational risk management is to protect, efficiently and effectively, workers, the environment, our assets and the course of business in general. For this purpose, measures are taken to prevent accidents and losses and to maintain insurance coverage. The loss prevention work is systematic and is developed according to predetermined guidelines, which is complemented by periodic risk inspections performed by insurance company engineers. Additionally, we are developing a plan for continuous improvement of our operational risk status in order to minimize the likelihood, and mitigate the effects, of possible losses.

We and our subsidiaries maintain insurance coverage to control our main risks. A significant portion of our risks are transferred to market-leading local insurance companies, which in turn reinsure a substantial part of the risk with high standard international reinsurance companies. The risks from operational activities are being constantly reevaluated to optimize coverage, according to the market's competitive offers. In general, the conditions on limits and deductibles of the insurance policies are set based on the maximum estimated losses for each risk category and on the supply conditions of the insurance market.

All of our infrastructure assets (buildings, plants, machinery, etc) are reasonably covered from operational risks by insurance policies to their replacement values.

Forest plantations are exposed to fire risk and other nature hazards, which also have insurance coverage, with limited deductibles and maximum compensations established according to historical and projected losses. Other risks not covered, such as biological risks that could also adversely affect the plantations. While these factors have not caused significant damage to our plantations in the past, it is not possible to ensure that this will not happen in the future.

### ***Political and Economic Risks in the Countries we Operate***

Changes in the political or economic conditions in the countries we have industrial operations could affect our financial results as well as the development of our business plan.

We have industrial operations in 8 countries (Chile, Argentina, Brazil, Colombia, Ecuador, Mexico, Peru and Uruguay). Much of the fixed assets are located in Chile and 65% of total sales are originated from Chilean operations. About 25% of our fixed assets are in Brazil and 13% of our sales are originated from operations based in that country.

The governments of the countries where we operate have substantial influence over many aspects of the private sector, including changes in tax regulations, monetary policy, exchange rate and public spending. The governments of the countries where we operate also have influence in regulatory aspects, such as labor and environmental policies. Our operations and financial results may be adversely affected by these changes.

### ***Continuity and Costs of Supply of Inputs and Services***

Our business development involves complex logistics in which the timely supply of quality and costs of inputs and services is critical to maintain competitiveness.

Regarding electricity, our industrial operations are mostly self-supplied with biomass-based generation and/or supply contracts. In the last few years, we have increased our generating capacity by investing in cogeneration units, and are still developing an investment plan for new units and evaluating the convenience of incorporating additional projects in the future. During 2014 and 2015, self-generated energy, in addition to existing supply contracts, is estimated to produce a net deficit of 10% with regard to energy consumption, which will have to be supplied by the spot market. In addition, plants have contingency plans to deal with restrictive supply scenarios. The weaknesses of the Chilean electricity system continue to generate higher costs for us. The relative high prices of electricity in Chile are still a reason of concern and if this situation continues, it could affect the level of competitiveness of some of our businesses in which electricity has a significant impact in costs, such as papermaking.

Among our suppliers of products and services, there are contractors who provide specialized support and logistic services to our forestry and industrial operations. If these services do not perform as required, or if the contractual relationship with these contractors is affected by legal regulations or other contingencies, our operations can be affected. An example of this is the situation of several ports in Chile where labor disputes involved a stoppage in operations in January, 2014.



We seek to maintain close, long-term relationship with our contractors, with whom there is an ongoing and systematic work on the development of high standards of operation, with an emphasis on the safety of their workers and improving their working conditions in general.

### ***Environmental Risks***

Our operations are regulated by environmental regulations in Chile and the other countries where we operate. We are known for generating the bases for sustainable development in our business management. This allows us to adapt fluidly to changes in applicable environmental legislation, so that the impact of our operations is properly framed within the required standards. Future changes in these environmental regulations or in the interpretation of these laws could impact on the operations of the industrial plants of the Company.

In 2012, our Brazilian subsidiary, Celulose Riograndense Ltda., obtained FSC certification for its forestry plantations. In 2012 the same certification was also obtained for the Company's forests in Chile. These accreditations, delivered by Forest Stewardship Council, represent a reaffirmation of our concern for the environment and sustainable development and complement similar longstanding certifications.

### ***Risks associated with community relations***

We have a close relationship with the communities where we operate; working together in different areas. Fundación CMPC has supported public schools made for more than 13 years in communities where the Company has industrial operations.

Fundación CMPC's mission is to strengthen the education and culture of the communities where Empresas CMPC operates by installing capacity among local actors and generating long-term partnerships. Its objectives are to improve the educational outcomes of children in primary education levels and foster a good relationship between the Company and the surrounding communities. In 2013 its programs benefited 6,576 students from 41 establishments in 11 communes and gave 4,972 hours of training to teachers and administrators of educational institutions, figures that are expected to increase during the present year. In certain areas of the Bío Bío and Araucanía Regions, violent events occur frequently, affecting farmers' fields and forest enterprises, caused by minority groups demanding ancestral rights over some lands. The affected areas have high poverty levels and serious social problems. Less than 1% of our plantations in Chile are affected by this problem. We have endeavored to generate programs for employment, education and promotion of productive development and micro-enterprise initiatives to mitigate the poverty of the families living in those places. All this is done without prejudice to the government's social programs.

As a neighbor of different localities, the Company has an attitude of collaboration with the aspirations and challenges of these communities.

### ***Compliance Risk***

This risk is associated with our ability to comply with legal, regulatory, contractual and non-contractual obligations, beyond those covered by the factors discussed above. In this sense, all of our areas related to corporative governance in CMPC periodically review its operating and administrative processes in order to insure proper compliance with laws and regulations applicable to each. We maintain a proactive attitude on issues related to safety, environment, working conditions, operation of markets and community relations. We maintain a proven and recognized track record of precision and prudence in the management of our businesses that extends over 93 years.

Additionally, and in compliance with Chilean law 20.393 which establishes criminal liability of legal persons for the offenses of money laundering, financing of terrorism and bribery, we implemented a “Prevention Model” in order to regulate the conduct of our employees and prevent those offences from happening. This “Prevention Model” is added to the existing audit processes of the Company, which among their objectives is contemplated to ensure strict compliance of the applicable legal framework.

## FINANCIAL OVERVIEW

### Financial Statements

Copies of our financial statements are available in our offices and at the SVS. Our financial statements are also available on the SVS website ([www.svs.cl](http://www.svs.cl)). The below are expressed in thousands of U.S. dollars.

### *Balance Sheet*

Figures in Th. US\$	Dec-2013	Dec-2012	Mar-14	Mar-13
Total Current Assets	3,488,780	3,353,693	3,314,118	3,366,465
Total Non Current Assets	10,699,074	10,525,689	10,856,805	10,556,928
<b>Total Assets</b>	<b>14,187,854</b>	<b>13,879,382</b>	<b>14,170,923</b>	<b>13,923,393</b>
Total Current Liabilities	1,138,200	1,569,235	1,231,898	1,689,550
Total Non Current Liabilities	4,729,885	4,325,113	4,557,654	4,182,761
<b>Total Liabilities</b>	<b>5,868,085</b>	<b>5,894,348</b>	<b>5,789,552</b>	<b>5,872,311</b>
Minority Interest	4,245	4,722	4,143	4,801
<b>Equity Attributable to the Owners of the Controller</b>	<b>8,315,524</b>	<b>7,980,312</b>	<b>8,377,228</b>	<b>8,046,281</b>
<b>Total Liabilities and Shareholder's Equity</b>	<b>14,187,854</b>	<b>13,879,382</b>	<b>14,170,923</b>	<b>13,923,393</b>

*Source: CMPC*

## Income Statement

Figures in Th. US\$	Dec-13	Dec-12	1Q14	1Q13
Sales	4,974,459	4,759,320	1,179,044	1,193,670
Operating Costs (1)	(3,311,778)	(3,163,428)	(769,141)	(819,774)
<b>Operating Margin</b>	<b>1,662,681</b>	<b>1,595,892</b>	<b>409,903</b>	<b>373,896</b>
Other Operating Expenses (2)	(698,821)	(681,808)	(159,788)	(161,715)
<b>EBITDA</b>	<b>963,860</b>	<b>914,084</b>	<b>250,115</b>	<b>212,181</b>
EBITDA Margin	19%	19%	21%	18%
Depreciation, Amortization and Stumpage (3)	(425,123)	(424,774)	(103,667)	(105,380)
Increase in Biological Assets due to Forest Growth and Price Effect	207,940	238,384	47,325	51,903
Decrease in Biological Assets due to Harvest (4)	(212,010)	(201,598)	(49,288)	(46,134)
<b>Operating Income</b>	<b>534,667</b>	<b>526,096</b>	<b>144,485</b>	<b>112,570</b>
Financial Costs	(174,298)	(175,231)	(43,615)	(41,638)
Financial Income	21,371	37,275	4,604	6,202
Share Results in Associated Companies (5)	8,879	12,810	(35)	2,631
Foreign Exchange Difference	37,020	(37,486)	20,193	(13,419)
Indexation Unit Results	(17,949)	(18,129)	(10,259)	(1,016)
Other Gains (Losses)	(35,795)	(15,101)	(20,616)	14,653
<b>Profit (Loss) Before Income Tax</b>	<b>373,895</b>	<b>330,234</b>	<b>94,757</b>	<b>79,983</b>
Income Taxes	(178,262)	(127,824)	(48,338)	4,332
<b>Profit (Loss)</b>	<b>195,633</b>	<b>202,410</b>	<b>46,419</b>	<b>84,315</b>
<b>Profit (Loss) attributable to</b>				
Owner of Parent	<b>195,706</b>	<b>201,746</b>	<b>46,420</b>	<b>84,220</b>
Non-Controlling Interests	(73)	664	(1)	95

(1) Operating Costs are calculated as: Costs of Sales minus Stumpage minus Decrease in Biological Assets due to Harvest minus Depreciation and Amortization

(2) Other Operating Expenses are calculated as: Distribution costs plus Administration Expenses plus Other Functional Expenses

(3) Stumpage equals the cost of formation of the plantations harvested

(4) Decrease in Biological Assets due to Harvest equals the higher costs of the part of plantations harvested and sold as a result of the revalorization for its natural growth

(5) Shows the share of profits (losses) of associates and joint ventures accounted for using the equity method

Source: CMPC

## Cash Flow Statement

Figures in Th. US\$	Dec-13	Dec-12	1Q14	1Q13
Cash Flow from Operating Activities	829,167	757,778	185,353	162,965
Cash Flow from Investment Activities	(543,033)	(787,733)	(232,273)	(136,076)
Cash Flow from Financing Activities	236,695	40,161	16,147	(28,381)
<b>Net increase (decrease) in cash and cash equivalents before effect of exchange rate change</b>	<b>522,829</b>	<b>10,206</b>	<b>(30,773)</b>	<b>(1,492)</b>
Effects of variation in the exchange rate on cash and cash equivalents	(26,822)	16,679	(9,528)	4,017
Net increase (decrease) in cash and cash equivalents	496,007	26,885	(40,301)	2,525
Cash and Cash equivalents at the beginning of the period	431,242	404,357	927,249	431,242
<b>Total Cash at the end of the period</b>	<b>927,249</b>	<b>431,242</b>	<b>886,948</b>	<b>433,767</b>

Source: CMPC

## Financial Ratios

	Dec-2013	Dec-2012	Mar-14	Mar-13
Current Liquidity (1)	3.07x	2.14x	2.69x	1.99x
Leverage Ratio (2)	0.71x	0.74x	0.69x	0.73x
Financial Leverage Ratio (3)	0.48x	0.49x	0.47x	0.50x
Proportion short-term debt / total debt (4)	19.4%	26.6%	21.3%	28.8%
Proportion long-term debt / total debt (5)	80.6%	73.4%	78.7%	71.2%
Return on Assets (ROA) (6)	1.38%	1.45%	0.33%	0.60%
Net Income Margin (7)	3.93%	4.25%	3.94%	7.06%
Return on Equity (ROE) (8)	2.35%	2.53%	0.55%	1.05%
Earnings per Share (US\$) (9)	0.0849 **	0.0909 *	0.0195	0.0379 *

(1) Current Liquidity = Total Current Assets / Total Current Liabilities

(2) Leverage Ratio = Total Liabilities / Total Shareholders Equity Attributable to the Owners of the Controller

(3) Financial Leverage Ratio = Financial Liabilities / Total Equity

Financial Liabilities = Other current financial liabilities + Other non current financial liabilities

(4) Proportion short-term debt / Total Debt = Current Liabilities / Total Liabilities

(5) Proportion long-term debt / Total Debt = Non current Liabilities / Total Liabilities

(6) Return on Assets (ROA) = Profit (Loss) attributable to Owners of Controller / Total Assets

(7) Net Income Margin = Profit (loss) / Sales

(8) Return on Equity (ROE) = Profit (Loss) attributable to Owners of Controller / Equity attributable to Owners of Controller

(9) Earnings per share (US\$) = Profit (Loss) attributable to Owners of Controller / Weighted average of shares in the period

\* Determined considering 2,219,397,052 shares in circulation

\*\* Determined considering 2,304,991,083 acciones equivalentes a las 2,219,397,052 in circulation as of December 31 2012 plus the weighted average tenure of paid shares of the capital increase

Source: CMPC

## **Analysis of our Financial Situation**

### ***Balance Sheet Analysis***

The behavior of our assets and liabilities as of March 31 2014, compared to the situation as of December 31, 2013 is as follows:

Current assets reported a net decrease of US\$ 175 million. More specifically, the net decrease is mainly reflected in the Other Financial Assets account for US\$ 117 million, in the Cash and Cash Equivalents account for US\$ 40 million and in the Tax Assets account by US\$ 21 million. This was partially offset by an increase in Trade and Other Accounts Receivable for US\$ 6 million.

Non-current assets had a net increase of US\$ 158 million, primarily due to an increase in the account line Property, Plant and Equipment of US\$ 149 million, highlighting the progress of the new pulp line in Brazil and the Non-Current, Current Tax Assets for US\$ 11 million. This was mainly offset by a decrease in the account Other Non-Financial Assets of US\$ 6 million.

Equity (which by IFRS standard includes the participation of minority shareholders) shows an increase of US\$ 61.6 million, which corresponds mainly to retained earnings, obtained in the first quarter of 2014 for US\$ 46 million, an increase in the account Hedging Reserves of Cash Flow of US\$ 36 million and an increase in Other Reserves of US\$ 15 million. This was partly offset by a decrease in the account Reserves for Differences in Exchange Rate Differences of US\$ 20 million.

### ***Income Statement Analysis***

Our consolidated EBITDA for the first quarter of 2014 was US\$ 250 million, 18% higher than the same quarter of the year 2013. This mainly occurred due to a better performance of the exported goods and lower operational costs. EBITDA margin had a significant improvement from an 18% to a 21% comparing both periods previously mentioned.

Our revenues for the first quarter of 2014 totaled US\$ 1.179 billion, 1% less than the revenues registered during the same period of 2013. Consolidated earnings for the first quarter reached US\$ 64 million, a decrease of 45% with respect to the US\$ 84 million registered during the same period of the previous year. Although the company had a better operating profit for the first three months of 2014, this was offset by higher deferred tax provision reflected in the accounting line Income Tax.

During the first quarter of 2014, the forestry business presented 6% lower revenues than the same period last year, mainly due to a lower volume of remanufactured wood and plywood panel exports. This business's EBITDA had a 4% increase during the first quarter due to lower total costs.

The pulp business had an important increase in its EBITDA, mainly because of higher volumes and lower production costs. Its revenue increased by 15% when compared to the first quarter of 2013, a rise that is explained fundamentally because of higher volumes of exports on both hardwood and soft wood pulp, a higher price for softwood pulp and higher sale of energy. This was partially compensated by a lower price on the export of hard wood pulp.

The paper business had 5% lower revenues compared to the same quarter of the previous year, mainly due to the closing of the newspaper operation and a lower volume of sales in Chile of corrugated boxes, office paper and boxboard. This was compensated partially by higher export sales of boxboard. The EBITDA of this business showed a decrease of 1% compared to the same period of 2013, due to a higher efficiency in costs which compensated the decrease in revenues and the higher cost in electric energy associated with the expiration of long term energy contracts at the end of 2013.

The Tissue business had good performance in terms of sales volumes, revenues and operational results expressed in local currencies. Even so, the devaluation of the local currencies with respect to the United States dollar, averaged by the sales in each currency reached 18.6% with respect to the same quarter of the previous year. In dollar terms, during the first quarter of 2014, its revenues decreased by 2% and EBITDA by 24% compared with the same period of the last year.

In Other Income (Losses), the first quarter of 2014 showed a loss for US\$ 21 million, which corresponds mainly to the result caused by the settlement of financial derivative instruments which exchange liabilities in UF to U.S. dollar, which is compensated by a profit generated in the Exchange Rate Differential line of US\$ 20 million.

Concerning taxes, during the first quarter of 2014 we registered a loss of US\$ 48 million, compared to a profit of US\$ 4 million registered during the same period of 2013. This difference was caused because of the depreciation of the Chilean peso during the first three months of 2014, compared with an appreciation of this currency during the same period of the previous year. This resulted in a higher income tax in Chile for US\$ 35 million, mainly caused by the appreciation of foreign investments maintained in dollars. In addition, there is an US\$ 18 million charge related to Deferred Taxes, due to a higher difference between the financial and tax base statements.

### ***Analysis of the Cash Flow Statement***

The behavior of the main components of the consolidated Cash Flow as of March 31, 2014, compared to March 31, 2013 Cash Flow, is as follows:

The consolidated operational activities generated positive operational cash flow of US\$ 185 million for the first quarter of 2014 (US\$ 163 million as of March 31, 2013).

Consolidated Investment activities for March 31, 2014 represented a use of funds of US\$ 232 million (US\$ 136 million as of March 31, 2013). These flows are mainly applied to the net investment in the purchase of Property, Plant and Equipment for US\$ 308 million (US\$ 131 million as of March 31, 2013), payments arising from futures, forwards, options and swaps contracts for US\$ 36 million (US\$ 6 million as of March 31, 2013) and Purchases of other long-term assets for US\$ 12 million (US\$ 14 million as of March 31, 2013).

This was partially offset by Other cash inflow of US\$ 94 million (US\$ 5 million as of March 31, 2013), Proceeds deriving from futures, settling of options and swap agreements for US\$ 23 million (US\$ 2 million for the first quarter of 2013) and Interests received of US\$ 4 million (US\$ 6 million as of March 31, 2013).

Net inflows for consolidated financing for the first quarter of 2014 were US\$ 16 million, explained by Proceeds from long term loans for US\$ 199 million and Proceeds from short term loans for US\$ 40 million. This was partially compensated with Refunds of loans for US\$ 186 million and Interest paid for US\$ 37 million.

### ***Financial Ratio Analysis***

As shown in the table of Financial Ratios, all of the ratios of liquidity and debt (the first five ratios that appear in the table) present a better performance at the closing of the quarter compared to the same quarter of 2013. On the other hand, the profitability ratios show a drop caused by a decrease in consolidated income.



## MANAGEMENT

### Board of Directors

Name	Chilean ID N°
ELIODORO MATTE LARRAIN	4.436.502-2
JORGE GABRIEL LARRAIN BUNSTER	4.102.581-6
ARTURO MACKENNA ÑIGUEZ	4.523.287-5
MARTIN IGNACIO COSTABAL LLONA	5.593.528-9
ERWIN OTTO HAHN HUBER	5.994.212-3
BERNARDO MATTE LARRAIN	6.598.728-7
JORGE EDUARDO MARIN CORREA	7.639.707-4

### Director's Committee

Name	Chilean ID N°
JORGE EDUARDO MARIN CORREA (Independent)	7.639.707-4
ERWIN OTTO HAHN HUBER (Independent)	5.994.212-3
ARTURO MACKENNA ÑIGUEZ (Not Independent)	4.523.287-5

### Main Executives

C.N.I. N°	Name	Type of Position	Position	Profession	Appointment Date
6.227.256-2	RODRIGO QUIROGA CORREA	Principal Executive	GERENTE SERVICIOS COMPARTIDOS	Business and Administration	29/01/2013
8.820.053-5	JACQUELINE ALEJANDRA SAQUEL MEDIANO	Principal Executive	GERENTE DE DESARROLLO DE EJECUTIVOS	Business and Administration	29/01/2013
7.052.877-0	FRANCISCO RUIZ-TAGLE EDWARDS	Principal Executive	GERENTE DE AREA DE NEGOCIO	Business and Administration	01/05/2011
7.051.490-7	HERNAN	Gerente		Civil	29/04/2011

C.N.I. N°	Name	Type of Position	Position	Profession	Appointment Date
	RODRIGUEZ WILSON	General		Engineering	
7.117.506-5	EDUARDO SERRANO SPOERER	Principal Executive	GERENTE DE AREA DE NEGOCIO	Civil Engineering	29/04/2011
12.797.047-5	RAFAEL COX MONTT	Principal Executive	GERENTE DE ASUNTOS LEGALES	Law	01/01/2010
5.744.665-K	WASHINGTON WILLIAMSON BENAPRÉS	Principal Executive	GERENTE DE AREA DE NEGOCIO	Civil Engineering	01/10/2006
4.837.929-K	RODRIGO LEVY WILSON	Principal Executive	GERENTE DE CONTROL DE GESTION	Civil Engineering	01/01/2006
7.003.064-0	LUIS ALFONSO LLANOS COLLADO	Principal Executive	GERENTE DE FINANZAS	Civil Engineering	01/01/2004
7.622.732-2	JORGE MOREL BULICIC	Principal Executive	GERENTE DE AREA DE NEGOCIO	Civil Engineering	01/08/1999
5.641.805-9	RONALD WILSON GROTHE	Principal Executive	GERENTE DE AUDITORIA	Civil Engineering	01/10/1998

### Incentive Plans

Executives, in addition to their fixed wage, have a variable incentive plan which consists of an annual variable bonus and variable gratifications, which depend on earnings of the company, achievement of strategic goals and the fulfillment of a profitability objective in each area. The total gross income paid to the main executives of the company was of \$ 3,201 million pesos during 2013. The fixed component of this was \$ 1,901 million pesos and the variable component was \$ 1,120 million pesos (compared with the \$ 3,195 million pesos, \$ 1,884 million pesos and \$ 1,312 million pesos respectively for 2012). We have never had and currently do not have, a compensation program or special benefits directed to our main executives or other executives which consider payments based on options for our shares.

There were no indemnification payments to general managers or main executives during the year 2013. In 2012, compensation payments to general managers or main executives amounted to US\$ 114.4 million.

## PRINCIPAL SHAREHOLDERS

The following table details our shares that are held by entities that control, directly or indirectly, 55.50% of the share capital with voting rights.

These shareholders, which belong to the same business group, do not have a formal shareholders' agreement providing for joint action. The beneficial owners of the aforementioned entities are, in equal parts, the following persons: Miss Patricia Matte Larraín, ID 4.333.299-6, Mr. Eliodoro Matte Larraín, ID 4.436.502-2 and Mr. Bernardo Matte Larraín, ID 6.598.728-7.

There are no other major shareholders of the company different than the controlling group.

The following table details our twelve largest shareholders as of March 31, 2014.

Shareholder	Number of shares subscribed and paid	% of property
FORESTAL COMINCO S.A.	462,072,455	19.46%
FORESTAL, CONST. Y COM. DEL PACIFICO SUR S.A.	452,395,317	19.05%
FORESTAL O HIGGINS S.A.	167,652,664	7.06%
BANCO DE CHILE POR CUENTA DE TERCEROS	116,294,487	4.90%
FORESTAL BUREO S.A.	101,135,058	4.26%
BANCO ITAU CHILE S.A. POR CTA. DE INVTAS. EXTJOS.	90,239,657	3.80%
INMOBILIARIA NAGUE S.A.	49,972,870	2.10%
BANCO SANTANDER-JP MORGAN	47,625,762	2.01%
A.F.P. PROVIDA S.A. PARA FONDO C	47,091,001	1.98%
COINDUSTRIA LTDA.	44,246,602	1.86%
CONSTRUCTORA SANTA MARTA LIMITADA	39,454,568	1.66%
A.F.P. HABITAT S.A. PARA FONDO C	36,757,616	1.55%

As of March 31 2014, we had 27,604 shareholders.