



Celulosa Arauco y Constitución S.A.

Fourth Quarter 2016 Results

March 13, 2017

## HIGHLIGHTS

### REVENUES U.S.\$ 1,220.6 MILLION

Arauco's revenues reached U.S.\$ 1,220.6 million during the fourth quarter of 2016, a 2.8% or U.S.\$ 33.1 million increase compared to the U.S.\$ 1,187.5 million obtained in the third quarter of 2016.

### NET INCOME U.S.\$ 75.8 MILLION

Net income reached U.S.\$ 75.8 million, an increase of 141.1% or U.S.\$ 44.3 million compared to the U.S.\$ 31.4 million obtained in the third quarter of 2016. For the full year, net income totaled U.S.\$ 217.6 million.

### ADJUSTED EBITDA U.S.\$ 259.9 MILLION

Adjusted EBITDA reached U.S.\$ 259.9 million, an increase of 1.5% or U.S.\$ 3.8 million compared to the U.S.\$ 256.1 million obtained during the third quarter of 2016. For the full year, adjusted EBITDA totaled U.S.\$ 1,052.2 million.

### NET FINANCIAL DEBT/ LTM ADJUSTED EBITDA

Net Financial Debt / LTM<sup>(1)</sup> Adjusted EBITDA ratio reached 3.7x in this quarter, an increase compared to the 3.6x obtained in the third quarter of 2016.

(1) LTM = Last Twelve Months

### CAPEX

CAPEX reached U.S.\$ 163.5 million, an increase of 26.8% or U.S.\$ 34.5 million compared to the U.S.\$ 129.0 million spent during the third quarter of 2016.

#### Conference Call

Friday, March 17<sup>th</sup>, 2017

13:00 Santiago Time

12:00 Eastern Time (New York)

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For more details on Arauco's financial statements please refer to [www.svs.cl](http://www.svs.cl) or [www.arauco.cl](http://www.arauco.cl)

Readers are referred to the documents filed by Arauco with the United States Securities and Exchange Commission, specifically the most recent filing on Form 20-F that identifies important risk factors that could cause actual results to differ from those contained in the forward-looking statements. All forward-looking statements are based on information available to Arauco on the date hereof and Arauco does not assume any obligation to update such statements. References herein to "U.S.\$" are to United States dollars. Discrepancies in any table between totals and sums of the amounts listed are due to rounding. This report is unaudited.

## OVERVIEW

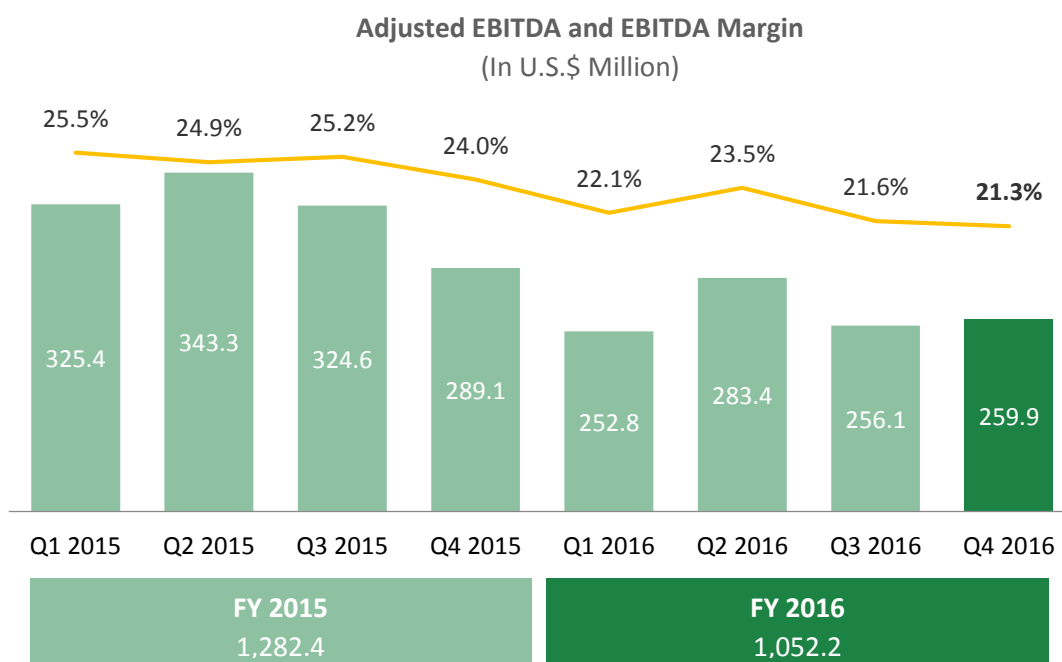
Arauco's fourth quarter results were better than last quarter's, lifted by better prices in the pulp business segment. Our Adjusted EBITDA increased in comparison to last quarter, but was not enough to boost our Adjusted EBITDA Margin that was 21.3% at quarter-end.

The first half of the quarter was fraught with uncertainty as to when the new pulp capacity would kick in and have a real impact in prices. However, worries were dissipated as the producers coming on line set a clearer timeline and some supply was postponed to a later date. Arauco was able to push through price hikes at quarter end, setting the tone for the coming months which are more optimistic in comparison to the projections set out for the beginning of the year.

Our wood products business segment showed mixed results as did last quarter's, with sawn timber markets compensating a more pressured panels market.

Despite higher cash from operations, Arauco's Free Cash Flow during this quarter was negative U.S.\$ 7.2 million, mainly due to higher CAPEX investments as the Grayling Project picks up pace, as well as higher outflow due to the seasonal payment of dividends.

In U.S. Million	Q4 2016	Q3 2016	Q4 2015	QoQ	YoY	YTD 2016	YTD 2015	YoY Acum
Revenue	1,220.6	1,187.5	1,206.8	2.8%	1.1%	4,761.4	5,146.7	-7.5%
Net income	75.8	31.4	89.1	141.1%	-15.0%	217.6	367.7	-40.8%
Adjusted EBITDA	259.9	256.1	289.1	1.5%	-10.1%	1,052.2	1,282.4	-18.0%
Adjusted EBITDA Margin	21.3%	21.6%	24.0%	-1.3%	-11.1%	22.1%	24.9%	-11.3%
LTM Adj. EBITDA	1,052.2	1,081.4	1,282.4	-2.7%	-18.0%	1,052.2	1,282.4	-18.0%
CAPEX	163.5	129.0	83.5	26.8%	95.7%	664.9	468.7	41.8%
Net Financial Debt	3,888.8	3,882.9	3,805.4	0.2%	2.2%	3,888.8	3,805.4	2.2%
Net Financial Debt / LTM Adj. EBITDA	3.7x	3.6x	3.0x	2.9%	24.6%	3.7x	3.0x	24.6%



## INCOME STATEMENT

Net income for the fourth quarter of 2016 was U.S.\$ 75.8 million, an increase of 141.1% or U.S.\$ 44.3 million compared to the U.S.\$ 31.4 million obtained in the third quarter of this year.

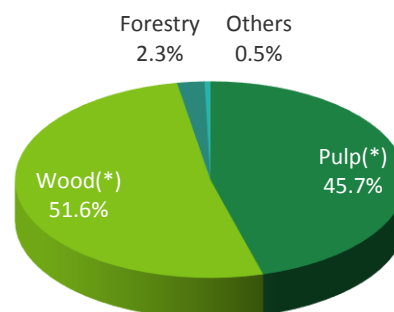
In U.S.\$ Million	Q4 2016	Q3 2016	QoQ
Revenues	1,220.6	1,187.5	2.8%
Cost of sales	(896.7)	(890.5)	0.7%
Distribution costs	(136.0)	(126.1)	7.9%
Administrative expenses	(110.6)	(127.3)	-13.1%
Other income	68.2	69.9	-2.3%
Other expenses	(33.5)	(10.5)	220.4%
Financial income	3.9	7.9	-49.9%
Financial costs	(58.0)	(64.7)	-10.3%
Participation in (loss) profit in associates and joint ventures accounted through equity method	9.9	4.0	150.2%
Exchange rate differences	(3.9)	(1.0)	289.2%
<b>Income before income tax</b>	<b>64.0</b>	<b>49.3</b>	<b>29.9%</b>
Income tax	11.7	(17.8)	-165.8%
<b>Net income</b>	<b>75.8</b>	<b>31.4</b>	<b>141.1%</b>

**Revenues** reached U.S.\$ 1,220.6 million during the fourth quarter of 2016 compared with the U.S.\$ 1,187.5 million in the previous quarter, as a result of an increase in our pulp and forestry segments, which had decreased in the previous period. Revenue from our energy sales dropped 29.6% compared to last quarter, with prices decreasing 6.1% and volume dropping 23.5% in comparison to the last quarter. The drop in volume is mainly due to the annual maintenance stoppage in our Valdivia Mill, which has 140 MW of energy production capacity. Average prices in our pulp business decreased 2.2% but sales volume increased by 11.5%, which boosted revenues. In our wood products business, average prices increased 2.2% while sales volume decreased 3.5%. The following table shows a breakdown of our revenue sales distributed by business segment:

In U.S.\$ Million	Q4 2016	Q3 2016	QoQ
Pulp(*)	557.4	521.4	6.9%
Wood Products(*)	629.7	638.1	-1.3%
Forestry	27.5	21.9	25.5%
Others	6.0	6.1	-1.2%
<b>Total</b>	<b>1,220.6</b>	<b>1,187.5</b>	<b>2.8%</b>

(\*) Pulp and Wood division sales include energy

Sales by Business Segment 4Q 2016



**Cost of sales** for the fourth quarter of the year reached U.S.\$ 896.7 million, U.S.\$ 6.2 million or 0.7% higher than the U.S.\$ 890.5 million obtained in the third quarter of 2016. Sawmill services and Timber costs increased mainly due to the increase in sales volume of sawn timber. Unitary costs for softwood bleached pulp decreased 0.8% compared to last quarter, while hardwood bleached pulp remained stable. Unitary costs for unbleached softwood pulp decreased 10.5% compared to last quarter, which shows the effect of the maintenance stoppage during the third quarter of our Licancel Mill and Arauco Pulp Mill Line 2.

In U.S.\$ Million	Q4 2016	Q3 2016	QoQ
Timber	183.4	177.4	3.3%
Forestry costs	157.0	168.0	-6.6%
Depreciation and amortization	100.5	93.5	7.5%
Maintenance costs	81.9	79.0	3.6%
Chemical costs	122.0	120.1	1.6%
Sawmill services	33.3	25.1	32.8%
Other raw materials and indirect costs	83.4	101.6	-17.9%
Energy and fuel	37.7	32.3	16.8%
Cost of electricity	9.8	9.9	-1.0%
Wage, salaries and severance indemnities	87.9	83.6	5.1%
<b>Cost of Sales</b>	<b>896.7</b>	<b>890.5</b>	<b>0.7%</b>

**Administrative expenses** overall decreased by 13.1% or U.S.\$ 16.7 million. The item with the greatest absolute difference is Other administration expenses, mainly due to a reversal of a provision, reclassified from Other income to Other administration expenses, therefore decreasing the amount of administrative expenses. The rest of the items varied at most U.S.\$ 1.9 million compared to last quarter.

In U.S.\$ Million	Q4 2016	Q3 2016	QoQ
Wage, salaries and severance indemnities	50.9	49.1	3.6%
Marketing, advertising, promotion and publications expenses	2.7	2.6	0.8%
Insurance	4.8	4.5	8.0%
Depreciation and amortization	7.6	8.5	-10.6%
Computer services	9.6	10.4	-7.8%
Lease rentals (offices, warehouses and machinery)	3.8	3.6	6.1%
Donations, contributions, scholarships	3.2	1.5	114.4%
Fees (legal and technical advisories)	9.7	14.2	-31.6%
Property taxes, patents and municipality rights	3.1	5.0	-38.8%
Other administration expenses	15.3	27.9	-45.2%
<b>Administrative Expenses</b>	<b>110.6</b>	<b>127.3</b>	<b>-13.1%</b>

**Distribution costs** increased 7.9% or U.S.\$ 10.0 million, due to shipping and freight costs. Sales volume in our pulp business segment increased compared to last quarter as a whole, with Arauco Argentina continuing to expand their sales in the Asian pulp markets.

In U.S.\$ Million	Q4 2016	Q3 2016	QoQ
Commissions	3.4	3.3	3.0%
Insurance	0.8	0.6	35.3%
Other selling costs	4.1	4.6	-11.5%
Port services	7.7	7.2	6.8%
Freights	97.5	92.5	5.5%
Other shipping and freight costs	22.5	17.9	25.9%
<b>Distribution Costs</b>	<b>136.0</b>	<b>126.1</b>	<b>7.9%</b>

As a percentage, administrative expenses and distribution costs combined were 20.2%, showing a downward trend compared to the 21.3% in the previous quarter.

**Other income** fell 2.3% or U.S.\$ 1.6 million this quarter. The main decrease comes from other operating results, with the reclassification of a reversal of provision to Administrative expenses. Gains from changes in biological assets increased 68.0% due to gains that were previously not accounted for in the third quarter. During the year, overall gains from changes in biological assets fluctuated around U.S.\$ 50 million each quarter.

In U.S.\$ Million	Q4 2016	Q3 2016	QoQ
Gain from changes in fair value of biological assets	68.8	40.9	68.0%
Net income from insurance compensation	0.5	0.5	-10.6%
Leases received	0.9	2.2	-56.6%
Gains on sales of assets	5.4	1.9	-
Access easement	0.2	3.5	-94.4%
Recovery of tax credits	1.1	1.0	7.2%
Other operating results	(8.6)	19.8	-143.3%
<b>Other Income</b>	<b>68.2</b>	<b>69.9</b>	<b>-2.3%</b>

**Other expenses** rose overall 220.4% or U.S.\$ 23.1 million. This increase is mainly due to provision for forestry fire losses, since forestry fire season usually starts during October and lasts until May of the following year. Project expenses were U.S.\$ 1.6 million as the Grayling Project started its construction phase. Impairment provisions increased in comparison to last quarter by U.S.\$ 9.9 million, mainly coming from Argentina, Chile and North America.

In U.S.\$ Million	Q4 2016	Q3 2016	QoQ
Depreciation	(0.4)	0.3	-220.3%
Legal payments	0.2	0.2	6.9%
Impairment provision property, plant and equipment and others	11.5	1.6	-
Plants stoppage operating expenses	1.4	0.5	174.7%
Project expenses	1.6	-	-
Gain (loss) from asset sales	1.0	0.4	143.6%
Loss of assets	0.4	0.3	29.2%
Provision for forestry fire losses	12.5	0.6	-
Other taxes	1.6	1.7	-3.5%
Research and development expenses	0.8	0.8	0.1%
Compensation and eviction	0.4	1.3	-67.4%
Fines, readjustments and interest	0.2	0.5	-69.9%
Other expenses (donations, repayments insurance)	2.2	2.1	3.7%
<b>Other expenses</b>	<b>33.5</b>	<b>10.5</b>	<b>220.4%</b>

**Foreign exchange differences** showed a loss of U.S.\$ 3.9 million, a U.S.\$ 2.9 million difference when compared to the previous quarter that ended at U.S.\$ 1.0 million. During this quarter, the Chilean Peso depreciated 1.7% against the U.S. dollar while the Argentine Peso depreciated 4.4% this quarter, which lowers our cash and cash equivalents in U.S. dollar. Our Brazilian subsidiary's functional currency is the Brazilian real, and therefore the appreciation of 1.1% during the quarter against the U.S. dollar positively affected our U.S. dollar-denominated debt in that country.

**Income tax** had a gain compared to last quarter of U.S.\$ 29.6 million or 141.1%. This was due to our investment in Novo Oeste done at the end of 2015, which was restructured during the year 2016. Due to this restructuring, it was determined that there was income tax that would be recoverable in future periods due to the carry forward of unused tax losses. Therefore, a deferred tax asset was recognized.

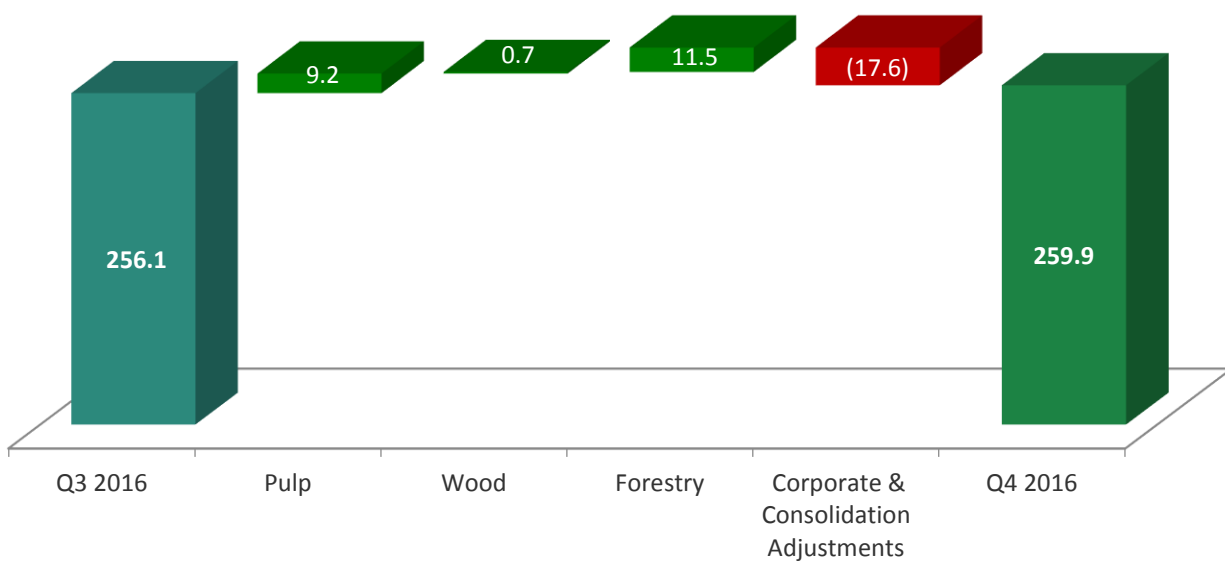
## ADJUSTED EBITDA

Adjusted EBITDA for the fourth quarter of 2016 was U.S.\$ 259.9 million, 1.5% or U.S.\$ 3.8 million higher than the US\$ 256.1 million reached during the previous quarter. In terms of Adjusted EBITDA by business, during the fourth quarter of the year we had a gain in all of our business segments. Higher pulp prices have propelled pulp EBITDA higher after a downward trend during the former part of the year. Forestry EBITDA was impacted by an accounting adjustment in forestry road costs last quarter. Wood products also regained traction and was mainly driven by better sales and volume of sawn timber.

In U.S.\$ Million	Q4 2016	Q3 2016	Q4 2015	QoQ	YoY
Net Income	75.8	31.4	89.1	141.1%	-15.0%
Financial costs	58.0	64.7	69.2	-10.3%	-16.1%
Financial income	(3.9)	(7.9)	(15.2)	-49.9%	-74.1%
Income tax	(11.7)	17.8	26.1	-165.8%	-144.9%
<b>EBIT</b>	<b>118.1</b>	<b>106.1</b>	<b>169.2</b>	<b>11.3%</b>	<b>-30.2%</b>
Depreciation & amortization	107.6	102.8	101.3	4.7%	6.3%
<b>EBITDA</b>	<b>225.7</b>	<b>208.9</b>	<b>270.5</b>	<b>8.1%</b>	<b>-16.6%</b>
Fair value cost of timber harvested	86.5	86.6	75.2	-0.1%	15.1%
Gain from changes in fair value of biological assets	(68.8)	(40.9)	(69.8)	68.0%	-1.5%
Exchange rate differences	3.9	1.0	13.3	289.2%	-71.1%
Others (*)	12.5	0.6	(0.1)	-	-
<b>Adjusted EBITDA</b>	<b>259.9</b>	<b>256.1</b>	<b>289.1</b>	<b>1.4%</b>	<b>-10.1%</b>

(\*) Includes provision from forestry fire losses.

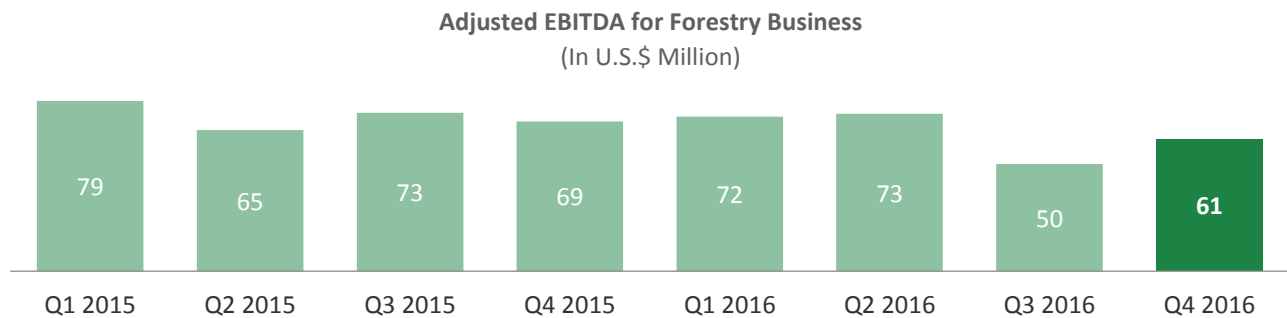
**Adjusted EBITDA Variation by Business Segment Q3 2016 – Q4 2016**  
(In U.S.\$ Million)



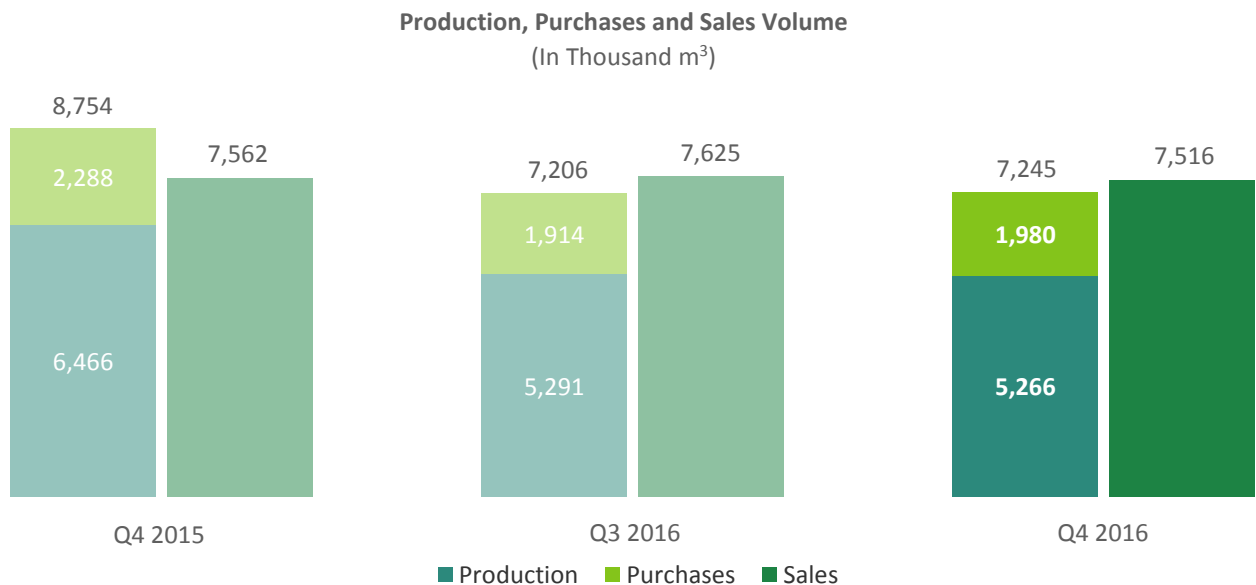


## FORESTRY BUSINESS

The Adjusted EBITDA for our forestry business reached U.S.\$ 61.1 million during this quarter, which translates to a 23.2% or U.S.\$ 11.5 million increase compared to the previous quarter.



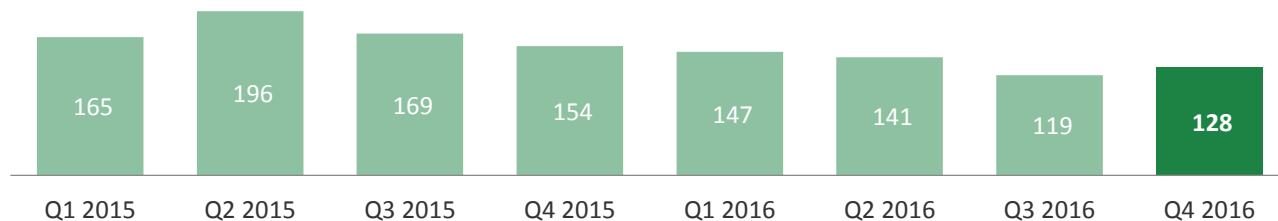
During the fourth quarter, our forestry production was 5.3 million m<sup>3</sup>, which remained at similar levels produced in the previous quarter. Sales volume decreased by 1.4% from 7.6 million m<sup>3</sup> to 7.5 million m<sup>3</sup>.



## PULP BUSINESS

The Adjusted EBITDA for our pulp business reached U.S.\$ 128.4 million during this quarter, which translates to a 7.7% increase or U.S.\$ 9.2 million compared to the previous quarter.

**Adjusted EBITDA for Pulp Business**  
(In U.S.\$ Million)



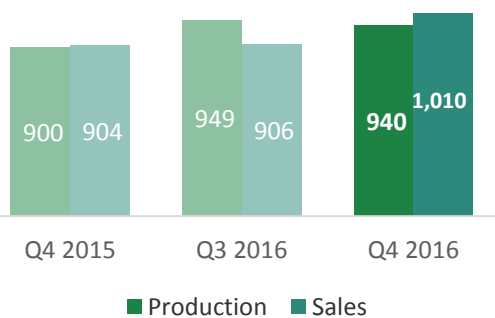
**Global Pulp Demand Change**  
Q3 2016 – Q4 2016

North America	—	-0.3%
West Europe	—	0.7%
East Europe	—	-1.5%
Latin America	▼	-4.9%
Japan	—	2.3%
China	▲	17.8%
Others	▲	7.1%

Source: Hawkins Wright

Uncertainty marked the fourth quarter of 2016, with speculation as to when and how supply coming in from new mills would affect prices. Asia Pulp and Paper addressed the market's concerns about how much production of their 2.8 million ton short fiber pulp mill would impact 2017, which positively affected prices during the latter part of the quarter. The first line of this mill already started producing during November, while the second line is set to start up during April 2017. Estimations of new market pulp supply are between 1.1 and 1.3 million tons for 2017, an amount that the market should be able to absorb without any major setbacks. The Puma Project in Brazil, which started up during the first half of 2016, has aggressively entered the European and Asian market in softwood and fluff pulp markets. Short fiber supply is overall absorbed by the market at a higher rate than long fiber supply.

**Production and Sales Volume**  
(In Thousand AdT)



Pressures in Asian pulp prices subsided, with long fiber prices stabilizing while short fiber prices positively gaining traction and reaching a 7.5% gain during the quarter. With these price movements the price gap moved from U.S.\$ 95 per ton to U.S.\$ 50 per ton. China was the main driver of recovering prices, with demand increasing to such a point that many paper producers had their productions sold off until February. Particularly in China, local prices rose by 10% in long fiber and 25% in short fiber, with the price gap decreasing from U.S.\$ 90 to less than U.S.\$ 10. Price surges have also been successfully passed to the final client, finally reflecting the depreciation the Chinese currency had suffered during the year. Older paper mills that do not use quality paper grade pulp have ceased production, while more modern paper mills have upped their production levels. Overall, paper supply is estimated to increase 700 thousand tons between the fourth quarter of 2016 and the coming year.

European markets have had a different dynamic, with demand restrained yet slightly above market supply, and exchange rates making imports more expensive. Short fiber prices remained stable while long fiber prices fell 3% during the quarter. Downward adjustments in long fiber prices were mainly due to Scandinavian producers who generally preferred to sell their supply in Europe rather than pay the increasing shipping tariffs, even with the decrease in long fiber prices. Principal European ports are packed with short fiber imports, primarily coming from Brazil that have also not helped matters. Price differentials between Europe and China may divert supply to the Chinese market in the future, which could increase prices in Europe in detriment of possible oversupply in China.

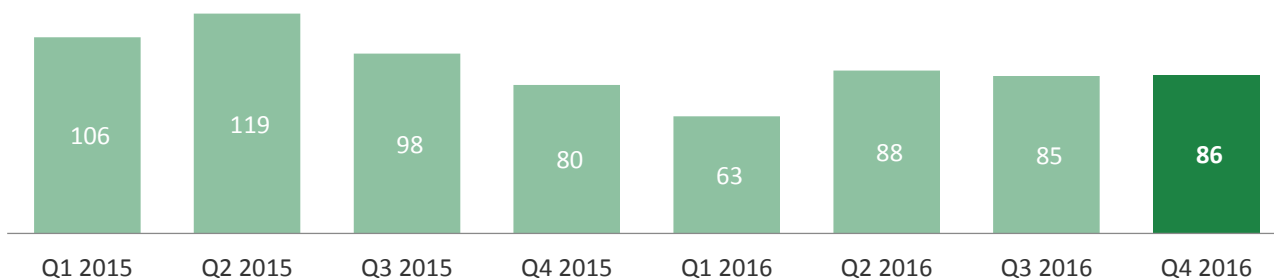
Latin America has been chiefly active except in Brazil. Supply coming in from the new Klabin pulp mill has placed pressure in long fiber and fluff pulp prices, while demand has also deteriorated along with the Brazilian economy.

Ultimately, the fourth quarter ended with the highest production and sales volume of the year in the market as a whole, while inventory levels at their lowest. Our production levels were normal, with maintenance stoppages at our Nueva Aldea Mill during October, our Alto Paraná Mill in Argentina during November, and our Valdivia Mill during the end of November.

## WOOD PRODUCTS BUSINESS

The Adjusted EBITDA for our wood products business reached U.S.\$ 86.1 million during this quarter, which translates to a 0.8% decrease or U.S.\$ 0.7 million compared to the previous quarter.

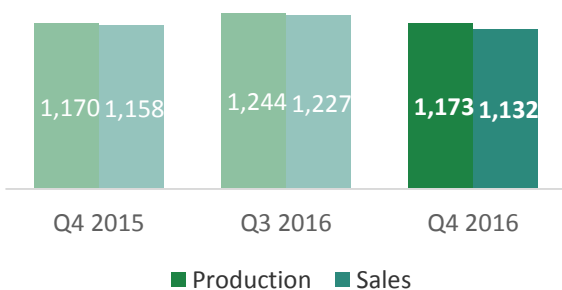
**Adjusted EBITDA for Wood Product Business**  
(In U.S.\$ Million)



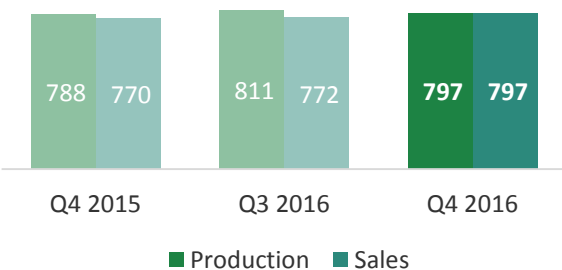
**Changes in Arauco Volume Sales by Market**  
Q3 2016 – Q4 2016

Chile	▲	4.1%
Argentina	▼	-8.2%
Brazil	▼	-4.4%
Mexico	▲	7.3%
U.S.A./ Canada	▼	-10.5%
Asia/ Oceania/ Middle East	▲	12.7%
Rest of Latin America	▼	-8.4%

**Production and Sales Volume: Panels**  
(In Thousand m<sup>3</sup>)



**Production and Sales Volume: Sawn Timber**  
(In Thousand m<sup>3</sup>)



**Panels** markets had a drop in sales volume, but results were optimistic at quarter-end. North America had lower seasonal sales due to the winter season that brings harsher weather as well as the holidays. MDF panels started with uncertainty as to how the production of West Frazier would impact future prices. Rumors that Mexican producers would increase capacity pressured prices during the quarter. The MDF moldings market had an overall stable demand. In Mexico, the devaluating currency and the incoming capacity decreased sales compared to last quarter, but did not have as big an impact as expected. Clients were cautious in taking stock positions at the beginning of the quarter, and sales increased in November only to decrease in December due to seasonal effects. Particleboard had a positive quarter all around, especially in value-added products.

The Brazilian market was complex and there was little clarity as to when the market would finally stabilize. Due to this situation exports increased during the quarter, boosted by the exchange rates that favored sales to international markets. Argentina's market also shrunk, and had limited opportunities to export due to higher costs compared to Chile or Brazil. Sales in the rest of Latin America were as expected.

**Sawn timber** markets predominantly increased sales volume and prices during this quarter. Demand in Asia and Oceania was strong despite more supply in the markets from Europe and Brazil. Product mix was crucial to remain ahead of our competitors, and Arauco was even able to increase prices in a few key products. In the Middle East, the construction market remained solid, but prices did decrease due to higher competition. For plywood in Europe, fourth quarter prices consolidated the price increases that occurred during the third quarter in plywood.

In North America, plywood markets remained stable, with sales volume augmenting slightly. Increasing prices in remanufactured products attracted volumes from China and Latin America, but was not enough to counteract the positive trend in pricing. Latin American sales were also healthy, and Chilean sales remained stable despite a strike in one of the bigger retailers.

## CAPITAL EXPENDITURES

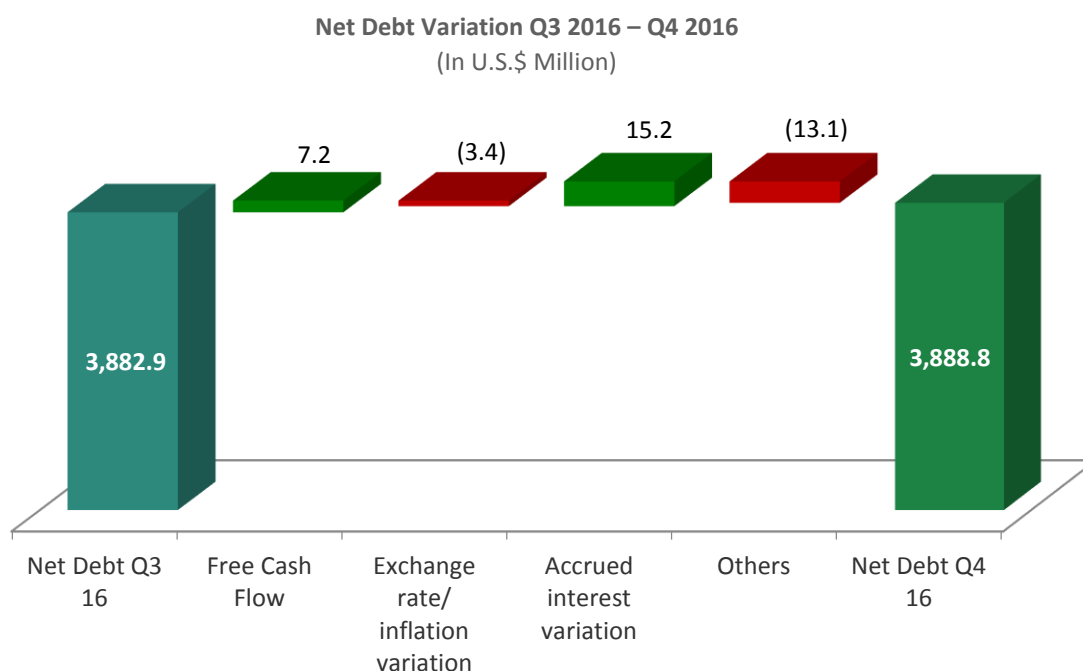
U.S.\$ Million	Q4 2016	Q3 2016	Q4 2015	YTD 2016	YTD 2015
Cash flows used in purchase of associates and joint ventures	-	-	10.1	153.1	10.1
Other cash payments to acquire interests in joint ventures	-	-	0.8	-	0.8
Purchase and sales of property, plant and equipment	113.1	97.6	62.5	356.2	321.4
Purchase and sales of intangible assets	13.0	0.2	7.5	14.9	10.3
Purchase of other long-term assets	37.4	31.2	2.7	140.7	126.1
<b>Total CAPEX</b>	<b>163.5</b>	<b>129.0</b>	<b>83.5</b>	<b>664.9</b>	<b>468.7</b>

During this quarter, capital expenditures increased by U.S.\$ 34.5 million or 26.8% compared to the third quarter of 2016. Arauco disbursed U.S.\$ 18.0 million for the water treatment plant during this quarter, accumulating a total of U.S.\$ 51.2 million during the year 2016. For the the Grayling Project in Michigan, approximately U.S.\$ 16.0 million was expended during the fourth quarter, summing a total of U.S.\$ 20.8 million for the year 2016. Plantations CAPEX across all countries amounted to U.S.\$ 37.0 million. The maintenance stoppage in our Valdivia Mill cost approximately U.S.\$ 13.2 million, while the maintenance stoppage in our Nueva Aldea Mill was approximately U.S.\$ 16.8 million. In Argentina, the maintenance stoppage in our Alto Paraná Mill cost approximately U.S.\$ 12.9 million, which included the modification of Line 2, the modification of the digester, installation of a press and the change of the debarking drum in Line 1. The remaining CAPEX pertains to sustaining business investments.

## FREE CASH FLOW

During this quarter, cash provided by operating activities increased U.S.\$ 32.6 million, due to a recovering EBITDA in all of our business segments and less interest payments during the fourth quarter compared to the third quarter. Cash used by investment activities rose U.S.\$ 32.9 million due to a higher CAPEX spending during the quarter. In addition, cash used by financing activities during this quarter was U.S.\$ 30.1 million due to the cash advancement of dividends that are due in May 2016.

U.S.\$ Million	Q4 2016	Q3 2016	Q4 2015
Adjusted EBITDA	259.9	256.1	289.1
Working Capital Variation	(34.6)	(1.0)	(51.0)
Interest paid and received	(22.6)	(68.8)	(29.0)
Income tax paid	(12.8)	(36.4)	(23.8)
Other cash inflows (outflows)	(13.7)	(6.2)	(19.7)
<b>Cash from Operations</b>	<b>176.2</b>	<b>143.7</b>	<b>165.6</b>
Capex	(163.5)	(129.0)	(83.5)
Proceeds from investment activities	8.3	3.0	2.6
Other inflows of cash, net	(2.6)	1.2	(0.3)
<b>Cash from Investment Activities</b>	<b>(157.8)</b>	<b>(124.9)</b>	<b>(81.2)</b>
Dividends paid	(30.1)	(0.3)	(43.9)
Other inflows of cash, net	(0.1)	(0.3)	0.1
<b>Cash from (used) in financing activities - Net of proceeds and repayments</b>	<b>(30.1)</b>	<b>(0.6)</b>	<b>(43.9)</b>
Effect of exchange rate changes on cash and cash equivalents	4.5	(7.2)	(14.6)
<b>Free Cash Flow</b>	<b>(7.2)</b>	<b>11.0</b>	<b>26.0</b>



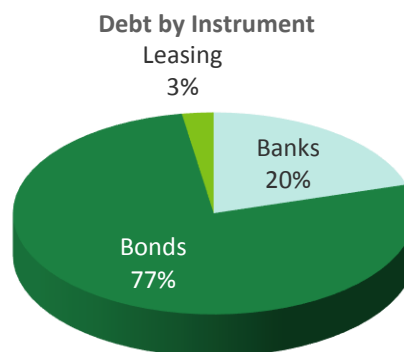
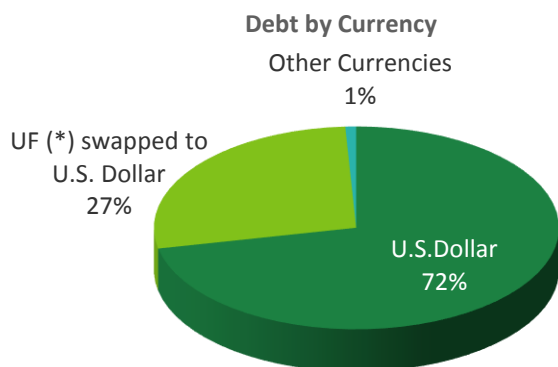
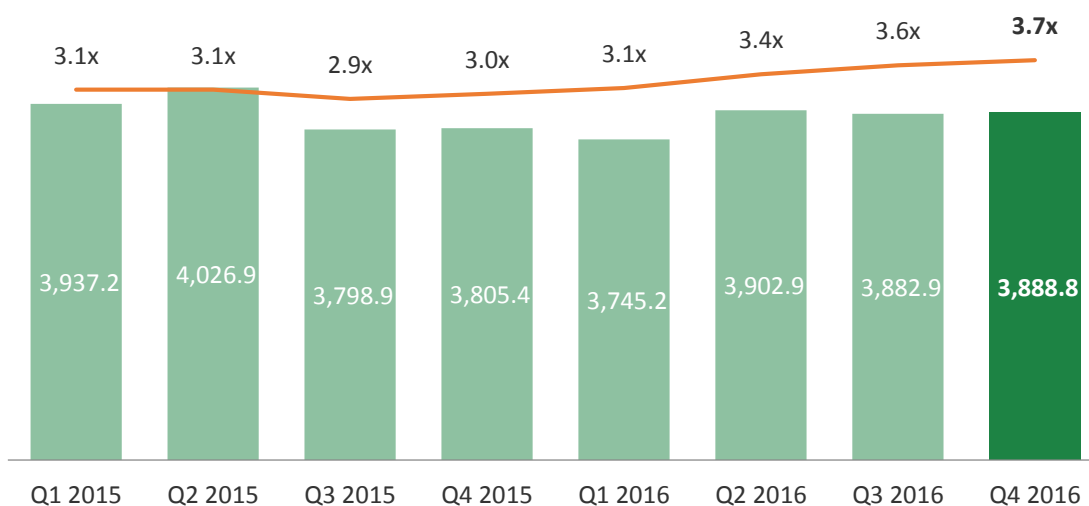
## FINANCIAL DEBT AND CASH

Arauco's financial debt as of December 31, 2016 reached U.S.\$ 4,481.0 million, an increase of 3.2% or U.S.\$ 138.4 million when compared to September 30, 2016, mainly due to a local bond that was issued in December 2016 for UF 5.0 million or approximately U.S.\$ 201.4 million. Our consolidated net financial debt increased 0.2% or U.S.\$ 5.9 million when compared with September 2016, while cash and cash equivalents increased by U.S.\$ 132.6 million.

Our leverage, measured as Net Financial Debt/LTM Adjusted EBITDA, increased compared to last quarter from 3.6 times to 3.7 times.

In U.S.\$ Million	December 2016	September 2016	December 2015
Short term financial debt	697.0	716.9	291.8
Long term financial debt	3,784.0	3,625.7	4,013.6
<b>TOTAL FINANCIAL DEBT</b>	<b>4,481.0</b>	<b>4,342.6</b>	<b>4,305.4</b>
Cash and cash equivalents	592.3	459.7	500.0
<b>NET FINANCIAL DEBT</b>	<b>3,888.8</b>	<b>3,882.9</b>	<b>3,805.4</b>

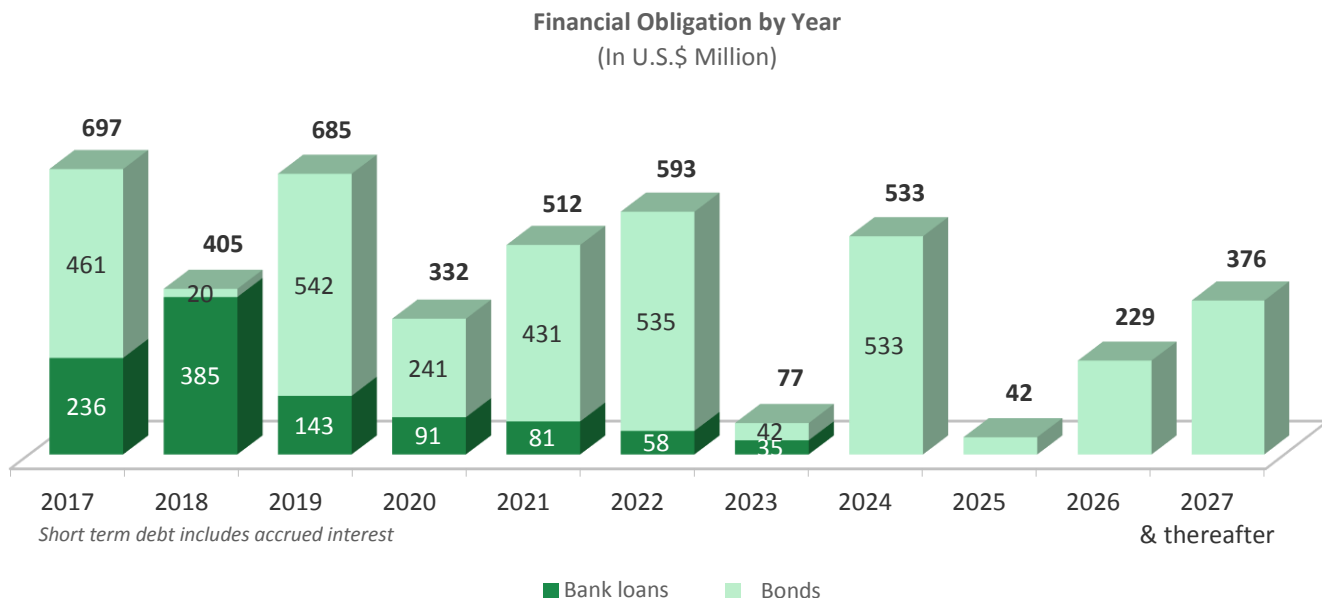
Net Financial Debt and Leverage  
(In U.S.\$ Million)



(\*) UF is a Chilean monetary unit indexed to inflation.

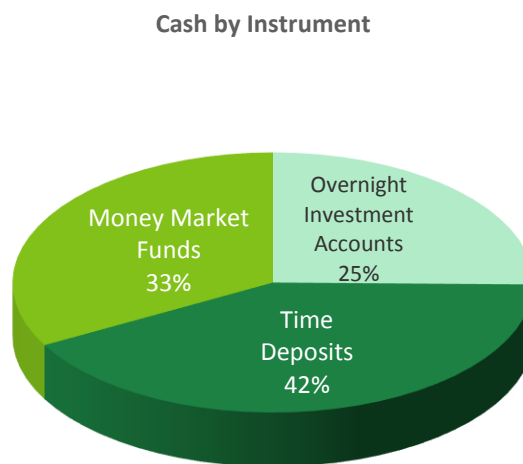
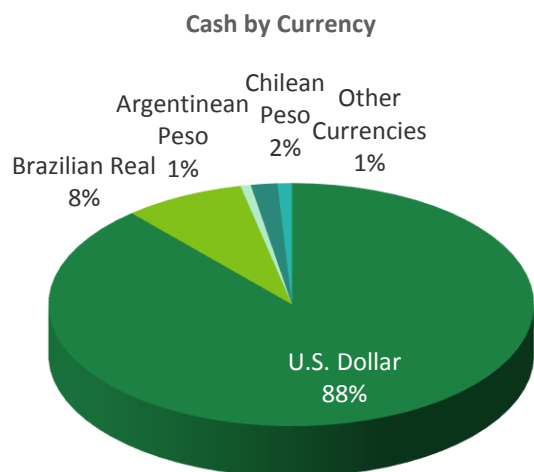
## Financial Debt Profile

For the year 2017, bank amortizations (which include accrued interest) sum up a total of U.S.\$ 236.0 million, which include the following maturities: U.S.\$ 185.5 million of loans in Montes del Plata, U.S.\$ 40.4 million of leasing sin Chile, U.S.\$5.0 in our Brazilian subsidiaries, and U.S.\$ 5.0 million in our Argentinian subsidiary. Bond amortizations during 2017 include U.S.\$ 270.0 million for the Alto Paraná bond due in June; U.S.\$ 125.0 million in a Yankee bond due in September; and the first amortization of U.S.\$ 9.8 million for our local bond BARAU-Q in October. On December 1, 2016, Arauco issued a local bond for UF 5.0 million equivalent to U.S.\$ 201.4 million to refinance part of the maturities due in 2027. The remaining years have not undergone any major changes in financial obligations as compared to the previous quarter.



## Cash

Our cash position was U.S.\$ 592.3 million at the end of the fourth quarter, which is a U.S.\$ 132.6 million or 28.8% increase compared to the end of the third quarter of 2016. This was mainly due to the issuance of a local bond for approximately U.S.\$ 201.4 million, which was offset by U.S.\$ 30.1 paid in dividends and higher capital expenditures for U.S.\$ 35.0 mainly due to the Grayling Project in the United States.



### **Arauco issued a local bond in December 2016**

On December 1<sup>st</sup>, 2016, Arauco issued a bond in the local market for UF 5.0 million, or approximately U.S.\$ 201.4 million. Filed under the "S" Series Bonds, the tenor of this bond is 10 years and the principal will be paid in one installment at the end of the term. Interest shall accrue as of November 15, 2016 and will be payable semiannually. The purpose of this bond is to refinance short and/or long-term liabilities. This bond is issued against a line registered in the local Superintendencia of Securities and Insurance for a maximum amount of UF 10.0 million, giving Arauco the ability to issue an additional UF 5.0 million if the need arises. The UF 5.0 million already issued have been swapped completely to U.S. dollar.

### **Chile faces large forest fires during the first quarter of 2017**

During the months of January through February, there were large forest fires that affected the Maule and Bio Bio regions in southern Chile. Due to these fires, about 80,000 hectares of our forest plantations- currently valued at U.S.\$ 240 million in our books - were damaged to some extent. The total amount corresponds to approximately 6% of the value of our total forest plantations under IFRS and approximately 2% of the total assets of Arauco. Once Arauco finishes the handling of the damaged forests to minimize the loss, about 10% to 20% of the areas affected could be recoverable. Our forest plantations in Chile are insured with corresponding deductibles and limits, and we have estimated to recover up to U.S.\$ 35 million through insurance coverage. During the forest fires, our sawn timber mill El Cruce was also damaged. Total annual capacity of this mill was 116 thousand cubic meters, which makes up about 4% of our total sawmill annual capacity.



## FINANCIAL STATEMENTS

### Income Statement

In US\$ Million	Q4 2016	Q3 2016	Q4 2015	FY 2016	FY 2015
Revenues	1,220.6	1,187.5	1,206.8	4,761.4	5,146.7
Cost of sales	(896.7)	(890.5)	(837.6)	(3,498.9)	(3,511.4)
<b>Gross profit</b>	<b>323.9</b>	<b>297.0</b>	<b>369.2</b>	<b>1,262.5</b>	<b>1,635.3</b>
Other income	68.2	69.9	90.5	257.9	273.0
Distribution costs	(136.0)	(126.1)	(124.2)	(496.5)	(528.5)
Administrative expenses	(110.6)	(127.3)	(147.3)	(474.5)	(552.0)
Other expenses	(33.5)	(10.5)	(11.1)	(77.4)	(83.4)
Financial income	3.9	7.9	15.2	29.7	50.3
Financial costs	(58.0)	(64.7)	(69.2)	(258.5)	(263.0)
Participation in (loss) profit in associates and joint ventures accounted through equity method	9.9	4.0	5.5	23.9	6.7
Exchange rate differences	(3.9)	(1.0)	(13.3)	(3.9)	(41.2)
<b>Income before income tax</b>	<b>64.0</b>	<b>49.3</b>	<b>115.3</b>	<b>263.2</b>	<b>497.4</b>
Income tax	11.7	(17.8)	(26.1)	(45.6)	(129.7)
<b>Net income</b>	<b>75.8</b>	<b>31.4</b>	<b>89.1</b>	<b>217.6</b>	<b>367.7</b>
Profit attributable to parent company	73.6	31.1	86.6	213.8	362.7
Profit attributable to non-parent company	2.2	0.3	2.5	3.8	5.0

## Balance Sheet

In US\$ Million	Q4 2016	Q3 2016	Q4 2015
Cash and cash equivalents	592.3	459.7	500.0
Other financial current assets	5.2	9.6	32.2
Other current non-financial assets	144.9	177.6	134.0
Trade and other receivables-net	701.6	642.5	733.3
Related party receivables	12.5	3.7	3.1
Inventories	852.6	909.6	910.0
Biological assets, current	306.1	297.5	306.5
Tax assets	104.1	92.3	64.1
Non-Current Assets classified as held for sale	3.1	3.1	3.2
<b>Total Current Assets</b>	<b>2,722.4</b>	<b>2,595.6</b>	<b>2,686.4</b>
Other non-current financial assets	8.9	5.3	0.6
Other non-current and non-financial assets	130.3	129.9	125.5
Non-current receivables	15.2	15.5	15.3
Investments accounted through equity method	446.5	438.5	264.8
Intangible assets	89.5	81.6	88.1
Goodwill	74.9	75.1	69.5
Property, plant and equipment	6,919.5	6,914.3	6,896.4
Biological assets, non-current	3,592.9	3,588.5	3,520.1
Deferred tax assets	6.1	3.9	3.7
<b>Total Non-Current Assets</b>	<b>11,283.8</b>	<b>11,252.7</b>	<b>10,984.0</b>
<b>TOTAL ASSETS</b>	<b>14,006.2</b>	<b>13,848.3</b>	<b>13,670.4</b>
Other financial liabilities, current	697.5	717.9	296.0
Trade and other payables	537.9	558.0	583.0
Related party payables	3.8	7.3	7.1
Other provisions, current	0.8	0.6	0.9
Tax liabilities	1.6	8.9	11.0
Current provision for employee benefits	5.2	5.2	4.5
Other non-financial liabilities, current	99.2	91.3	131.7
<b>Total Current Liabilities</b>	<b>1,346.1</b>	<b>1,389.2</b>	<b>1,034.3</b>
Other non-current financial liabilities	3,870.9	3,731.5	4,237.0
Other provisions, non-current	38.1	38.7	34.5
Deferred tax liabilities	1,631.1	1,637.5	1,619.0
Non-current provision for employee benefits	60.1	59.8	51.9
Other non-financial liabilities, non-current	60.6	60.1	47.2
<b>Total Non-Current Liabilities</b>	<b>5,660.8</b>	<b>5,527.6</b>	<b>5,989.7</b>
Non-parent participation	44.0	44.5	37.7
<b>Net equity attributable to parent company</b>	<b>6,955.3</b>	<b>6,886.9</b>	<b>6,608.7</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>14,006.2</b>	<b>13,848.3</b>	<b>13,670.4</b>

## Cash Flow Statement

US\$ Million	Q4 2016	Q3 2016	Q4 2015	FY 2016	FY 2015
Receipts from sales of goods and rendering of services	1,139.6	1,308.9	1,362.8	5,020.6	5,733.7
Other cash receipts (payments)	55.0	70.7	45.4	258.5	168.5
Payments of suppliers and personnel (less)	(983.0)	(1,127.2)	(1,187.2)	(4,235.7)	(4,751.3)
Interest paid and received	(22.6)	(68.8)	(29.0)	(182.2)	(212.2)
Income tax paid	(12.8)	(36.4)	(23.8)	(83.9)	(87.8)
Other (outflows) inflows of cash, net	(0.1)	(3.6)	(2.6)	(3.7)	2.8
<b>Net Cash Provided by (Used in) Operating Activities</b>	<b>176.2</b>	<b>143.7</b>	<b>165.6</b>	<b>773.6</b>	<b>853.7</b>
Capital Expenditures	(163.5)	(129.0)	(83.5)	(664.9)	(468.7)
Other investment cash flows	5.7	4.1	2.3	24.6	(9.1)
<b>Net Cash Provided by (Used in) Investing Activities</b>	<b>(157.8)</b>	<b>(124.9)</b>	<b>(81.2)</b>	<b>(640.2)</b>	<b>(477.8)</b>
Proceeds from borrowings	195.2	175.5	31.9	737.7	280.9
Repayments of borrowings	(55.4)	(254.2)	(86.7)	(645.2)	(949.2)
Dividends paid	(30.1)	(0.3)	(43.9)	(130.6)	(143.0)
Other inflows of cash, net	(0.1)	(0.3)	0.1	(0.3)	(0.9)
<b>Net Cash Provided by (Used in) Financing Activities</b>	<b>109.7</b>	<b>(79.3)</b>	<b>(98.7)</b>	<b>(38.5)</b>	<b>(812.2)</b>
<b>Total Cash Inflow (Outflow) of the Period</b>	<b>128.1</b>	<b>(60.5)</b>	<b>(14.2)</b>	<b>94.9</b>	<b>(436.3)</b>
Effect of exchange rate changes on cash and cash equivalents	4.5	(7.2)	(14.6)	(2.7)	(34.8)
Cash and Cash equivalents at beginning of the period	459.7	527.4	528.9	500.0	971.2
<b>Cash and Cash Equivalents at end of the Period</b>	<b>592.3</b>	<b>459.7</b>	<b>500.0</b>	<b>592.3</b>	<b>500.0</b>