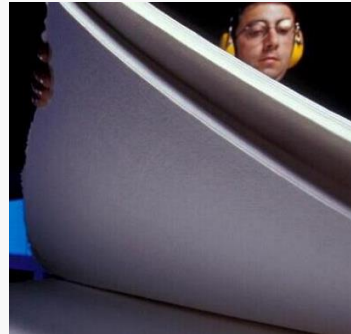




**ARAUCO**  
Growing the Future

Conference Call Presentation

# 2<sup>nd</sup> Quarter 2015 Financial Results



**Gianfranco Truffello, C.F.O**

Santiago, August 28<sup>th</sup>, 2015

# Disclaimer

Forward-looking statements are based on the beliefs and assumptions of Arauco's management and on information currently available to the Company. They involve risks, uncertainties and assumptions because they relate to future events and therefore depend on circumstances that may or may not occur in the future. Investors should understand that general economic conditions, industry conditions and other operating factors could also affect the future results of Arauco and could cause results to differ materially from those expressed in such forward-looking statements.

This presentation contains certain performance measures that do not represent IFRS definitions, as "EBITDA" and "Net financial debt". These measures cannot be compared with the same previously used by Arauco and the same used by other companies.

# Agenda

- **Financial Review 2<sup>nd</sup> Quarter 2015**

- **Review by Business Segment & Outlook**

- **2<sup>nd</sup> Quarter and Subsequent Events**

- **Q&A**

# Financial Review > 2Q 2015 Highlights

## Highlights

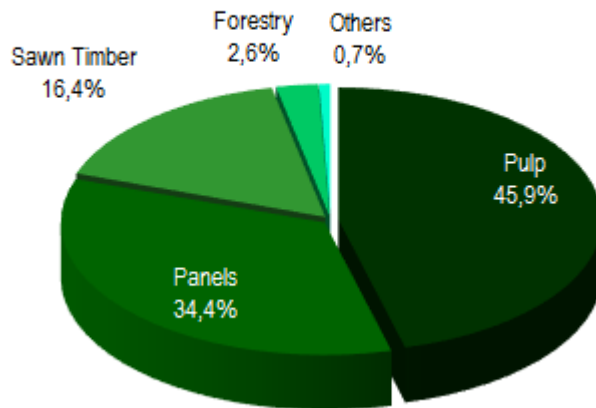
<u>US\$ Million</u>	<u>2Q 2015</u>	<u>QoQ</u>
Revenue	1,372.7	+7.8%
Adjusted EBITDA	343.1	+5.4%
Net income	105.9	+23.6%
Net Financial Debt	4,026.9	+2.3%
Net financial debt / LTM Adj. Ebitda	3.1x	0.0%

# Financial Review > Income Statement

## Income Statement

US\$ Million	Q2 2015	Q1 2015	QoQ
Revenue	1,372.7	1,273.3	7.8%
Cost of sales	(918.7)	(858.5)	7.0%
<b>Gross Profit</b>	<b>454.0</b>	<b>414.8</b>	9.4%
Other income	54.6	55.5	-1.6%
Distribution costs and Administrative expenses	(284.3)	(253.3)	12.3%
Other operating gains (expenses)	(30.4)	(24.9)	22.1%
Financial costs (Net)	(54.2)	(57.7)	-6.2%
Exchange rate differences	2.6	(7.9)	-133.1%
<b>Income before income tax</b>	<b>142.3</b>	<b>126.6</b>	<b>12.4%</b>
Income tax	(36.4)	(40.9)	-11.0%
<b>Net Income</b>	<b>105.9</b>	<b>85.7</b>	<b>23.6%</b>

## Sales by Business Segment Q2 2015



## Comments

- **Revenue:** An increase of 7.8% due to higher sales volume from all our business segments. Pulp division had the sales highest increase between quarters, reaching 10.4%
- **Cost of Sales:** An increase of 7.0%, mainly produced by the increase in sales volume in all our divisions
- **Distribution costs and administrative expenses:** A growth of 8.5% in freight expenses due to higher exports
- **Exchange rate differences:** There was a gain caused by tax account receivables in Chile. Additionally, the Brazilian real appreciation during the second quarter had a positive effect over a US dollar debt in our Brazilian subsidiary

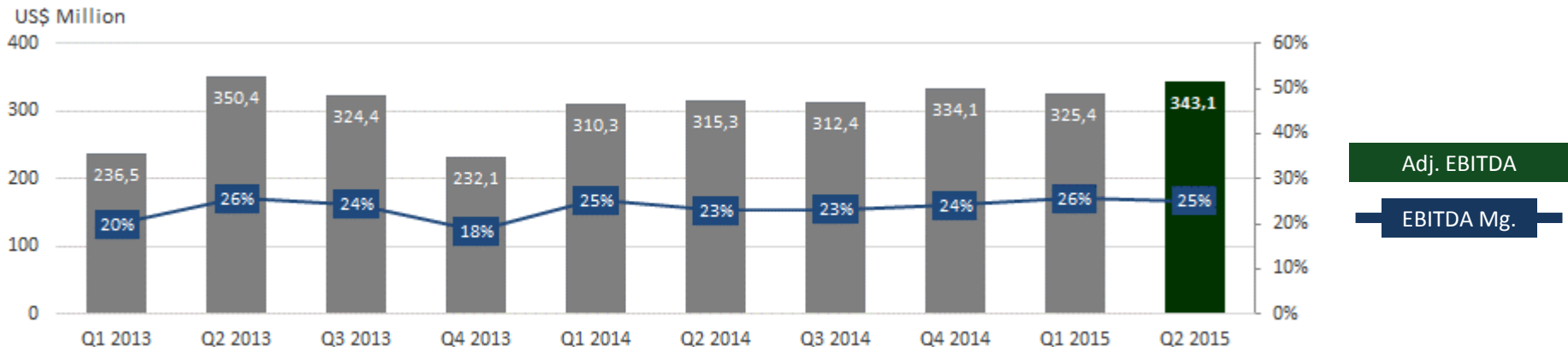
# Financial Review > Adjusted EBITDA

## Comments

Adjusted EBITDA			
In U.S. Million	Q2 2015	Q1 2015	QoQ
<b>Net Income</b>	105.9	85.7	23.6%
Financial costs	63.0	68.2	-7.7%
Financial income	-8.8	-10.5	-16.1%
Income tax	36.4	40.9	-11.0%
<b>EBIT</b>	<b>196.4</b>	<b>184.3</b>	<b>6.6%</b>
Depreciation & amortization	102.1	94.7	7.8%
<b>EBITDA</b>	<b>298.5</b>	<b>279.0</b>	<b>7.0%</b>
Fair value cost of timber harvested	76.0	73.9	2.8%
Gain from changes in fair value of biological assets	-47.3	-46.8	1.1%
Exchange rate differences	-2.6	7.9	-133.1%
Others (*)	18.5	11.4	62.1%
<b>Adjusted EBITDA</b>	<b>343.1</b>	<b>325.4</b>	<b>5.4%</b>

- Increase of the adjusted EBITDA by 5.4% due to an increase in sales volume and an improvement in unitary costs of pulp
- Adjusted EBITDA of our Pulp division increased US\$ +30.8 million, thanks to an increase in the adjusted EBITDA of Montes del Plata
- Adjusted EBITDA of our Panels division improved by US\$ +16.2 million thanks to higher sales in the North American market

(\*) Includes provision for forest fire losses



Note: Numbers may not add up due to rounding

# Financial Review > Debt

## Financial Debt

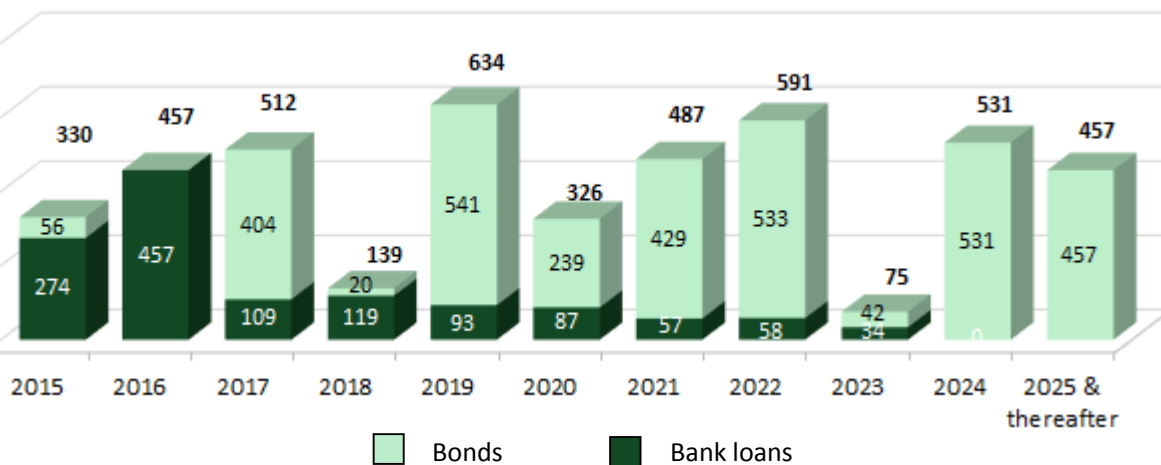
US\$ million	June 2015	March 2015	June 2014
Short term financial debt	689.2	752.2	994.0
Long term financial debt	3,849.6	4,225.9	4,018.7
<b>TOTAL FINANCIAL DEBT</b>	<b>4,538.8</b>	<b>4,978.1</b>	<b>5,012.8</b>
Cash and cash equivalents	511.9	1,040.9	640.7
<b>NET FINANCIAL DEBT</b>	<b>4,026.9</b>	<b>3,937.2</b>	<b>4,372.1</b>

## Comments

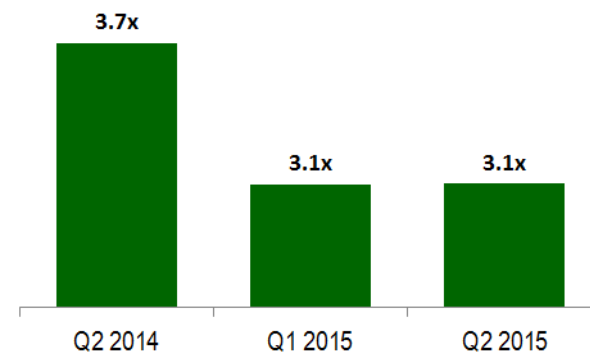
- Total financial debt dropped US\$ 440 million QoQ. Net Debt increased 90 million QoQ
- In one year our net leverage has improved from 3.7x to 3.1x
- In April we paid in full a US\$ 370 million Yankee bond as well as the prepayment of part of an Arauco N.A. loan for US\$ 118 million
- Arauco obtained a pre export financing loan for US\$ 80 million, due this September

## Financial Debt Profile as of June 30, 2015

In US\$ Million



## Net Debt/LTM Adj. EBITDA



# Financial Review > Cash Flow

## Cash Flow

US\$ Million	Q2 2015	Q1 2015	QoQ
Collection of accounts receivables	1,480.6	1,398.0	5.9%
Collection from insurance claims	0.0	3.0	-99.6%
Other cash receipts (payments)	101.0	113.3	-10.8%
Payments of suppliers and personnel (less)	(1,264.0)	(1,221.7)	3.5%
Interest paid and received	(41.4)	(72.5)	-42.8%
Income tax paid	(35.3)	(13.6)	158.7%
Other (outflows) inflows of cash, net	(3.5)	4.6	-175.3%
<b>Net Cash Provided by (Used in) Operating Activities</b>	<b>237.5</b>	<b>211.1</b>	<b>12.5%</b>
Capital Expenditures	(186.9)	(94.8)	97.1%
Other investment cash flows	(18.4)	(0.6)	2760.7%
<b>Net Cash Provided by (Used in) Investing Activities</b>	<b>(205.3)</b>	<b>(95.4)</b>	<b>115.1%</b>
Proceeds from borrowings	174.8	26.3	563.3%
Repayments of borrowings	(640.8)	(67.7)	845.8%
Dividends paid	(98.6)	0.0	
Other inflows of cash, net	(0.4)	(0.4)	7.8%
<b>Net Cash Provided by (Used in) Financing Activities</b>	<b>(565.1)</b>	<b>(41.8)</b>	<b>1252.0%</b>
<b>Total Cash Inflow (Outflow) of the Period</b>	<b>(532.9)</b>	<b>73.8</b>	<b>-821.8%</b>
Effect of exchange rate changes on cash and cash equivalents	3.9	(4.1)	-195.1%
Cash and Cash equivalents. at beginning of the period	1,040.9	971.2	7.2%
<b>Cash and Cash Equivalents at end of the Period</b>	<b>511.9</b>	<b>1,040.9</b>	<b>-50.8%</b>

## Comments

- Increase of Capex to nearly double explained mainly by Andritz settlement in MDP
- Net cash used in financing activities increased compared to last quarter mainly because of loans and dividends paid this quarter
- Proceeds from borrowings are mainly due to the pre export financing loan obtained this quarter
- Repayment of borrowings include the payment of the Yankee bond and the prepayment of the Arauco N.A. loan



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# Review by Business Segment > Pulp

## Pulp Revenues (in US\$ million)



Note: pulp sales include energy

	Net Sales	Price	Volume
QoQ	10.4%	-0.4%	11.5%
YoY	5.2%	-6.3%	12.9%

## Pulp Production (in 000' ADt)

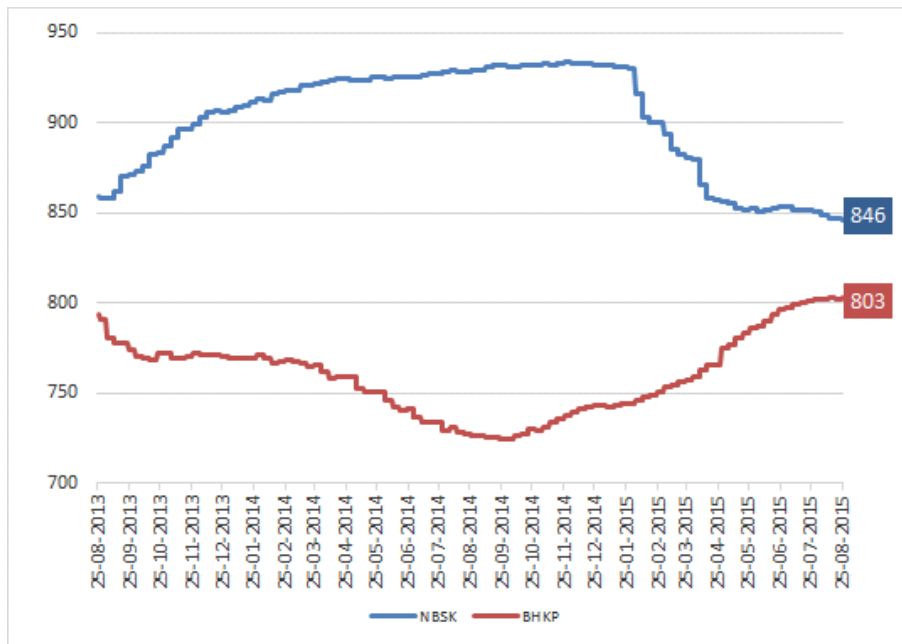
000' Adt	Q1 2014	Q2 2014	Q3 2014	Q4 2014	Q1 2015	Q2 2015
Pulp production	782	769	867	851	890	937



- Short fiber had an increase in average prices while long fiber suffered a decrease, although prices started to show an upward trend in all markets towards the end of the quarter
- Increase in revenues mainly due to higher sales volume of hard wood pulp
- The Chinese market kept growing and pulp imports overall increased in 10.5% up to June 2015 compared to 2014
- Higher production in Montes del Plata, reaching its nominal capacity level in June
- Valdivia Mill changed its production from long fiber to short fiber

# Review by Business Segment > Pulp > Outlook

## BHKP and NBSK Indexes



August 25

NBSK

↑  
Δ:43  
↓

BHKP

## Comments

- The 3<sup>rd</sup> quarter has a difficult start and there are clear signs of a downward trend for both fibers. This in part reflects the effect of the summer season in the Northern Hemisphere, as well as discounts from Russian long fiber producers
- Global inventory levels have remained stable in comparison to previous quarter
- Spread between NBSK and BHKP at US\$ 43/ton (*previous call was at US\$ 69/ton*)

## Global Producers Inventory Levels

In days	Sept 2013	Dec 2013	Mar 2014	Jun 2014	Sep 2014	Dec 2014	Mar 2015	Jun 2015
BSKP	27	27	28	25	27	31	33	29
BHKP	42	38	47	40	38	36	39	38

Source: Bloomberg; Hawkins Wright

# Review by Business Segment > Panels

## Panels Revenues (in US\$ million)



*Note: Panels sales include energy*

	Net Sales	Price	Volume
QoQ	4.6%	-3.4%	7.5%
YoY	2.3%	-2.6%	11.7%

## Panels Production (in 000´m3)

000' Adt	Q1 2014	Q2 2014	Q3 2014	Q4 2014	Q1 2015	Q2 2015
Panels production	1,261	1,232	1,372	1,302	1,277	1,372



- Panels revenues increased by 4.6% mainly by higher sales volume, driven by our business in North America
- Nueva Aldea mill's higher production keeps improving plywood sales
- We continue to have good sales levels of our particle board products from our Teno mill
- In MDF products, there is a generalized boost in supply in all markets
- In Brazil, weakening of their currency compared to the previous year and the supply surplus have increased export volumes

# Review by Business Segment > Panels > Outlook



PBO and MDF demand has been strong and there is a good balance between supply and demand; Arauco continues to increase sales of melamine. Plywood sales in North America continue to grow with traditional customers, as well as new. There is more competition in this business from other Chilean and Chinese producers.



In Chile we are improving our product mix and margins. Volume sales of Vesto remain at good levels. Returns in US dollars have declined due to exchange rate.



Sales volume for MDF have increased but still suffer because of an oversupplied market. Exports by Arauco and other competitors have taken pressure away from the domestic market. In PBO, the market is oversupplied and sales are sluggish.



Despite the uncertainty in the Argentinean economy and production running below mill capacity, sales of MDF and PBO are stable.



Mexico's demand for all products has been at good levels. Demand and supply are in balance, despite a substantial growth from imports in MDF from Brazil. Plywood market is also finding more competition from off shore producers. Vesto sales have grown and product acceptance is excellent.

# Review by Business Segment > Sawn Timber

## Sawn Timber Revenues (in US\$ million)



Note: Sawn Timber sales include energy

	Net Sales	Price	Volume
QoQ	5.3%	1.5%	3.0%
YoY	-14.9%	-13.4%	-13.4%

## Sawn Timber Production (in 000' m3)

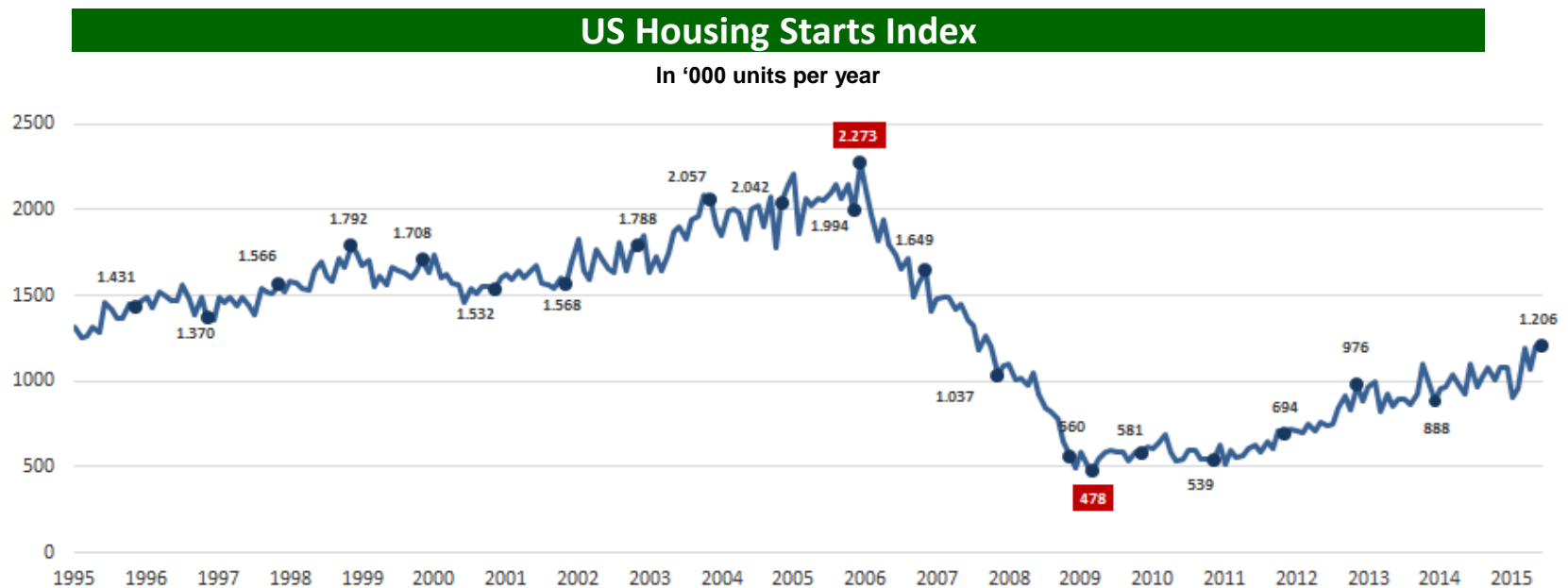
000' Adt	Q1 2014	Q2 2014	Q3 2014	Q4 2014	Q1 2015	Q2 2015
Sawn Timber production	741	725	727	729	694	705



- Increase in revenues of 5.3% is explained by the increase in sales volume by 3.0%, driven by exports to the Asian market
- Production of sawn timber was stable, with a 1.6% increase compared to the last quarter
- There is a supply surplus from countries with weakening currencies, making exports a much more attractive scenario
- North American market maintains its dynamism in new constructions and renovations, which translates into a stable market demand for our moldings
- In Latin America, Arauco has reached a higher market share and a desired level of product mix

# Review by Business Segment > Sawn Timber > Outlook

- June's Housing Starts index has kept its upward trend, reaching 1.21 million units per year.
- Within the United States, the real estate, construction and home remodeling sector continue to show signs of improvement, although somewhat below what was forecasted. Demand volumes are strong and prices only slightly lower, as more overseas competition has landed from countries with devalued currencies.
- China, South Korea, Taiwan, Japan and Middle East showed signs of softening during second quarter, both in volumes and prices. Competition is strong from all exporting countries.
- Chile and the rest of South America has held up in volumes, although there is a slight decrease in prices in US dollars due to the devaluation of their currencies.
- In Central America the demand for wood remains stable.



Source: Bloomberg

# Agenda

- Financial Review 2<sup>nd</sup> Quarter 2015

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- 2<sup>nd</sup> Quarter and Subsequent Events

- Q&A



## 2<sup>nd</sup> Quarter and Subsequent Events

### New effluent treatment investment at Arauco Pulp Mill under way



*Nueva Aldea effluent treatment plant, Chile*

- This effluent treatment system will be located in the Horcones area, and is a part of the MAPA project
- The treatment system will be built on 36.4 hectares (90 acres), with an investment of US\$120 million
- It is expected to be ready in May 2017

# 2<sup>nd</sup> Quarter and Subsequent Events

## Dissolving Pulp Project Environmental Permit

- The Court of Appeals of Valdivia granted a constitutional action (recurso de protección) against the Environmental Assessment Service (SEA)
- The constitutional action argues that the environmental permit was granted without meeting all the required formalities
- Arauco has appealed to the Supreme Court and the case is currently under review
- Arauco believes that the environmental impact assessment was carried out by the authorities in full compliance with legal standards

# 2<sup>nd</sup> Quarter and Subsequent Events

## Chilean Pavilion for Expo Milan 2015 Carbon Neutral

- Arauco signed a carbon offset pledge which allows the Chilean Pavilion for Expo Milan 2015 to become certified as carbon neutral
- Biomass clean energy registered under the Kyoto Protocol from Arauco's Valdivia pulp mill will offset the pavilion's carbon footprint



# Agenda

- Financial Review 2<sup>nd</sup> Quarter 2015

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# 2<sup>nd</sup> Quarter 2015 Financial Results



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