



Conference Call Presentation

**1<sup>st</sup> Quarter 2009**

**Financial Results**



**June 5<sup>th</sup>, 2009**

## Disclaimer

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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

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- **Transition to IFRS** **4**
- **Financial Review 1st Quarter 2009** **12**
- **Review by Business Segment** **19**
- **Outlook** **24**

## Transition to IFRS

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Following regulations issued by the Chilean Securities and Exchange Commission (“SVS”), companies under their supervision must change its accounting standards to IFRS starting on January 1<sup>st</sup>, 2009.

While it is mandatory for all firms to report December 31<sup>st</sup>, 2009 financial statements under IFRS, Arauco along with other firms have volunteered to early adopt this transition by presenting their quarterly results starting on March 31<sup>st</sup>, 2009.

# Transition to IFRS > Main implications

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## Forest Valuation

- Forests and biological assets are valued according to future cash flows, instead of current commercial value
- Changes in forest value are now recognized as profit or loss in I.S.

## Cost of Wood Sold

- Calculated as the market value of the tree harvested, as opposed to the historic cost of growing the tree.

## Consolidation of related firms

- Our financial statements consolidate Forestal Rio Grande, a Chilean forestry firm which Arauco operates its forests and has a contract for buying land over time

## Derivatives and interest expense over bonds

- Derivatives are valued at market value, and any change in value over the period is recognized as profit or loss
- Interest expense over bonds is now calculated with the effective interest method

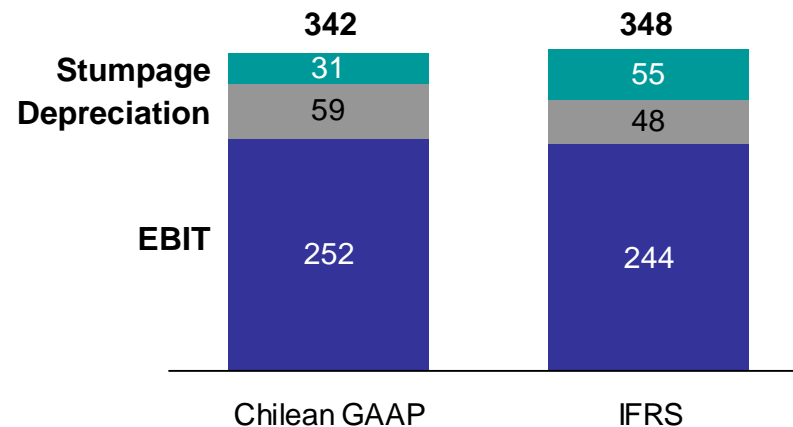


***No impact over cash tax payments nor dividends***

# Transition to IFRS > Forest Valuation and Cost of Wood Sold

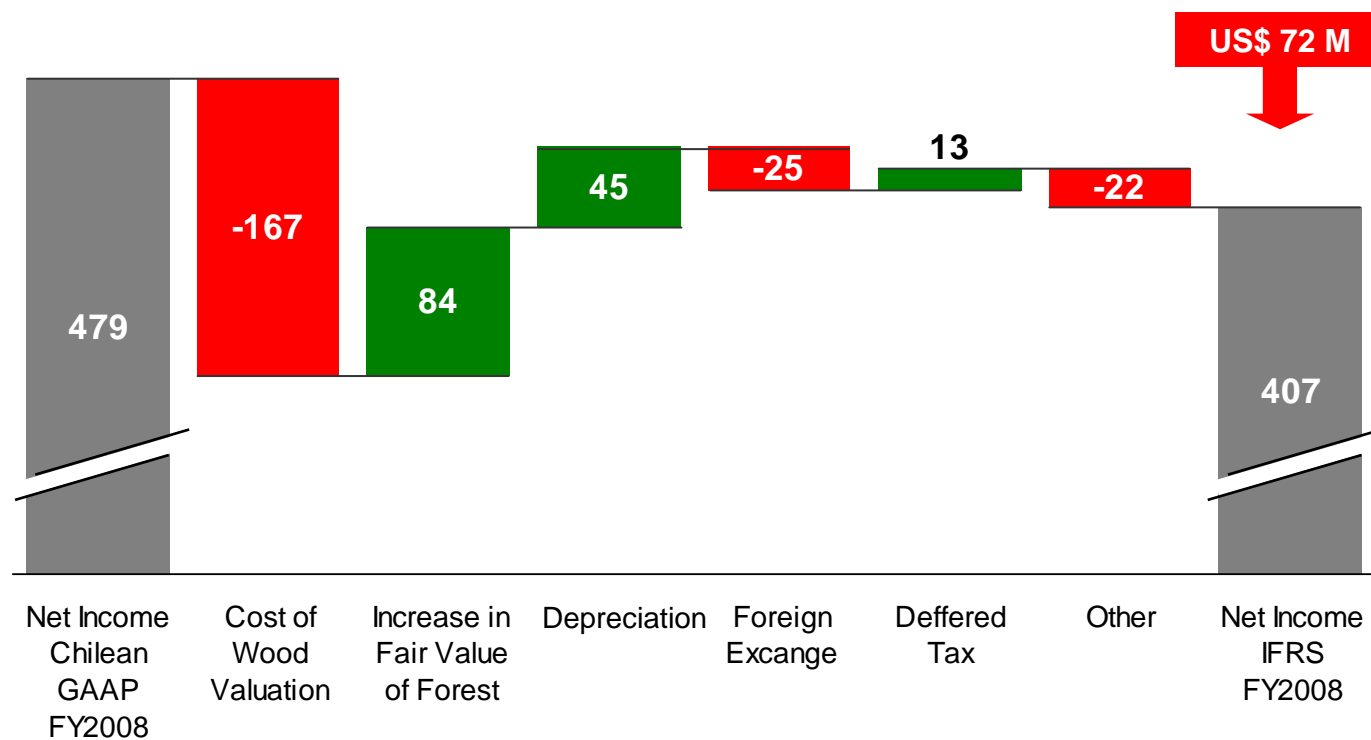
Chilean GAAP	IFRS
<ul style="list-style-type: none"> <li>Forest is valued according to the current commercial value of the trees</li> </ul>	<ul style="list-style-type: none"> <li>Forest is valued based on future cash flows</li> </ul>
<ul style="list-style-type: none"> <li>Increase/decrease in biological assets is recorded in Shareholder's Equity once a year</li> </ul>	<ul style="list-style-type: none"> <li>Increase/decrease in biological assets is recorded as gain/loss in Income Statement quarterly</li> </ul>
<ul style="list-style-type: none"> <li>The <i>Cost of Wood Sold</i> is valued according to the historical cost of growing the tree until it is harvested</li> </ul>	<ul style="list-style-type: none"> <li>The <i>Cost of Wood Sold</i> reflects the fair value of the tree harvested, which in general is higher than the historical cost of growing the tree</li> </ul>

## 1Q 2008 EBITDA



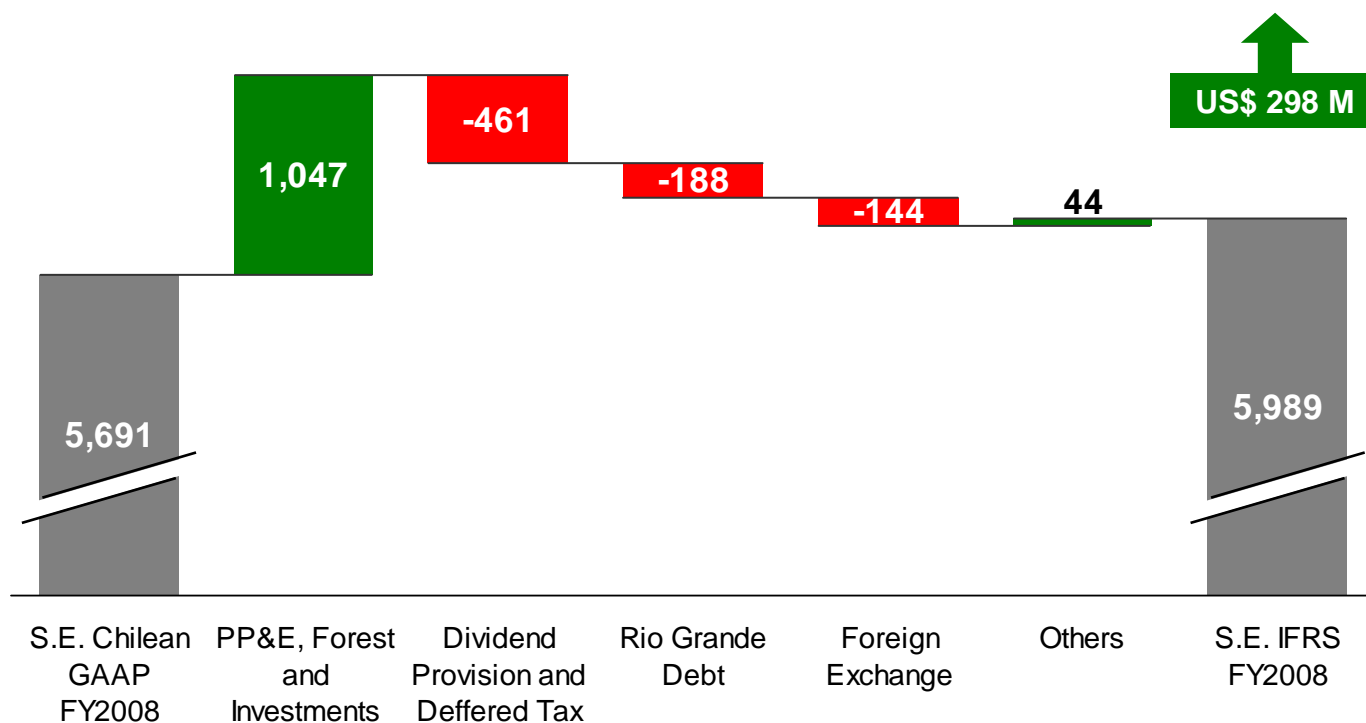
# Transition to IFRS > Effect over Net Income

## FY 2008 Net Income Reconciliation (in US\$ million)



# Transition to IFRS > Effect over Shareholder's Equity

## FY 2008 Shareholder's Equity Reconciliation (in US\$ million)

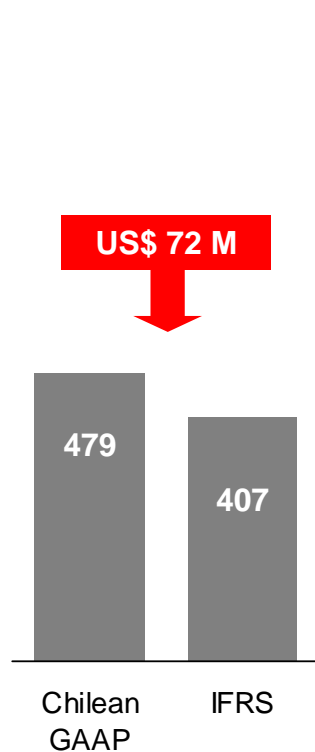




# Transition to IFRS > Summary

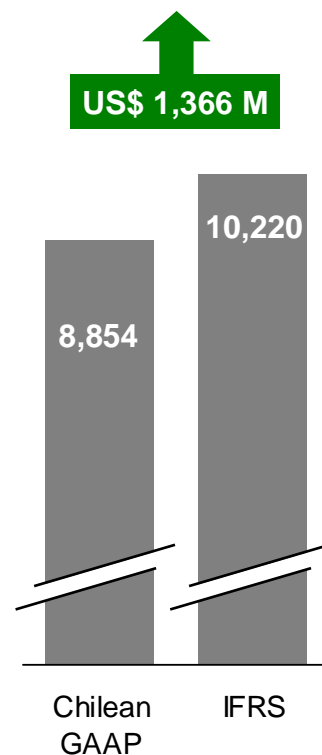
## FY 2008 Net Income

(in US\$ million)



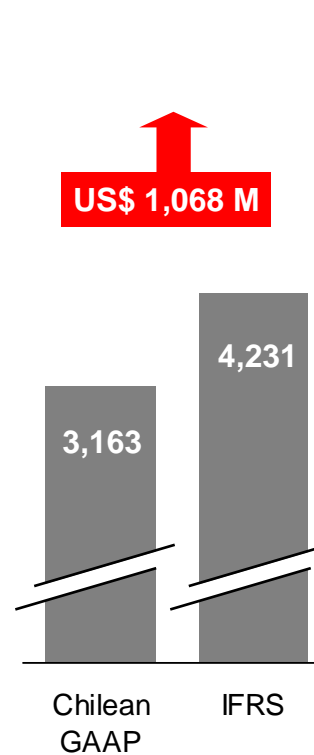
## FY 2008 Assets

(in US\$ million)



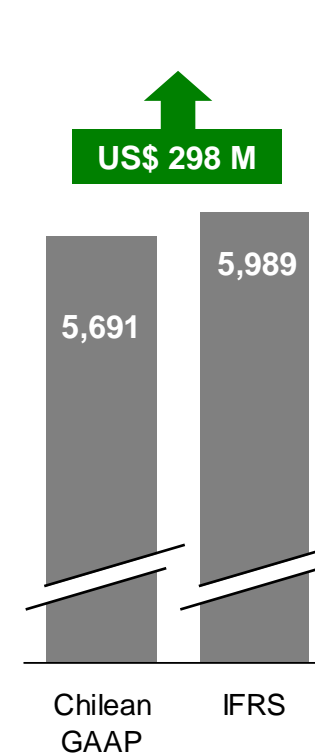
## FY 2008 Liabilities

(in US\$ million)



## FY 2008 S.E.

(in US\$ million)



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## Transition to IFRS > Conclusions

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- Slight increase in financial debt
- Increase of Arauco's Shareholder's Equity and Assets
- Minimum effect over financial covenants
- No effect over EBITDA, tax and dividends

# Agenda

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## Financial Review > 1Q 2009 Highlights

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- Revenues of US\$ 660 million  
(-31.3% over 1Q 2008 / - 11.9% over 4Q 2008)
- EBITDA of US\$ 126 million  
(-63.6% over 1Q 2008 / - 20.4% over 4Q 2008)
- Net Income of US\$ 14 million  
(-92.7% over 1Q 2008)
- Net Financial Debt of US\$ 2,506 million  
(+0.87% over 4Q 2009)
- CAPEX of US\$ 97 million  
(-9.6 % over 1Q 2008)

# Financial Review > Consolidated Financial Statements

## Income Statement

In US\$ million	FY 2008	1Q09	Y o Y
Sales	961	660	-31%
Gross Margin	418	178	-57%
EBITDA	348	126	-64%
EBIT	244	40	-84%
<b>Net Income</b>	<b>187</b>	<b>14</b>	<b>-93%</b>

## Cash Flow

In US\$ million	1Q08	1Q09	Y o Y
Operating activities	143	75	-48%
Investing activities	-109	-95	-13%
Financing activities	38	215	470%
<b>Cash flow of the period</b>	<b>72</b>	<b>194</b>	<b>171%</b>

## Assets

In US\$ million	FY 2008	1Q09	Q o Q
Cash	167	363	117%
Inventories	699	691	-1%
<b>Total Current Assets</b>	<b>1.963</b>	<b>2.208</b>	<b>12%</b>
PP&E	4.607	4.635	1%
Biological Assets	3.383	3.365	-1%
<b>Total Fixed Assets</b>	<b>8.257</b>	<b>8.276</b>	<b>0%</b>
<b>Total Assets</b>	<b>10.220</b>	<b>10.484</b>	<b>3%</b>

## Liabilities and S.E.

In US\$ million	FY 2008	1Q09	Q o Q
Short term financial debt	373	446	20%
<b>Current Liabilities</b>	<b>813</b>	<b>899</b>	<b>11%</b>
Long term financial debt	2.279	2.423	6%
<b>Non Current Liabilities</b>	<b>3.418</b>	<b>3.588</b>	<b>5%</b>
Minority Interest	121	119	-2%
<b>Controller's S.E.</b>	<b>5.869</b>	<b>5.878</b>	<b>0%</b>
<b>Liabilities and S.E.</b>	<b>10.220</b>	<b>10.484</b>	<b>3%</b>

# Financial Review > Income Statement

## Arauco - Income Statement

In million of US\$	Q1 08	Q1 09	Chg (%) Q109/Q108
Net Sales	961	660	-31%
Cost of sales	-544	-482	-11%
Gross Margin	418	178	-57%
Selling and administrative expenses*	-174	-138	-21%
EBIT	244	40	-84%
Other operating Income	17	46	162%
Other Costs and Expenses	-7	-11	63%
Interest Expenses	-49	-42	-16%
Income on investments in related companies	1	1	23%
Foreing exchange gains (loses)	30	-10	-133%
Gain (Loss) for writeoff in non-current assets	-1	-3	389%
Other non-operating Income	0	0	-100%
Income before taxes	235	21	-91%
Income taxes	-46	-7	-84%
Net Income before minority interest	189	14	-93%
Minority interest	2	1	-77%
Net income for the year	187	14	-93%
EBITDA	348	126	-64%
EBITDA Margin	36,2%	19,1%	

## Comments

- **Sales:** decrease in prices and volume (pulp 23.3%, panels 25.2% sawn timber 45.5%)
- **Cost of Sales:** total cost per ton of pulp is 7% lower than that of 1Q08, strongly influenced by less sales volume and decrease in unitary costs of energy and fuels (-42%) and maintenance (-17%)
- **Selling and administrative expenses:** decreased mainly as result of lower shipping costs and depreciation of the Chilean peso
- LTM EBITDA reached US\$ 762 million

## Financial Review > Cash Flow

### Arauco - Cash Flow Statement

In million of US\$	Q1 08	Q1 09	Chg (%)
Collection of accounts receivables	981,518	769,886	-22%
Payments of suppliers and personnel (less)	-804,432	-682,59	-15%
Other expenses paid (less)	43,503	50,215	15%
Dividends and other distributions received	0	0	
Interest paid (less)	-49,208	-42,485	-14%
Income tax paid (less)	-28,217	-20,246	-28%
<b>Net cash provided by (used in) operating activities</b>	<b>143,164</b>	<b>74,78</b>	<b>-48%</b>
Capital Expenditures	-106,967	-96,734	-10%
Other investment cash flow	-2,247	1,402	-162%
<b>Net cash provided by (used in) investing activities</b>	<b>-109,214</b>	<b>-95,332</b>	<b>-13%</b>
Debt issuance	228,61	450,92	97%
Debt repayment	-190,935	-236,04	24%
<b>Net cash provided by (used in) financing activities</b>	<b>37,675</b>	<b>214,88</b>	<b>470%</b>
<b>Total positive (negative) cash flow of the period</b>	<b>71,625</b>	<b>194,328</b>	<b>171%</b>
Effect of inflation on cash and cash equivalents	6,027	1,257	-79%
Cash and cash equivalents at beginning of the period	267,839	167,287	-38%
<b>Cash and cash equivalents at end of the period</b>	<b>345,491</b>	<b>362,872</b>	<b>5%</b>

### Comments

- Arauco's management has continued with its **cash optimization strategy**, continuously revisiting its Capex pipeline along with its cost-cut efforts for all business segments

# Financial Review > Debt

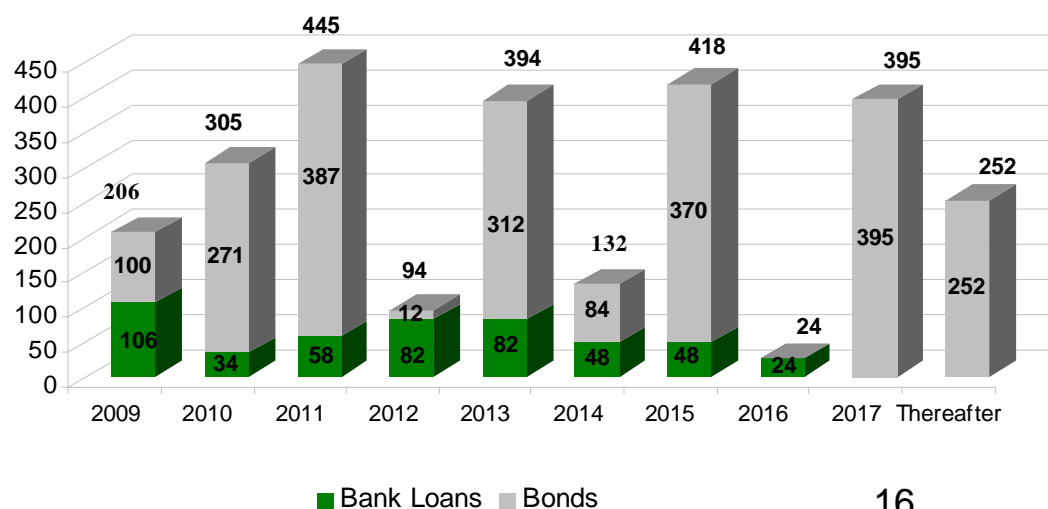
## Arauco - Consolidated Debt Position

In million of US\$	Q4 08	Q1 09	Chg (%) Q109/Q408
Short term financial debt	373	446	19,70%
Long term financial debt	2.279	2.423	6,31%
<b>TOTAL FINANCIAL DEBT</b>	<b>2.652</b>	<b>2.869</b>	<b>8,19%</b>
Cash	167	363	116,89%
<b>NET FINANCIAL DEBT</b>	<b>2.485</b>	<b>2.506</b>	<b>0,87%</b>

## Comments

- Under IFRS Arauco consolidates debt of US\$ 165 million coming from Forestal Rio Grande
- During March 09 Arauco issued two local bonds in Chile for UF 4 million (approx. US\$ 142 million)
- In May the SVS approved the filing of a new line of local bonds for UF 20 million

## Long Term Debt Amortization (in US\$ million)





## Financial Review > Ratios

### Key Financial Ratios

<b>Profitability</b>	<b>Q1 08</b>	<b>FY 2008</b>	<b>Q1 09</b>
Gross margin	43,4%	37,2%	27,0%
Operating margin	25,4%	17,9%	6,0%
EBITDA margin	35,6%	30,5%	19,1%
ROA (EBIT / Total Assets)	-	6,6%	1,5%
ROCE (EBIT (1 - tax rate) / Total Capitalization)	-	6,2%	1,4%
ROE (Net Income / Equity)	-	6,9%	0,9%
<b>Leverage</b>	<b>Q1 08</b>	<b>FY 2008</b>	<b>Q1 09</b>
Interest Coverage Ratio (EBITDA / Interest Expenses)	6,9x	6,2x	3,0x
Net Financial Debt / EBITDA	-	2,2x	5,0x
Total Financial Debt / Total Capitalization	-	0,3x	0,3x
Net Financial Debt / Total Capitalization	-	0,3x	0,3x
Total Financial Debt / Equity	-	44,3%	47,8%
Net Financial Debt / Equity	-	41,5%	41,8%

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# Review by Business Segment > Pulp

## Pulp Division Net Sales (in US\$ million)



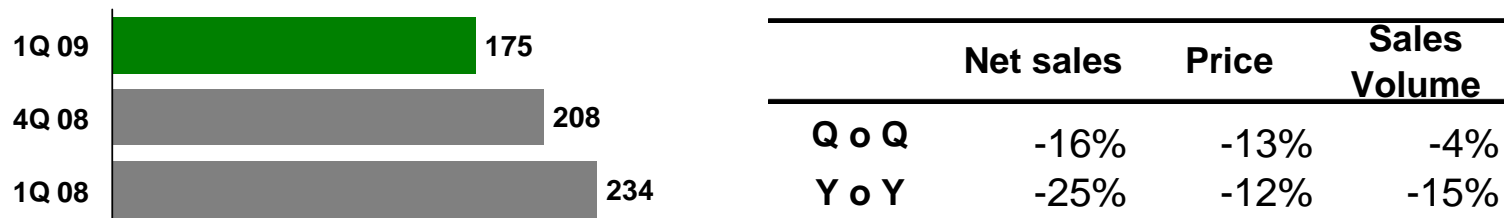
	Net sales	Price	Sales Volume
Q o Q	-1%	-12%	12%
Y o Y	-23%	-35%	18%



- Inventories reached highest level during January-February, and have been going down since March although still above historic averages (28 days)
- Unitary costs are going down in line with cost-cut programs and helped by external prices of main raw materials, especially chemicals and energy, Chilean peso depreciation, and freight
- Asia, in particular China has had an active demand and led price increases (~20 \$/Adt), while Europe still remains weak in demand with some price increases during March (~10 \$/Adt)
- Environmental authority allowed the increase in 20% of production at Nueva Aldea Pulp Mill (from 856,000 Adt/year to 1,030,000 Adt/year), given its sound environmental performance

# Review by Business Segment > Panels

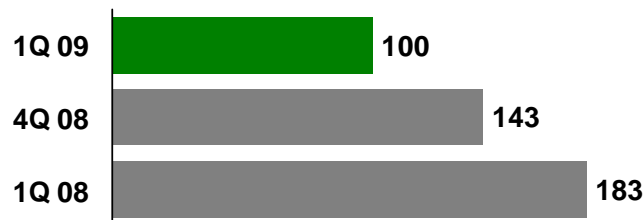
## Panels Division Net Sales (in US\$ million)



- Overall the panel business had a difficult quarter, strongly linked with a depressed US housing sector
- Plywood sales continued its downward trend both in volume and prices, especially in Europe and USA. MDF sales also decreased in volume, however prices remain stable
- Devaluation of some currencies is forcing a reduction in prices in order to be competitive
- Mexican and Latin American markets have remained stable helping to keep our production lines full
- Products with higher value added (appearance grades) dropped in demand affecting negatively the total margin

# Review by Business Segment > Sawn Timber

## Sawn Timber Division Net Sales (in US\$ million)



	Net sales	Price	Sales Volume
Q o Q	-30%	-10%	-22%
Y o Y	-45%	-12%	-38%

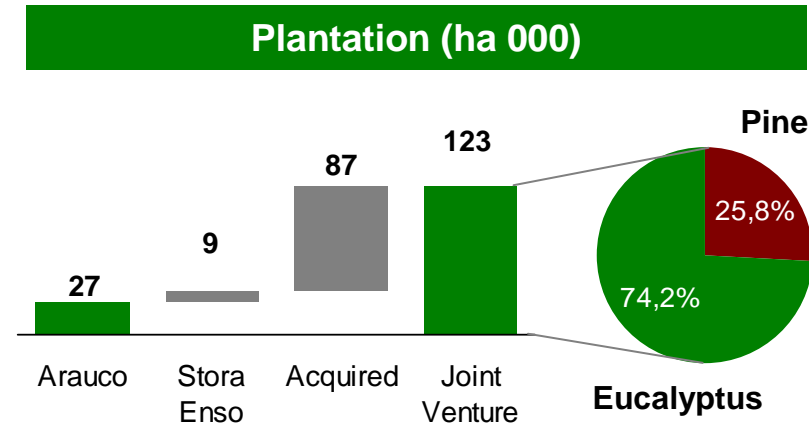
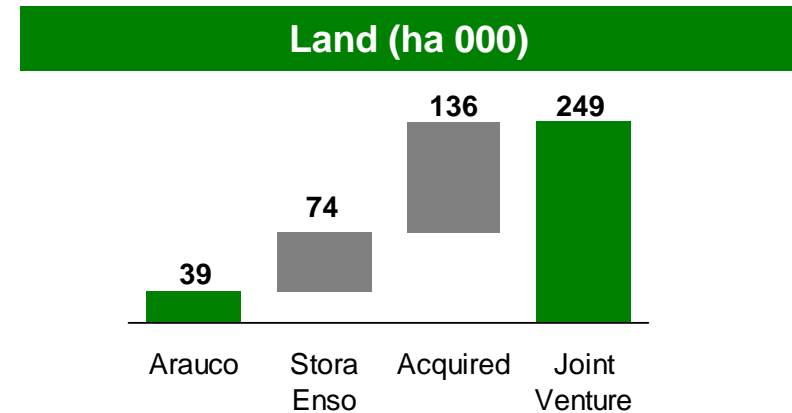


- Our sawn timber business has been the most impacted business segment with the global economic downturn, and in particular with the down cycle of the US housing sector
- Slowdown is still affecting the US housing industry which is facing the lowest construction level in the last 50 years. This continues to impact prices and sales volumes. This has resulted in the temporary and permanent closure of many plants throughout the world
- As part of the company's plan to consolidate production towards its most efficient facilities, Arauco started in April 2009 the expansion of the Viñales sawmill from 240,000 to 380,000 cubic meters

# Subsequent events

**Arauco acquired the main assets of the Spanish Grupo Empresarial ENCE in Uruguay through a Joint Venture with Stora Enso**

- Agreement for a Joint Venture with Stora Enso to acquire ENCE's main assets in Uruguay for U.S.\$343 million. The deal includes 130,000 hectares of land and 13,000 hectares of leasing
- Along with the deal, Arauco and Stora Enso will add 39,000 and 74,000 ha of land respectively, already owned in Uruguay
- **These assets provide a strategic base to consider building a pulp mill in Uruguay in the future**



Source: Arauco

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## Outlook > Pulp market

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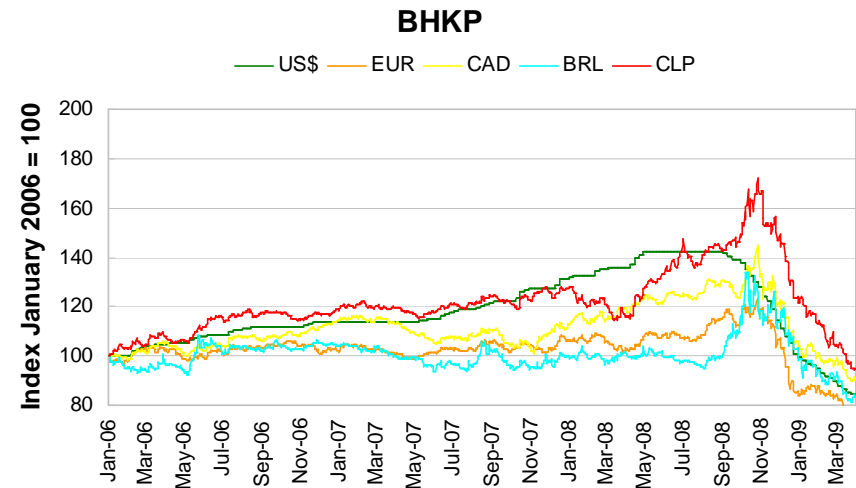
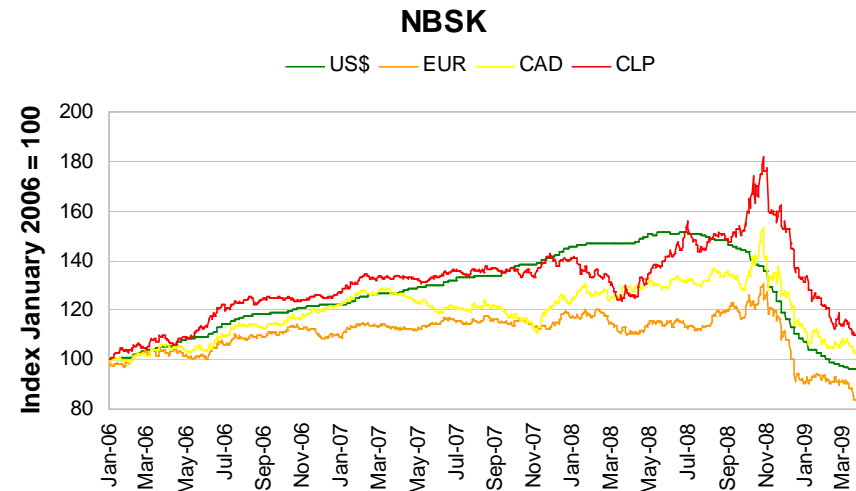
- **We believe global pulp market bottomed during 1Q 2009, and signs of recovery should appear during second half of 2009**
  - Overall, prices will increase US\$ 40 / Adt during second quarter, especially in Asia
  - Asia: China should continue with an active demand, with price increases near US\$ 20 /Adt. Korea and Taiwan have also showed price improvements and active demand, which should continue during 2009
  - Europe: demand has continued down and we expect this trend to continue the following months. However, prices have gone up US\$ 10 / Adt at the end of quarter
  - South America: has a 1-2 month lag in price adjustments respect to Asia and Europe
- **Unitary costs will continue with its downward trend**
  - Pushed by lower costs of main chemical raw material such as chlorate and caustic soda



# Outlook > Pulp market

- **As prices continue low, some definitive shutdowns/market downtime of high cost pulp mills should occur during the year**
- **Black Liquor Tax Credit is giving an unfair cost competitiveness to US pulp mills**
  - Subsidizes unitary cost of production estimated in the range of 170 to 190 \$/Adt (bleached pulp)
  - Total subsidy for 2009 estimated around \$4 to \$6 billion for the industry
- **China is leading pulp demand; in March increased import volume 47% YoY**
  - Substitution of domestic wood pulp and non-wood pulp production with imported fiber
  - Imports of softwood pulp up 27% 1Q09, YoY
  - Imports of hardwood pulp up 60% 1Q09, YoY

Source: PulpWatch, Arauco



Source: Bloomberg, Arauco analysis



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# Outlook > Panels and Sawn Timber markets

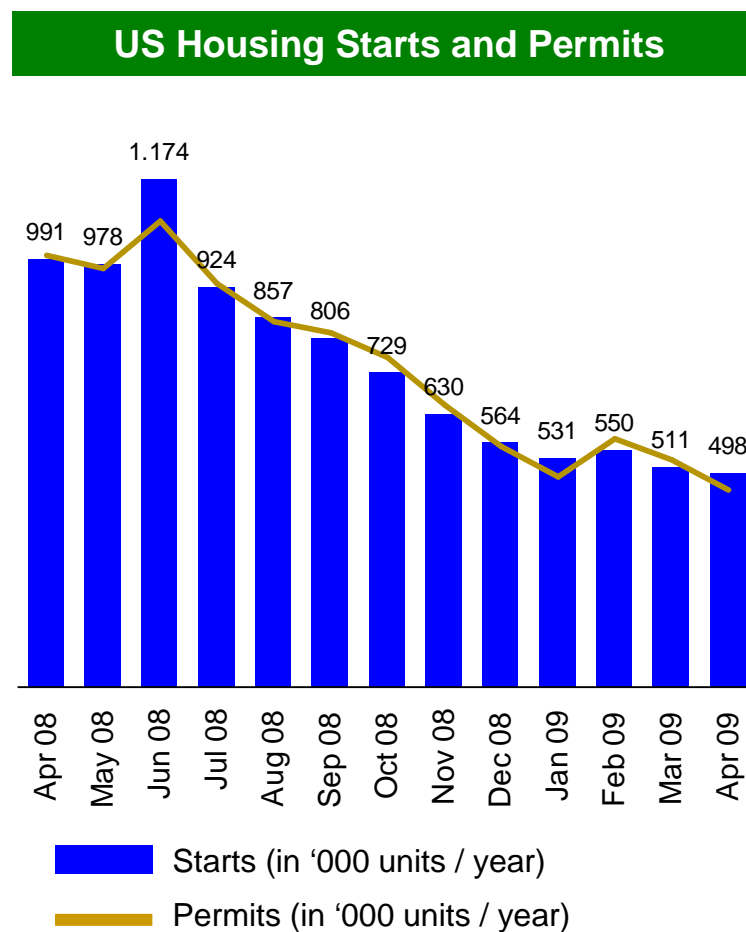
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## Outlook – Panels market

- **Overall, the global economic crisis has affected the demand for panels across all markets we operate, however sales in Asia have been stable**
  - **Plywood:**
    - Europe with a pessimistic outlook for the coming months, with main euro zone countries in recession. Local producers are responding with contraction of production
    - Prices in the US have declined slightly and are starting to stabilize
    - Sales in Asia expected to continue stable
  - **MDF:**
    - Prices in China should increase around 5 \$/m<sup>3</sup>, reflecting the higher demand for MDF in the recent months
    - Sales in Latin America with some weakness in demand

## Outlook > Sawn Timber markets

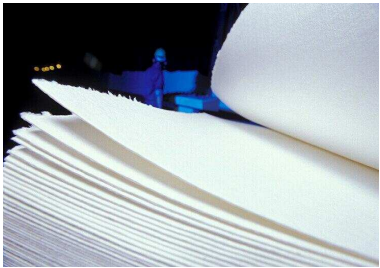
- There is some evidence the construction of houses in the US has bottomed, and we expect both housing permits and starts to stabilize the next months
- Asian market shows some sign of recovery
  - For Korea and Taiwan, prices are expected to increase 10 \$/m<sup>3</sup>
  - Demand in China has been active, with almost normal levels of sales volume for the furniture industry and an increasing demand of wood for packaging. Prices are also expected to increase



Source: U.S: Census Bureau



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# Q & A



## Arauco > Investor Relations

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**Conference Call Presentation**

**1<sup>st</sup> Quarter 2009**

**Financial Results**

**June 5<sup>th</sup>, 2009**

**A replay of this conference call will be available from June 5<sup>th</sup>, 2009, 12:00 to June 12<sup>th</sup>, 2009 23:59 (EST)**

Replay number: +1 (706) 645-9291

Password: 12321704

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