



**ARAUCO**<sup>®</sup>  
Growing the Future



**Conference Call Presentation**

**3<sup>rd</sup> Quarter 2010**

**Financial Results**

**December 3<sup>rd</sup>, 2010**



**ARAUCO**<sup>®</sup>  
Growing the Future

# 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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- Financial Review 3<sup>rd</sup> Quarter 2010** **4**
- Review by Business Segment **11**
- Outlook **15**
- 3<sup>rd</sup> Quarter and Subsequent Events **19**

# Financial Review > 3Q 2010 Highlights

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- Revenues of U.S.\$ 1,035 million  
(13% over 2Q 2010)
- EBITDA of U.S.\$ 387 million  
(2% over 2Q 2010)
- Net Income of U.S.\$ 199 million  
(14% over 2Q 2010)
- Net Financial Debt of U.S.\$ 2,537 million  
(-4% over 2Q 2010)
- CAPEX of U.S.\$ 73 million  
(-58 % over 2Q 2010)

# Financial Review > Consolidated Financial Statements

## Income Statement

U.S.\$ million	3Q 10	2Q 10	Q o Q
Revenue	1,035	913	13%
Gross profit	421	377	12%
EBITDA	387	381	2%
Operating income	243	212	15%
<b>Net Income</b>	<b>199</b>	<b>174</b>	<b>14%</b>

## Cash Flow

U.S.\$ million	3Q 10	2Q 10	Q o Q
Operating activities	202	262	-23%
Investing activities	-69	-177	-61%
Financing activities	383	-94	-508%
<b>Cash flow of the period</b>	<b>517</b>	<b>-9</b>	<b>-6177%</b>

## Assets

U.S.\$ million	3Q 10	2Q 10	Q o Q
Cash	890	358	148%
Inventories	701	638	10%
<b>Total Current Assets</b>	<b>3,025</b>	<b>2,407</b>	<b>26%</b>
PP&E	5,004	4,920	2%
Biological assets	3,467	3,415	2%
<b>Total Non Current Assets</b>	<b>9,246</b>	<b>9,070</b>	<b>2%</b>
<b>Total Assets</b>	<b>12,271</b>	<b>11,477</b>	<b>7%</b>

## Liabilities and S.E.

U.S.\$ million	3Q 10	2Q 10	Q o Q
Short term financial debt	566	383	48%
<b>Current Liabilities</b>	<b>1,260</b>	<b>918</b>	<b>37%</b>
Long term financial debt	2,892	2,639	10%
<b>Non Current Liabilities</b>	<b>4,364</b>	<b>4,080</b>	<b>7%</b>
Minority interest	104	102	2%
Controller's S.E.	6,542	6,377	3%
<b>Liabilities and S.E.</b>	<b>12,271</b>	<b>11,477</b>	<b>7%</b>

# Financial Review > Income Statement

## Arauco - Income Statement

U.S.\$ million	3Q 10	2Q 10	Q o Q
Revenue	1,035	913	13%
Cost of sales	-614	-536	15%
<b>Gross profit</b>	<b>421</b>	<b>377</b>	12%
Other operating income	80	64	25%
Administrative and Distribution Costs	-178	-166	7%
Other operating expenses, and gains (losses)	-13	9	
Net Financial Costs	-58	-55	5%
Exchange rate differences	12	-8	
Income before tax	263	221	19%
Income tax	-64	-47	38%
<b>Net Income</b>	<b>199</b>	<b>174</b>	14%
Depreciation	57	65	-13%
Stumpage	87	90	-3%
Special items	0	14	
<b>EBITDA</b>	<b>387</b>	<b>381</b>	2%

## Comments

- **Revenue:** higher sawn timber and panels prices by 18% and 15% respectively, and an increase in pulp sales volume by 29%, partially offset by a decrease in sawn timber and panels sales volume of 10% each
- **Cost of Sales:** 15% higher than the second quarter, mainly explained by higher production in pulp, sawn timber and panels by 39%, 8% and 2%, respectively
- **EBITDA:** reached U.S.\$ 387 million during the third quarter, only 2% higher than the previous quarter
- **Exchange rate differences:** There was a U.S.\$ 20.3 million increase as a result of the depreciation of the dollar against the Chilean peso, the Euro and the Real, on assets denominated in those currencies

# Financial Review > Cash Flow

## Arauco - Cash Flow Statement

U.S.\$ million	3Q 10	2Q 10	Q o Q
Collection of accounts receivables	973	794	23%
Collection from insurance claims	100	0	
Payments of suppliers and personnel (less)	-851	-565	51%
Other expenses paid and received	47	23	102%
Dividends and other distributions received	-3	-1	
Interest paid and received	-57	-27	114%
Income tax paid	-7	37	-119%
<b>Net cash provided by (used in) operating activities</b>	<b>202</b>	<b>262</b>	<b>-23%</b>
Capital Expenditures	-73	-175	-58%
Other investment cash flow	4	-1	-430%
<b>Net cash provided by (used in) investing activities</b>	<b>-69</b>	<b>-177</b>	<b>-61%</b>
Debt issuance	744	10	7075%
Debt repayment	-361	-52	592%
Other financing cash flow	0	-52	-100%
<b>Net cash provided by (used in) financing activities</b>	<b>383</b>	<b>-94</b>	<b>-508%</b>
<b>Total positive (negative) cash flow of the period</b>	<b>517</b>	<b>-9</b>	<b>-6177%</b>
Effect of inflation on cash and cash equivalents	15	-7	-324%
Cash and cash equivalents at beginning of the period	358	373	-4%
<b>Cash and cash equivalents at end of the period</b>	<b>890</b>	<b>358</b>	<b>148%</b>

## Comments

- Our cash balance increased 148% when compared with last quarter, mainly due to the U.S.\$ 614 million raised through bonds by Arauco in September in the local and the U.S. market, and U.S.\$ 100 million received from insurance claims related to the February 27<sup>th</sup> earthquake

# Financial Review > Debt

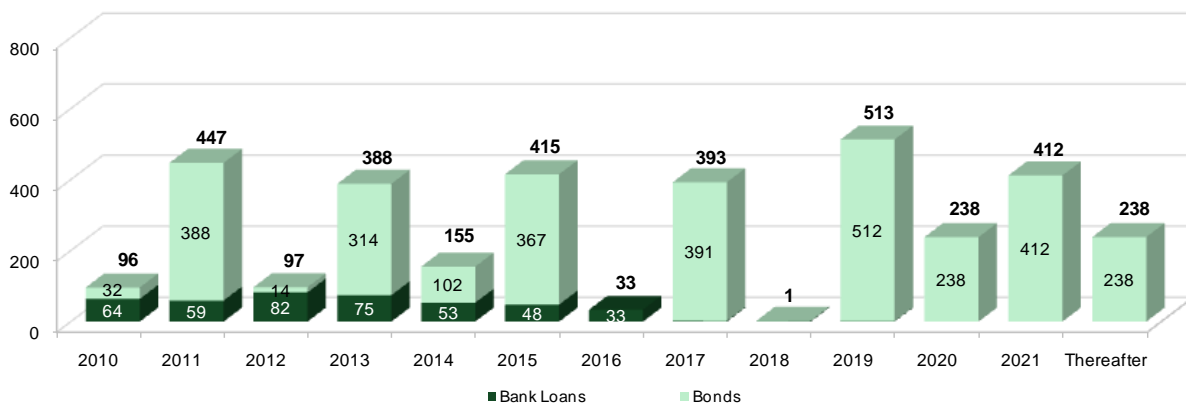
## Financial Debt Profile

US\$ million	September 2010	June 2010	Q o Q
Short term financial debt	534	364	47%
Long term financial debt	2,892	2,639	10%
<b>TOTAL FINANCIAL DEBT</b>	<b>3,426</b>	<b>3,004</b>	<b>14%</b>
Cash and cash equivalents	890	358	148%
<b>NET FINANCIAL DEBT</b>	<b>2,537</b>	<b>2,645</b>	<b>-4%</b>

## Comments

- During the third quarter our long term debt increased due to the September bond issues
- Short term debt includes U.S.\$ 387 million from our 7.75% Notes due in September 2011
- Despite the increase of total financial debt, our net financial debt remains at similar levels than previous quarters
- We do not have any important debt maturity until September 2011

## Financial Debt Schedule as of September 30, 2010





# Financial Review > Ratios

## Arauco Key Financial Ratios

	3Q 10	2Q 10	3Q09	FY2009
<b><i>Profitability</i></b>				
Gross margin	40.7%	41.3%	31.5%	30.9%
Operating margin	23.5%	23.2%	11.1%	10.4%
EBITDA margin	37.4%	41.7%	24.5%	23.4%
ROA (EBIT / Total assets)	8.2%	7.4%	3.4%	2.8%
ROCE (EBIT (1 - tax rate) / Total capitalization)	7.5%	7.1%	3.2%	2.9%
ROE (Net Income / Equity)	12.0%	10.8%	6.2%	4.8%
<b><i>Leverage</i></b>				
Interest coverage ratio (EBITDA / Interest expenses)	6.3x	6.6x	4.4x	3.8x
Net financial debt / EBITDA	1.6x	1.7x	3.1x	3.7x
Total financial debt / Total capitalization	34.0%	31.7%	34.1%	33.5%
Net financial debt / Total capitalization	25.2%	27.9%	27.0%	27.9%
Total financial debt / Equity	51.6%	46.4%	51.7%	50.4%
Net financial debt / Equity	38.2%	40.8%	41.0%	42.0%

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# Review by Business Segment > Pulp

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

			<u>Net Sales</u>	<u>Price</u>	<u>Volume</u>
3Q 10	531				
2Q 10	428	Q o Q	24.0%	- 4.1%	29.5%
3Q 09	449	Y o Y	18.3%	50.8%	- 22.7%



- Sales volume increased, mainly due to the restart of our mill's operations during 2Q10 which were interrupted as a consequence of the earthquake(1)
- In September, global pulp inventories reached 27 days of supply for long fiber and 38 days of supply for short fiber. These levels are still considered within a normal range, however, it put pressure over prices
- In China, the oversupply of paper had some impact over pulp sales, especially in short fiber. The start of APRIL's new Rizhao short fiber pulp mill also influenced the adjustment of pulp prices in the region
- In Europe, although inventories were still relatively low and paper demand active, prices stopped increasing and remained stable due to the market situation in Asia

### Pulp production in 000' Adt

4Q 09	1Q 10	2Q 10	3Q 10
728	528	483	671

(1) Except Arauco Line II which has not started operations yet

# Review by Business Segment > Panels

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

			<u>Net Sales</u>	<u>Price</u>	<u>Volume</u>
3Q 10	285				
2Q 10	275	Q o Q	3.6%	15.4%	- 10.2%
3Q 09	227	Y o Y	25.7%	29.9%	- 3.2%



- Continuous growth: Our increase in net sales increased by 4% and 26% when compared with the previous quarter and the third quarter of 2009
- During this quarter we experienced a strong increase in panels prices, while sales volumes decreased. This situation reflects a market that is still adjusting supply-offer equilibrium after the February 27 earthquake in Chile
- Compared to the previous quarter we had lower sales volume of 10%, mainly due to higher demand-side inventory levels. After the earthquake many markets overstocked in fears of an eventual shortage, which did not occur
- Despite the demand in the US market has still not recovered, prices of MDF Moldings continued to rise, primarily as a result of the post-earthquake effect

### Panels production in 000' m3

4Q 09	1Q 10	2Q 10	3Q 10
749	598	690	701

# Review by Business Segment > Sawn Timber

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

Quarter	Net Sales	Price	Volume
3Q 10	173		
2Q 10	162	Q o Q 6.8%	- 9.8%
3Q 09	139	Y o Y 24.0%	- 4.0%

- Total net sales have grown 6.8% QoQ and 24% YoY, mainly due to the requirements of the reconstruction of Chile after the earthquake, that has had a positive impact over our business, impacting almost all markets we are present
- We benefitted from price increases in most markets, especially in China, Korea, México, Peru, Japan, Taiwán y Middle East
- Excess of inventory was the main cause of a decline in sales volume during this quarter compared to the previous quarter

### Sawn Timber production in 000' m3

4Q 09	1Q 10	2Q 10	3Q 10
598	510	641	695



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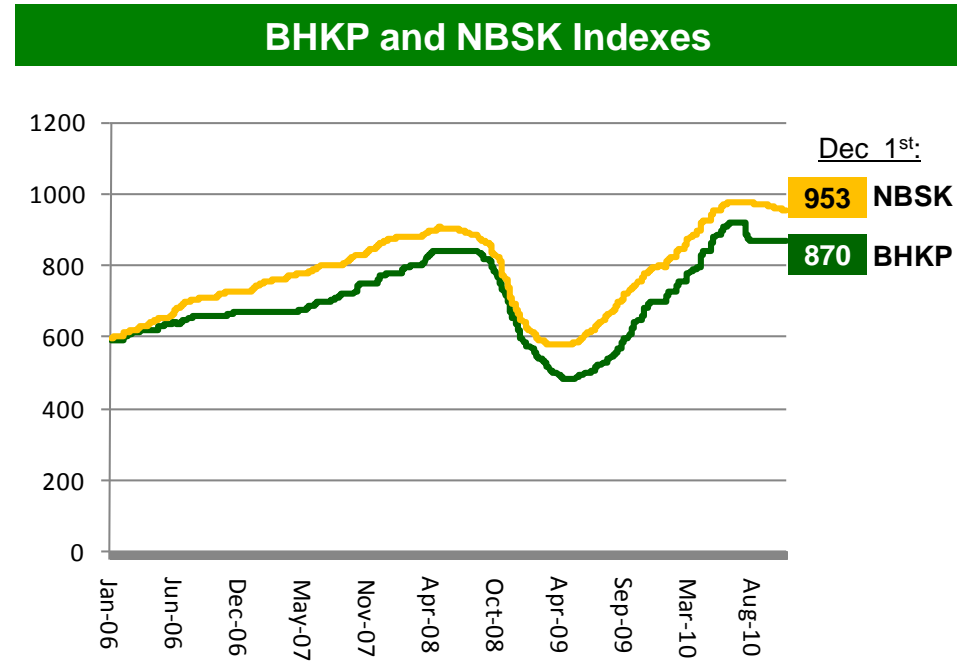
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# Outlook > Pulp market

- We see a stable market for softwood, and do not anticipate any major changes in the next months, especially in China
- Pulp prices for the following months will largely depend on global inventory levels, China market and the Dollar/Euro exchange rate
- The Latin American market is active, prices are stable and inventories are low
- Global producers held approximately 3.4 million tons of inventories at the end of September

Producers Inventory Levels

In days	September 2010	June 2010	September 2009
BSKP	27	21	22
BHKP	38	30	39



Source: Bloomberg

# Outlook > Sawn Timber market

- After a period of very active demand and strong price increases we foresee a downward adjustment in prices in the coming months mostly as a consequence of high demand-side inventory levels gained after the earthquake
- Prices and volumes are already being normalized in the US after the post-earthquake effect that caused higher sales volume to customers because of their fear of lack of supply, which made up prices
- In Asia demand is less active, especially China. However, the Korean and Australian Market have good price conditions and benefit from exchange rate effects.

## US Housing Starts and Permits

In '000 units per year



Source: U.S. Census Bureau

- Housing starts index for October was 519,000 units per year, 9% above its lowest level in April 2009 but 77% below its peak in January 2006



# Outlook > Panels market

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## Latin America

- Latin American market is currently very active and we expect it will remain strong the next months, driven mainly by Brazil, Chile, Peru, Colombia and Mexico

## Europe

- Despite the Euro's volatility and uncertainty in the European economy, our Plywood sales has been showing signs of recovery in terms of volume and prices. It is unclear if this trend may continue in the near future

## USA

- For the next quarter, prices are expected to adjust downward, after months of strong demand observed after the earthquake
- Despite current low levels in the real state and construction markets, our Plywood sales volume has increased in this market. We see an upside potential for the next months

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# 3<sup>rd</sup> Quarter and Subsequent Events

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## Arauco earthquake recovery strategy earns international recognition

In November, Arauco was awarded the prestigious 2010 Pulp & Paper International Award for Business Strategy of the Year. Organized by RISI, the international forest products industry information service, the PPI Awards honors leadership, vision, innovation and strategic accomplishments within the global pulp and paper industry.

Arauco received this award in recognition of its strategic, integrated approach to rebuild its operations and the communities near its facilities in the aftermath of the February 27, 2010 earthquake and tsunami in south-central Chile.





# Q & A



# Arauco > Investor Relations contact info

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**December 3<sup>rd</sup> , 2010**

A replay of this conference call will be available from December 3<sup>rd</sup>, 2010, 10:30 to December 12<sup>th</sup>, 2010, 23:59 (EST)

Replay number: +1 (706) 645-9291 or (800) 642 1687  
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