



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

Conference call presentation

# 4<sup>th</sup> Quarter 2013 Financial Results

## Celulosa Arauco y Constitución S.A.

Gianfranco Truffello, C.F.O.  
Santiago, March 14<sup>th</sup>, 2014



# 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 4<sup>th</sup> Quarter 2013**

- **Review by Business Segment & Outlook**

- **4<sup>th</sup> Quarter and Subsequent Events**

- **Q&A**

# Financial Review > FY 2013 Highlights

- **Montes del Plata 50% proportional consolidation**

(According to new IFRS-11, our Montes del Plata joint venture is considered a “joint operation”, and so starting 2013 (and also for 2012) we included proportionally our 50% share. Hence, quarterly periods may not be comparable)

- **FY 2013 Revenues of 5,145.5 million**

(19.7% higher than 2012)

- **FY 2013 Adjusted EBITDA of U.S.\$ 1,143.4 million**

(32.7% higher than 2012)

- **FY 2013 Net Income of U.S.\$ 418.6 million**

(191.6% higher than 2012)

- **Net Financial Debt of U.S.\$ 4,359.3 million**

(2.6% lower than 2012)

- **CAPEX of U.S.\$ 864.5 million**

(36.8% lower than 2012)

# Financial Review > Income Statement

## Comments

### INCOME STATEMENT

In U.S. Million	4Q 13	3Q 13	QoQ
Revenue	1,269.6	1,334.9	(4.9%)
Cost of sales	(880.1)	(926.5)	(5.0%)
<b>Gross Margin</b>	<b>389.5</b>	<b>408.4</b>	<b>(4.6%)</b>
Other operating income	119.5	89.6	33.4%
Administration & Distribution costs	(279.1)	(266.0)	4.9%
Other operating gains (expenses)	(78.5)	(28.9)	171.6%
Financial costs (Net)	(56.9)	(55.5)	2.5%
Exchange rate differences	(2.6)	(1.4)	90.9%
<b>Income Before Income Tax</b>	<b>92.0</b>	<b>146.3</b>	<b>(37.1%)</b>
Income tax	(46.5)	(29.3)	58.7%
<b>Net Income</b>	<b>45.5</b>	<b>117.0</b>	<b>(61.1%)</b>

### ADJUSTED EBITDA

In U.S. Million	4Q 13	3Q 13	QoQ
<b>Net Income</b>	<b>45.5</b>	<b>117.0</b>	<b>(61.1%)</b>
Financial costs (net)	56.9	55.5	2.5%
Income Tax	46.5	29.3	58.7%
<b>EBIT</b>	<b>148.9</b>	<b>201.8</b>	<b>(26.2%)</b>
Depreciation & amortization	79.1	95.0	(16.7%)
<b>EBITDA</b>	<b>228.0</b>	<b>296.8</b>	<b>(23.2%)</b>
Fair value cost of timber harvested	78.6	87.2	(9.9%)
Gain from chg. in fair value of bio. Assets	(67.1)	(66.0)	1.7%
Exchange rate differences	2,6	1.4	90.9%
<b>Adjusted EBITDA</b>	<b>242.1</b>	<b>319.4</b>	<b>(24.2%)</b>

- **Revenue:** Decreased 4.9% mainly explained by lower revenue from Pulp, Panels and Saw Timber.
  - Issues in Nueva Aldea plus maintenance in other mills reduced sales volume by 11%
- **Cost of Sales:** Decreased 5.0% mainly explained by lower volume sold during the quarter.
- **Other operating income:** Main increase explained by non-core sales of land from Montes del Plata
- **Other operating gains (expenses):** Includes indemnification provision of CDE<sup>(1)</sup> (Valdivia mill) among others
- **Adjusted EBITDA:** Decreased U.S.\$ 77.3 million, mainly explained by operating income, caused by lower sales volume; also includes indemnification of Valdivia mill

Note: Numbers may not add up due to rounding

(1) CDE: National Defense Council - ("Consejo de Defensa del Estado")

# Financial Review > Cash Flow

## CASH FLOW

In U.S. Million	FY 13	FY 12	YoY
Collection of accounts receivables	5,609.1	4,735.4	18%
Collection from insurance claims	29.8	133.0	(78%)
Payments to suppliers and employees (less)	(4,888.3)	(4,337.2)	13%
Other expenses paid and received	407.4	289.5	41%
Interest paid and received	(205.1)	(175.1)	17%
Income tax paid	(55.3)	(203.2)	(73%)
<b>Net Cash Provided by (Used in) Operating Activities</b>	<b>897.7</b>	<b>442.4</b>	<b>103%</b>
Capital Expenditures	(864.5)	(1,368.8)	(37%)
Other investment cash flows	176.9	23.0	670%
<b>Net Cash Provided by (Used in) Investing Activities</b>	<b>(687.6)</b>	<b>(1,345.8)</b>	<b>(49%)</b>
Proceeds from borrowings	1,351.7	2,230.2	(39%)
Repayments of borrowings	(1,216.9)	(976.4)	25%
Dividends paid	(140.1)	(196.8)	(29%)
Other inflows of cash, net	(2.5)	(1.5)	61%
<b>Net Cash Provided by (Used in) Financing Activities</b>	<b>(7.8)</b>	<b>1,055.5</b>	<b>(101%)</b>
<b>Total Cash Inflow (Outflow) of the Period</b>	<b>202.3</b>	<b>152.0</b>	<b>33%</b>
Effect of exchange rate changes on cash and cash equivalents	(23.6)	0.1	(22.165%)
Cash and Cash equivalents. at beginning of the period	488.5	336.4	45%
<b>Cash and Cash Equivalents at end of the Period</b>	<b>667.2</b>	<b>488.5</b>	<b>37%</b>

## Comments

- **Cash from Operating Activities:** a U.S.\$ 455.3 million increase mainly explained by increase in revenues
- **Cash from Investing Activities:** decreased U.S.\$ 658.2 million
  - Restricted Capex program in 2013
  - 2012 includes acquisition of Flakeboard and Moncure
- **Cash from Financing Activities:**
  - In 2012 Arauco (ex-MdP) issued more than US\$ 882 million in long-term financing, compared to US\$ 300 million in 2013

# Financial Review > Debt

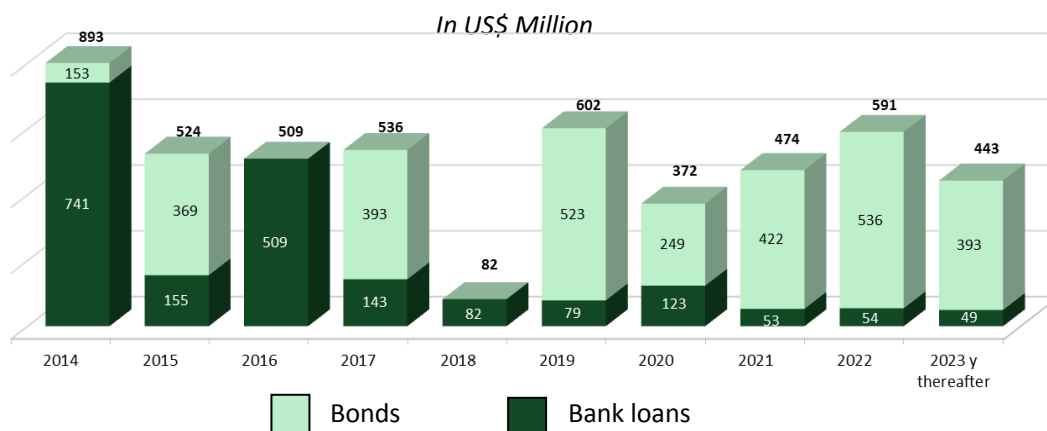
## Financial Debt

In U.S. Million	December 2013	December 2012
Short term financial debt	893.5	842.4
Long term financial debt	4,133.0	4,119.7
<b>TOTAL FINANCIAL DEBT</b>	<b>5,026.5</b>	<b>4,962.1</b>
Cash and cash equivalents	667.2	488.5
<b>NET FINANCIAL DEBT</b>	<b>4,359.3</b>	<b>4,473.6</b>
<i>Montes del Plata debt 50%</i>	723.3	555.6

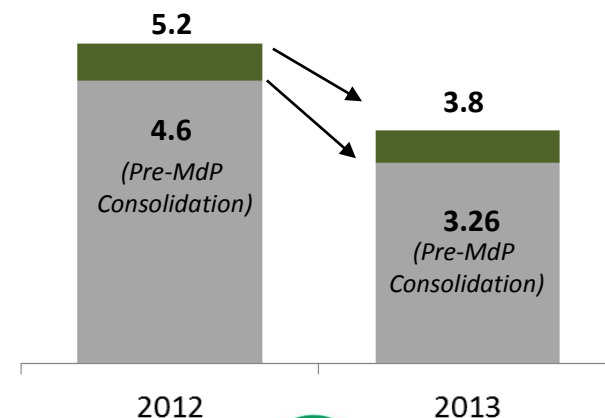
## Comments

- For Dec-2013 the 50% consolidation of MdP increased in approx. 0.5x our leverage
- MdP adds US\$ 723 million in total debt
- Short term debt includes:
  - US\$ 125 million from MdP
  - US\$ 200 million bank loan due in Dec
  - US\$ 290 million in Pre-export fin.

## Financial Debt Profile as of December 31, 2013



## Net Debt/EBITDA



Note: Short term debt numbers include accrued interest

# Financial Review > Ratios

## KEY FINANCIAL RATIOS

	4Q 2013	3Q 2013	4Q 2012	FY 2013	FY 2012
<b>Profitability</b>					
Gross margin	30.7%	30.6%	24.2%	30.9%	26.4%
Operating margin	8.7%	10.7%	2.6%	10.1%	4.7%
LTM <sup>(1)</sup> Adjusted EBITDA margin	22.2%	23.1%	20.5%	22.2%	20.0%
ROA (EBIT / Total assets)	4.2%	NC	NC	5.4%	3.8%
LTM ROCE (EBIT x (1–tax rate) / (Working Cap+Fixed assets))	4.9%	NC	NC	4.9%	2.2%
ROE (Net income / Equity)	2.6%	6.6%	4.7%	5.9%	2.1%
<b>Leverage</b>					
Interest coverage ratio (Adj. EBITDA LTM / Financial costs)	4.9x	4.5x	3.8x	4.9x	3.6x
Net financial debt / Adjusted EBITDA LTM	3.8x	NC	NC	3.8x	5.2x
Financial debt / Total capitalization <sup>(2)</sup>	41.6%	NC	NC	41.6%	41.6%
Net financial debt / Total capitalization	36.1%	NC	NC	36.1%	37.5%
Financial debt / Shareholders' equity	71.9%	NC	NC	71.9%	72.0%
Net financial debt / Shareholders' equity	62.3%	NC	NC	62.3%	64.9%

(1): LTM. Last Twelve Months

(2): Capitalization = Total financial debt + Equity

NC: Not comparable



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# Review by Business Segment > Pulp

## PULP SALES (in US\$ million)

			<u>Net Sales</u>	<u>Price</u>	<u>Volume</u>
4Q 13	516				
3Q 13	573	QoQ	-6.7%	4.2%	-11.0%
4Q 12	521	YoY	3.2%	9.7%	-4.3%

*Note: pulp sales include energy sales*



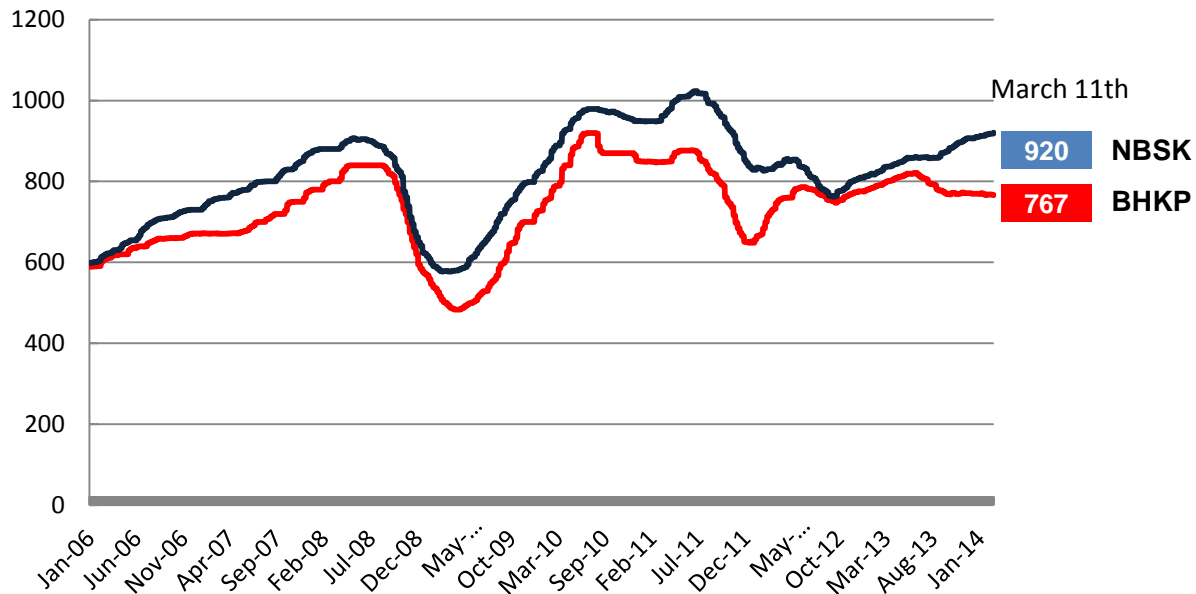
- Pulp sales decreased 6.7% compared to the previous quarter, mainly impacted by Nueva Aldea's longer than expected stoppage during October and November and maintenance stoppages of 4 other 4 mills. Compared to the same quarter of 2012, pulp sales increased 3.2%, mainly explained by higher average prices and an offset by sales volumes
- The Nueva Aldea stoppage impacted not only production and sales, but also higher unitary costs of pulp. This effect only impacted 4Q. If we compare FY 2013 over 2012, our average cash cost decreased by 3,7%
- Despite the lower production in 4Q, we had a very good FY 2013: 3,080 K-Adt compared to 2,970 K-Adt in 2012
- Demand was stable across regions and we were able to achieve price increases, specially in ling fiber due to lower global supply. Global inventories were stable in long fiber and decreased in short fiber
- Europe continues difficult, but still able to increase long fiber prices
- Prices increases in China during 4Q for long fiber and small increases in short fiber (1.5 – 2.0%)

Pulp production in 000' tons

1Q12	2Q12	3Q12	4Q12	1Q13	2Q13	3Q13	4Q13
763	732	726	749	801	794	817	668

# Review by Business Segment > Pulp > Outlook

## BHKP AND NBSK INDEXES



## Comments

- First quarter of 2014 should be very good in terms of margins
- However, a market pulp slowdown usually begins in May in the Northern Hemisphere
- As we enter 2Q, and also second half of 2014 short fiber oversupply should impact prices
- Long fiber prices may be affected by situation in Europe and short fiber oversupply – but to a much lesser extent than short fiber
- Spread between NBSK and BHKP at US\$ 153/ton

## GLOBAL PRODUCERS INVENTORY LEVELS

In days	March 2012	June 2012	Sept 2012	Dec 2012	March 2013	June 2013	Sept 2013	Dec 2013
BSPK	29	29	27	29	29	28	27	27
BHKP	34	40	39	34	41	40	42	39

Source: Bloomberg; Hawkins Wright

# Review by Business Segment > Panels

## Panels Sales (in US\$ million)

			Net Sales	Price	Volume
4Q 13	474				
3Q 13	502	QoQ	-5.6%	-1.0%	-4.8%
4Q 12	424	YoY	11.8%	0.9%	5.6%

*Note: Panels sales include energy sales*



- Sales decreased mainly because of lower sales volume of -4.8%. During this fourth quarter we had a decrease in sales volume of MDF and PBO, especially in December in our North American market (seasonality effect). We also had issues with new equipment in our Arauco Plywood mill, which produced less during 4Q
- Average panels prices remained stable with a small 1% dip, however, average price levels were 5.6% higher than one year ago
- As a whole, sales of MDF, PBO, HB had in FY 2013 an important 59% growth in sales volume compared to 2012, explained by our North American operations, the new Teno mill and Jaguariaiva line II

Panels production in 000' m3

1Q12	2Q12	3Q12	4Q12	1Q13	2Q13	3Q13	4Q13
637	684	731	1,194	1,199	1,294	1,332	1,279

## Review by Business Segment > Panels > Outlook

- Challenging beginning of 2014 from an operational perspective in USA. Unusual bad weather affected some of our operations and deliveries. We expect a brighter outlook for 2Q in terms of better demand. Prices in the US have been stable in these first months and potential increase in March/April
- Panels business in Brazil has been slow in January and especially in February. During March – May we expect an increase in sales volume with stable prices
- Despite uncertainty about the Argentinean economy, during January and February our sales were in line with our plan, with price increases that offset inflation effects. Uncertainty will continue the following months and at this point it is difficult to foresee market dynamic in the next months
- The port strike in Chilean ports in 2013 strongly delayed our invoicing and consequently our results. We expect full recovery of delays in March and April, generating higher sales of around 30% compared to January and February. Sales volumes should be stable, however, average prices should be lower because of a higher sales mix towards marginal markets in Asia

# Review by Business Segment > Sawn Timber

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

			<u>Net Sales</u>	<u>Price</u>	<u>Volume</u>
4Q 13	216				
3Q 13	219	QoQ	-1,5%	-0.4%	1.0%
4Q 12	208	YoY	3.7%	-1.7%	8.7%

*Note: Sawn Timber sales include energy sales*



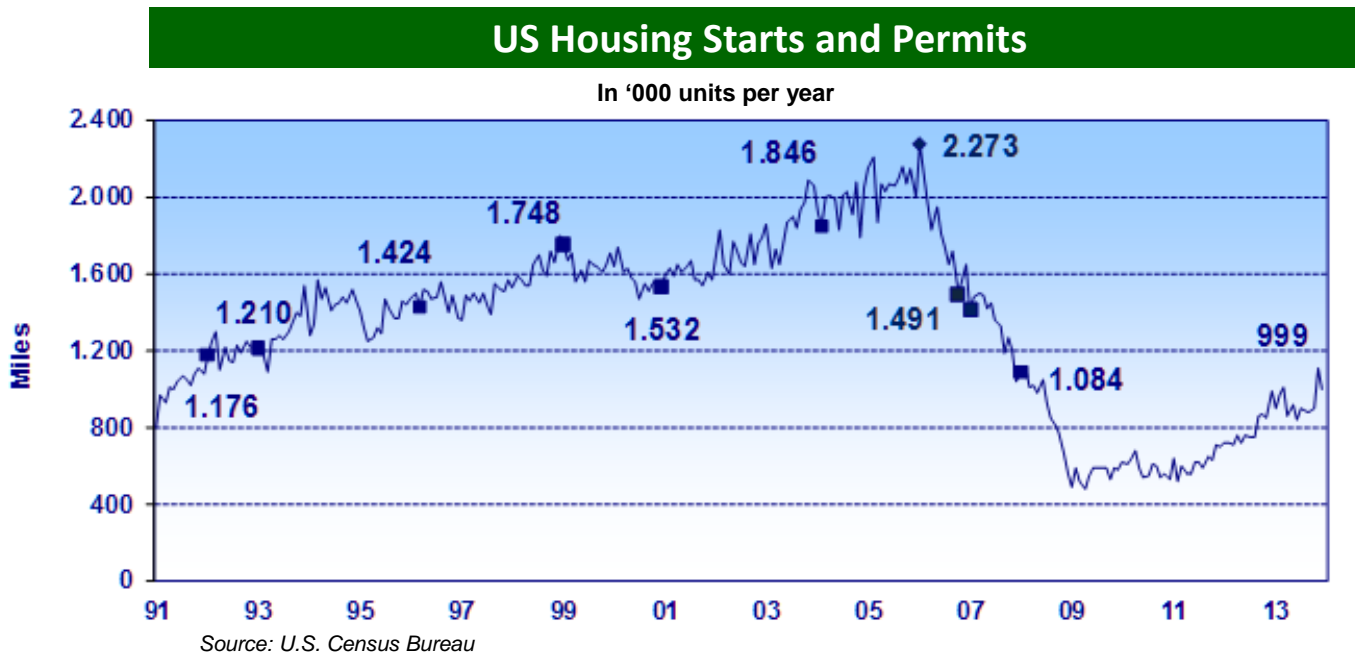
- Fourth quarter had a decrease in sales, driven by lower average prices and partially offset by higher volume sales
- The real estate and construction sectors in the United States had an increase compared to the previous quarter, however, current construction levels continues low compared to the historical 10 years average

Sawn Timber production in 000' m3

1Q12	2Q12	3Q12	4Q12	1Q13	2Q13	3Q13	4Q13
600	660	659	661	698	701	733	733

# Review by Business Segment > Sawn Timber > Outlook

- We expect a strong demand and good margins in most of markets
- During the next months we should catch up with delays due to the port strikes in January
- Important markets for our sawn timber products, such as China, Korea, New Zealand, Middle East and Mexico are currently very active with strong demand and New Zealand high log prices push Chinese prices up



- Housing starts index for December 2013 was 999.000 units per year

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# 4<sup>th</sup> Quarter and Subsequent Events

## Nueva Aldea's Plywood mill start up

- On December 2013 we completed the reconstruction of our mill (US\$ 190 MM app)
- The facility will have an annual production capacity of 350,000 m3 of Plywood



## Montes del Plata update

- Approximately at 98% of completion (Feb)
- Currently doing our bests efforts to begin the start up process in March 2014



# 4<sup>th</sup> Quarter and Subsequent Events



## Sierra Pine

- On January 2014 we announced the intention of acquiring 3 mills in USA, from the company Sierra Pine
- Investment of US\$ 107 MM plus up to US\$ 13 MM in inventories
- Still pending antitrust approval



## MAPA

- Environmental approval of MAPA project: new line at Arauco mill, and a cogeneration plant
- Still pending of internal analysis and external approvals before being presented to the board

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# 4<sup>th</sup> Quarter 2013 Financial Results

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