



ARAUCO[®]
Growing the Future

Conference Call Presentation

2nd Quarter 2014 Financial Results

Celulosa Arauco y Constitución S.A.

Gianfranco Truffello, C.F.O.
Santiago, August 28th, 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 2nd Quarter 2014**

- **Review by Business Segment & Outlook**

- **2nd Quarter and Subsequent Events**

- **Q&A**

Financial Review > 2Q 2014 Highlights

- Revenues of US\$ 1,374.6 million
(12.3% higher than 1Q14)
- Adjusted EBITDA of US\$ 308.0 million
(1.7% higher than 1Q14)
- Net Income of US\$ 127.2 million
(20.5% higher than 1Q14)
- Net Financial Debt of US\$ 4,372.1 million
(1.0% lower than 1Q14)
- Net Debt/EBITDA increased to 3.7x
(from 3.6x at 1Q14)

Financial Review > Income Statement

INCOME STATEMENT

In U.S. Million	2Q 14	1Q 14	QoQ
Revenues	1,374.6	1,224.6	12.2%
Cost of sales	-928.4	-797.9	16.4%
Gross Margin	446.3	426.7	4.6%
Other operating income	76.4	77.7	-1.7%
Administration & Distribution costs	-287.1	-247.7	15.9%
Other operating gains (expenses)	-24.3	-58.9	-58.7%
Financial costs (Net)	-52.9	-49.7	6.4%
Exchange rate differences	5.2	4.9	6.1%
Income Before Income Tax	163.6	153.1	6.9%
Income tax	-36.4	-47.6	-23.5%
Net Income	127.2	105.5	20.6%

ADJUSTED EBITDA

In U.S. Million	2Q 14	1Q 14	QoQ
Net Income	127.2	105.5	20.5%
Financial costs	56.8	53.2	6.8%
Financial Income	-3.9	-3.6	10.3%
Income Tax	36.4	47.6	-23.5%
EBIT	216.5	202.8	6.8%
Depreciation & amortization, others*	85.2	102.7	-17.1%
EBITDA	301.7	305.5	-1.2%
Fair value cost of timber harvested	78.5	69.0	13.8%
Gain from chg. in fair value of bio. Assets	-67.0	-66.6	0.6%
Exchange rate differences	-5.2	-4.9	5.1%
Adjusted EBITDA	308.0	303.0	1.7%

Comments

- **Revenues:** An increase from all business segments, mainly driven by higher volumes
- **Cost of Sales:** Increased 16.4% mainly due to higher volume sold. Unitary cost of pulp also increased (lower production)
- **Other operating gains (expenses):** 1Q14 Included a provision of US\$ 30.2 million in forestry losses due to fires
- **Adjusted EBITDA:** Stable, with a 1.7% increase over 1Q14. Run Rate above US\$ 1.2 billion for this year 2014
- Devaluation of CLP should positively impact EBITDA in the following months

Note: Numbers may not add up due to rounding

** 2Q 2014 includes a provision for forestry losses due to fire of US\$ 1.9 million and US\$ 32.0 in YTD 2014*

Financial Review > Cash Flow

CASH FLOW

In U.S. Million	2Q 14	1Q 14	YoY
Collection of account receivables	1,348.8	1,176.5	14.6%
Other cash receipts (payments)	89.5	93.8	-4.6%
Payments of suppliers and personnel (less)	-1,092.0	-1,108.7	-1.5%
Interest paid and received	-39.3	-47.8	-17.8%
Income tax paid	8.1	-13.0	-162.3%
Other (outflows) inflows of cash, net	1.2	-0.4	-400.0%
Net Cash Provided by (Used in) Operating Activities	312.5	102.1	206.1%
Capital Expenditures	-171.6	-198.8	-13.7%
Other investment cash flows	6.1	13.1	-53.4%
Net Cash Provided by (Used in) Investing Activities	-185.8	-166.2	11.8%
Proceeds from borrowings	330.8	132.8	149.1%
Repayments of borrowings	-265.2	-213.3	24.3%
Dividends paid	-77.7	-0.1	-
Net Cash Provided by (Used in) Financing Activities	-12.1	-80.6	-85.0%
Total Cash Inflow (Outflow) of the Period	134.9	-164.3	-182.1%
Effect of exchange rate changes on cash and cash equivalents	0.4	2.5	-84.0%
Cash and Cash equivalents. at beginning of the period	505.5	667.2	-24.2%
Cash and Cash Equivalents at end of the Period	640.7	505.5	26.7%

Comments

- **Cash from Operating Activities:**
 - Strong increase in operating cash flow
 - Able to normalize working capital imbalance due to port strike in 1Q14
- **Cash from Investing Activities:**
 - Restricted capex program continues in 2014
 - No expansion projects foreseen for 2nd half 2014
- **Cash from Financing Activities:**
 - Received US\$ 302 million in proceeds of local bonds
 - We paid dividends of 77.7 million
 - Next dividend payment is in December

Financial Review > Debt

Financial Debt

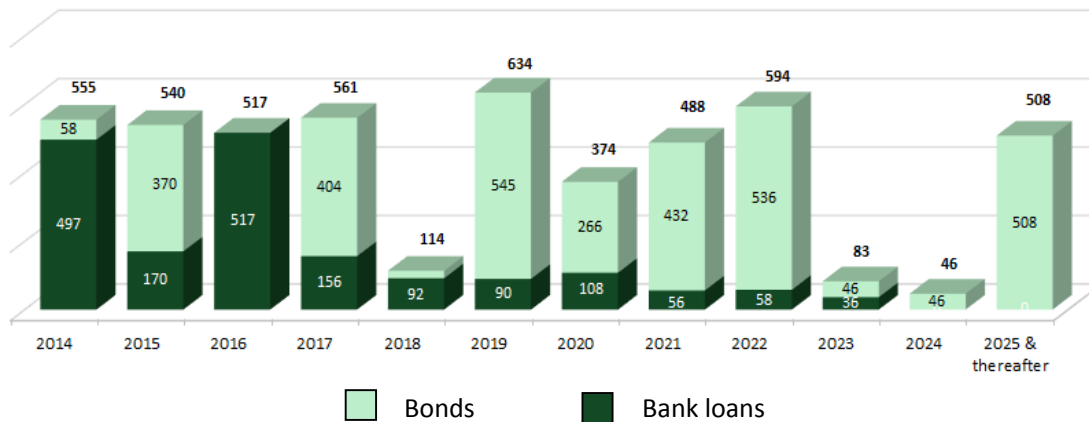
In U.S. Million	June 2014	March 2014	December 2013
Short term financial debt	994.0	849.7	893.5
Long term financial debt	4,018.7	4,070.8	4,133.0
TOTAL FINANCIAL DEBT	5,012.8	4,920.5	5,026.5
Cash and cash equivalents	640.7	505.5	667.2
NET FINANCIAL DEBT	4,372.1	4,415.0	4,359.3

Comments

- Net Debt/EBITDA ratio up to 3.7x; in this quarter we paid dividends and we left behind 2Q13 EBITDA of US\$ 350 million
- Moody's put stable outlook to our ratings
- In April we issued UF 7,000,000 in local bonds
- In July we issued US\$ 500 million in 144A/RegS notes to prepay US\$ 200 million due in December 2014 (done) and refinance US\$ 370 million due in April 2015

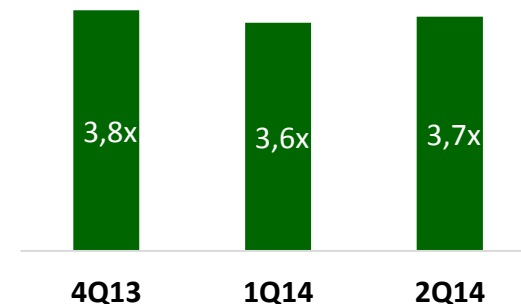
Financial Debt Profile as of June 30, 2014

In US\$ Million



Note: Short term debt numbers include accrued interest

Net Debt/LTM Adj. EBITDA



Financial Review > Ratios

KEY FINANCIAL RATIOS

	2Q 2014	1Q 2014	2Q 2013
Profitability			
Gross margin	32.5%	34.8%	33.4%
Operating margin	11.6%	14.6%	12.4%
LTM ⁽¹⁾ Adjusted EBITDA margin	22.5%	23.3%	21.4%
ROA (EBIT / Total assets)	5.9%	5.6%	NC
LTM ROCE (EBIT x (1-tax) / (Working Cap+Fixed assets))	4.7%	5.2%	NC
ROE (Net income / Equity)	7.1%	5.9%	NC
Leverage			
Interest coverage ratio (Adj. EBITDA LTM / Financial costs)	5.1x	5.3x	4.1x
Net financial debt / Adjusted EBITDA LTM	3.7x	3.6x	NC
Financial debt / Total capitalization ⁽²⁾	40.8%	40.7%	NC
Net financial debt / Total capitalization	35.6%	36.5%	NC
Financial debt / Shareholders' equity	69.6%	69.2%	NC
Net financial debt / Shareholders' equity	60.7%	62.1%	NC

(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>
2Q 14	600				
1Q 14	548	QoQ	9.3%	(1.6%)	12.9%
2Q 13	591	YoY	1.4%	2.1%	2.2%

Note: pulp sales include energy sales

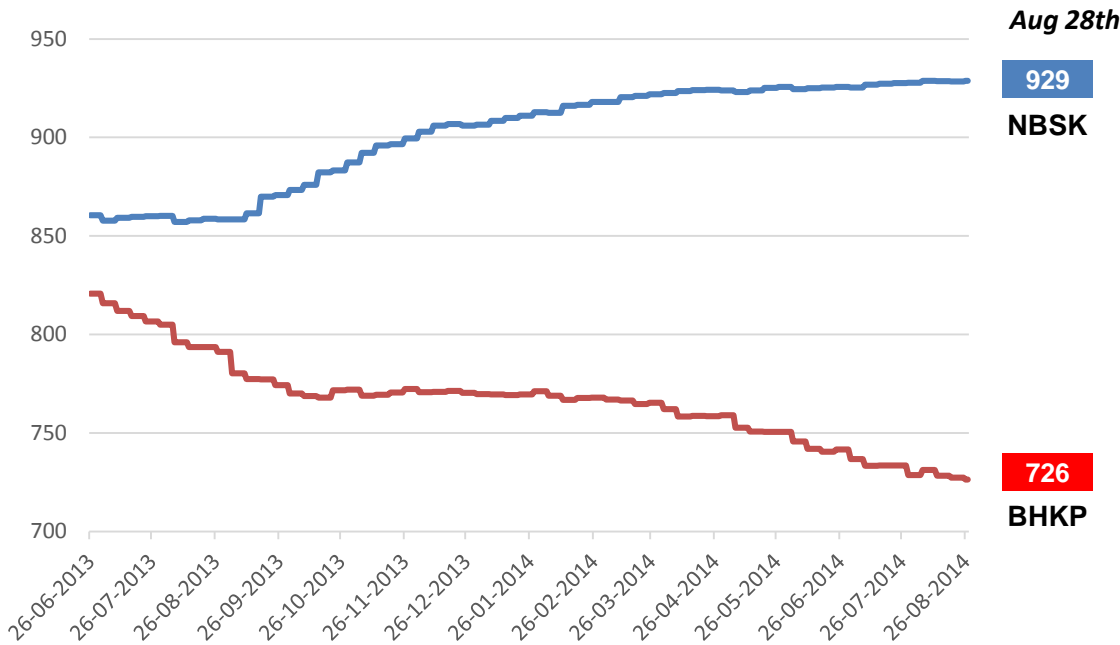


- Increase in sales volume reflects the port strike during 1Q14, normalizing shipments in 2Q14
- Prices during the second quarter dropped, as an effect of hardwood pulp oversupply
 - Short fiber reaching US\$ 550 – 560 levels; we view this range as the bottom of the cycle
 - Long fiber not immune to short fiber situation, but prices were more stable
- Asia with oversupply in short fiber, prices falling 9%; in long fiber prices down 6% but selling at \$130-\$150 per ton higher
- Price cuts occurred in short period of time (March to May). In June prices begun to stabilize
- European market similar to Asia, and paper market continued depressed
- Production drop mainly due to Arauco mill's annual maintenance program

Pulp production in 000' tons	1Q13	2Q13	3Q13	4Q13	1Q14	2Q14
	801	794	817	668	782	759

Review by Business Segment > Pulp > Outlook

BHKP AND NBSK INDEXES



Comments

- Following months will continue weak for the short fiber market – Montes del Plata adding new supply
- However, demand should grow due to seasonality (high paper demand post-summer months)
- Long fiber inventory is relatively balanced. Arauco achieved US\$5 price increase in August
- Stability in long fiber prices, with small increases over next months
- Spread between NBSK and BHKP at US\$ 203/ton (*previous call was at US\$ 175/ton*)

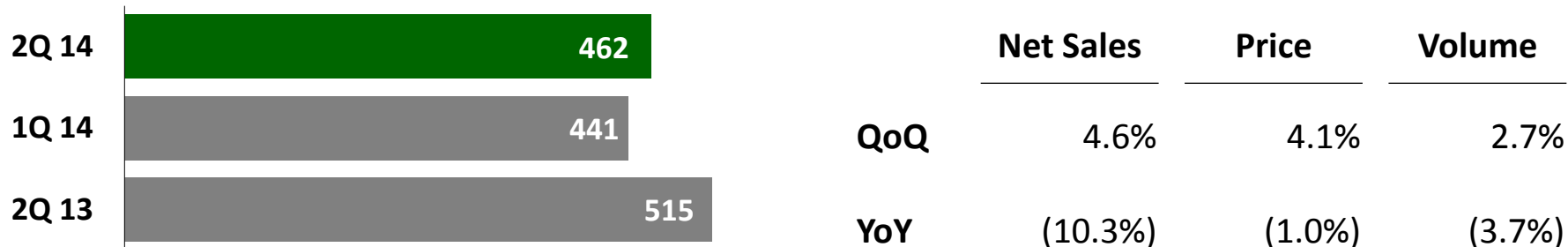
GLOBAL PRODUCERS INVENTORY LEVELS

In days	Sept 2012	Dec 2012	March 2013	June 2013	Sept 2013	Dec 2013	Mar 2014	June 2014
BSPK	27	29	29	28	27	27	28	25
BHKP	39	34	41	41	42	38	48	40

Source: Bloomberg; Hawkins Wright

Review by Business Segment > Panels

Panels Sales (in US\$ million)



Note: Panels sales include energy sales



- 2Q14 was favorable for the panels business in North America; and good demand for PBO allowed price increases
- Stable demand in Chile, Mexico and Peru
- The Brazilian market did not perform as good as other markets such as North America or Chile. Some of our sales exported throughout the region
- The panels business in Argentina started to decline in the second quarter

Panels production in 000' m3

1Q13	2Q13	3Q13	4Q13	1Q14	2Q14
1,199	1,294	1,332	1,279	1,271	1,244

Review by Business Segment > Panels > Outlook

- North American operations should continue positive. Economy in USA improving steady and construction and real estate markets growing should drive the panels market up
- Sales in Chile with stable prices but increasing demand in value added products
- Despite the Brazilian market has been cooling in the last months, we foresee next months with strong demand. Inventory levels normalizing and the panels market showing initial signs of recovery
- The uncertainty in the Argentinean economy may continue weakening the panels markets
- In Mexico there is an increasing participation of foreign players that import from Chile and Brazil. This has impacted prices

Review by Business Segment > Sawn Timber

Sawn Timber Sales (in US\$ million)

			<u>Net Sales</u>	<u>Price</u>	<u>Volume</u>
2Q 14	264				
1Q 14	190	QoQ	38.9%	0.7%	24.4%
1Q 13	208	YoY	27.1%	12.8%	9.0%

Note: Sawn Timber sales include energy sales



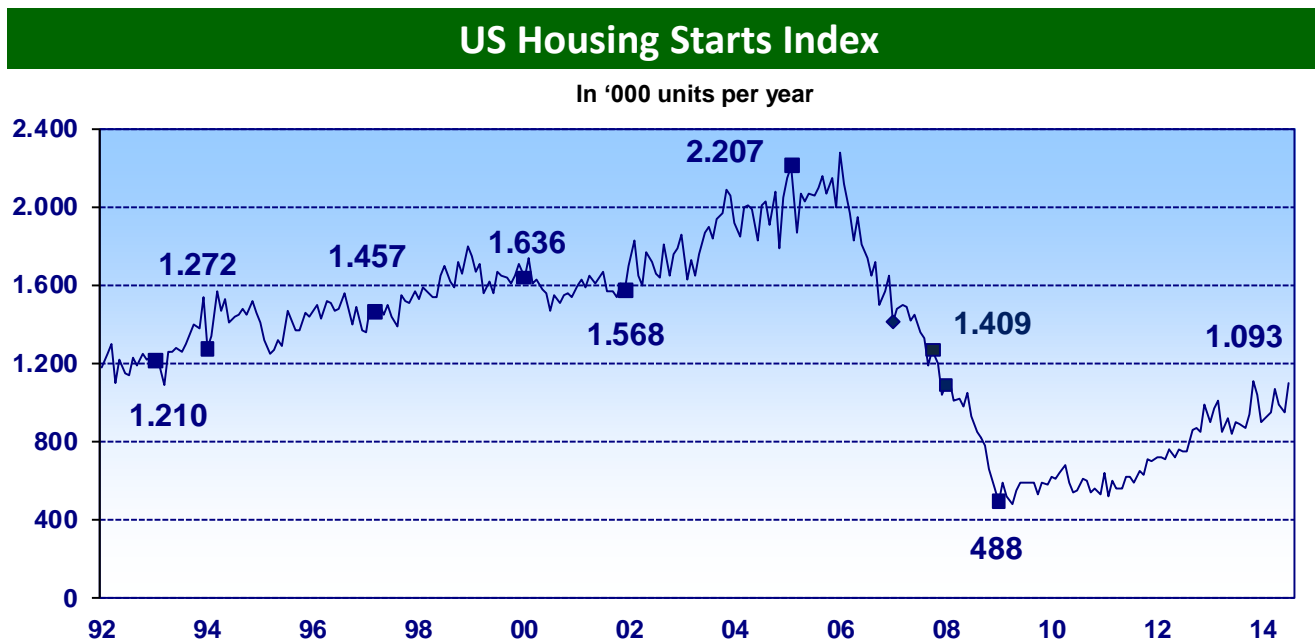
- The real estate and construction sectors in the United States showed an improvement during this half of the year. In 2Q14 the price for moldings in the United States was stable compared to the first quarter
- In general, markets where we sell showed higher demand and better prices when compared to the previous quarter
- Demand in the Chinese market was affected by overstock of logs and wood

Sawn Timber production in 000' m3

1Q13	2Q13	3Q13	4Q13	1Q14	2Q14
698	701	733	733	741	725

Review by Business Segment > Sawn Timber > Outlook

- Very strong sales levels in Asia, with price increases in all markets – only exception is China, which has an overstock of logs coming from nearby countries
- Middle East with strong demand, achieving price increases
- Demand during these months has been stable in Latin America, with some minor price cuts in Chile and Argentina
- North America with stable demand; moldings sales increasing and plywood prices should not fall due to new supply from Nueva Aldea's mill



Source: U.S. Census Bureau

2nd Quarter and Subsequent Events

Arauco Issued US\$ 500,000,000 in 4.5% Notes Due 2024

- Notes were priced at UST+210 and yielded 4.64%, the lowest Arauco has ever achieved in the international market
- Investor demand grew up to US\$ 2.2 billion
- Tenor is 10 year bullet, maturing in August 2024
- Use of proceeds is to refinance financial debt



Montes del Plata Start Up

In June, Montes del Plata began its start up process

- The first shipment was done in July
- At the second month of operation it reached 61% of its production capacity
- Full capacity is expected to be reached this year
- For year 2014, production should range between 550 to 580 thousand Adt



Valdivia mill to Produce Dissolving Pulp

On July Arauco submitted an environmental impact study to produce textile pulp

- Dissolving pulp is a product used in the textile industry
- Arauco would be the first company to produce this pulp in Chile
- The estimated investment for this project is approximately US\$ 180 million
- The project will provide flexibility to produce either dissolving or bleached Kraft pulp



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