



# ARAUCO®

Growing the Future

## 1<sup>st</sup> Quarter 2017

Financial Results

Conference Call Presentation

May 23, 2017

**Gianfranco Truffello**  
Chief Financial Officer



# DISCLAIMER

This presentation contains forward-looking statements that are based on the beliefs, assumptions and expectations of the management of the Company based on currently available information. They involve risks and uncertainties because they relate to future events or expectations 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. For further discussion of these risks and uncertainties, investors should refer to quarterly and annual Arauco filings with the Chilean SVS and US SEC. The Company undertakes no obligation to publicly update or revise any forward-looking statements due to new information or future developments.

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.



Financial Review

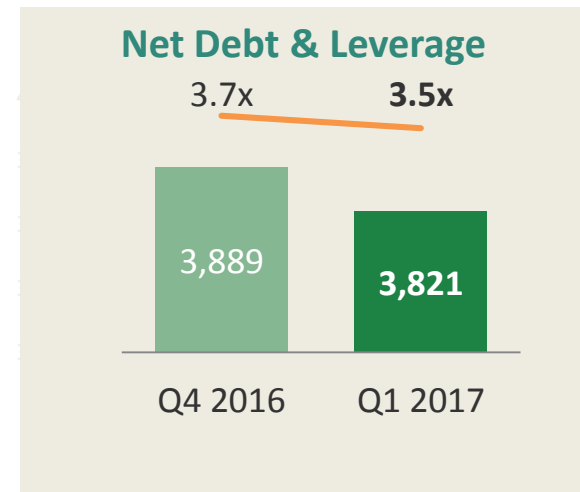
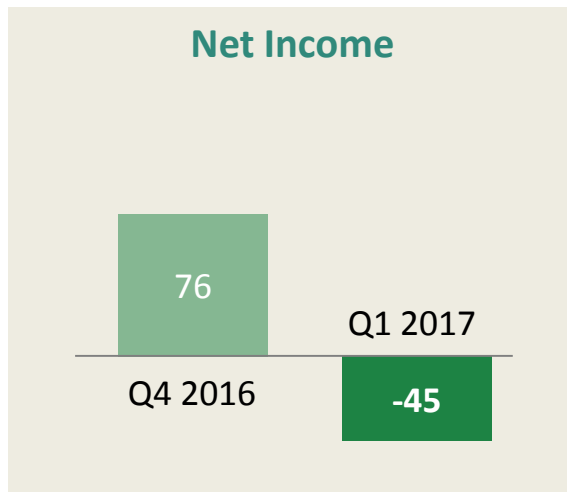
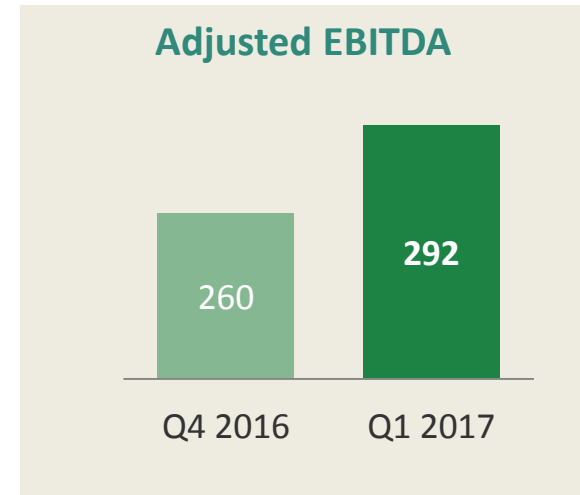
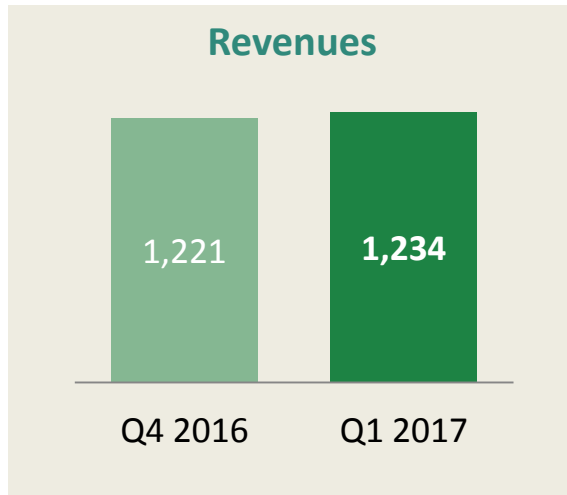
Review by Business Segment & Outlook

Material Facts and News

Q&A

# QUARTER MAIN FIGURES

*In U.S.\$ million*



# REVENUES, COSTS AND NON-OPERATIONAL RESULTS

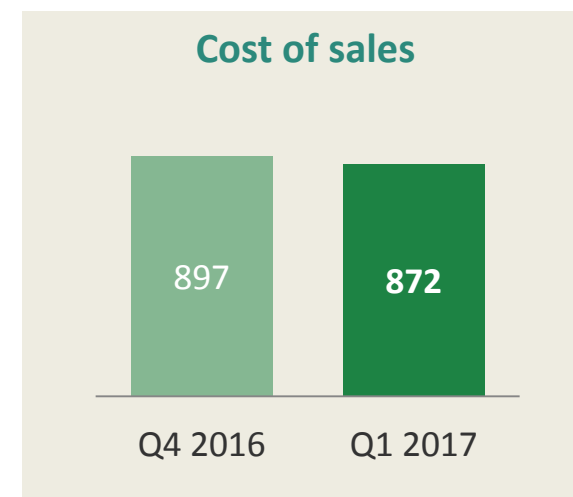
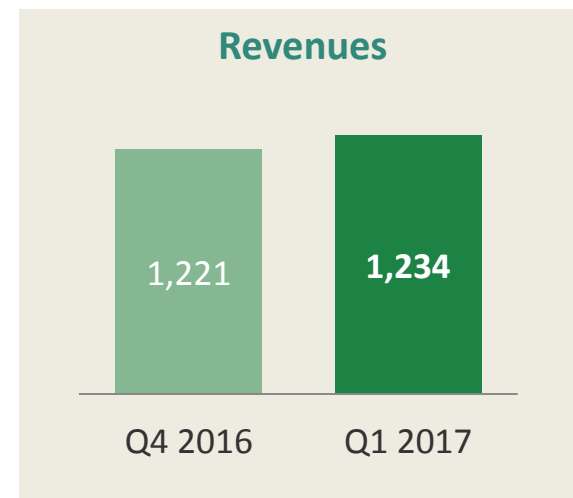
**Revenues** were U.S.\$ 13.1 million or 1.1% higher:

- Pulp business revenues were U.S.\$ 22.0 million higher, driven by price hikes in both fibers, despite additional pulp supply in market
- Wood products revenues were U.S.\$ 5.5 million below the previous quarter. Panels increased sales, offset by a decrease in sawn timber sales. Plywood increased in sales volume

**Cost of sales** were U.S.\$ 25.1 million or 2.8% lower:

- Maintenance costs decreased as there were three maintenance stoppages during 4Q 2016
- Unitary costs QoQ:
  - ▶ Softwood bleached pulp: ↓3.9%
  - ▶ Hardwood bleached pulp: ↓1.7%
  - ▶ Unbleached softwood pulp: ↑8.1%

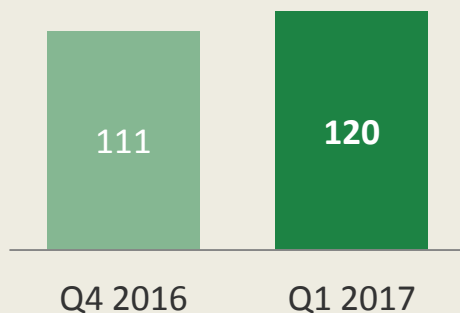
*In U.S.\$ million*



# REVENUES, COSTS AND NON-OPERATIONAL RESULTS

*In U.S.\$ million*

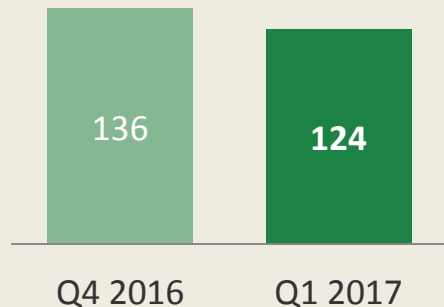
## Administrative expenses



**Administrative expenses** increased by 8.8% or U.S.\$ 9.8 million:

- Reversal of provision (SES), from Other Income to Other administration expenses during Q4 2016 is still affecting comparison
- Other items fluctuated at most U.S.\$ 3 million in absolute terms

## Distribution costs



**Distribution costs** decreased by 8.8% or U.S.\$ 12.0 million:

- Lower sales volume in both our pulp and wood products segments

# REVENUES, COSTS AND NON-OPERATIONAL RESULTS

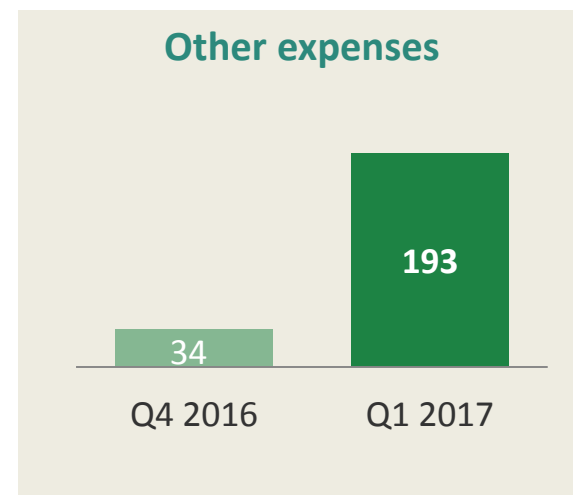
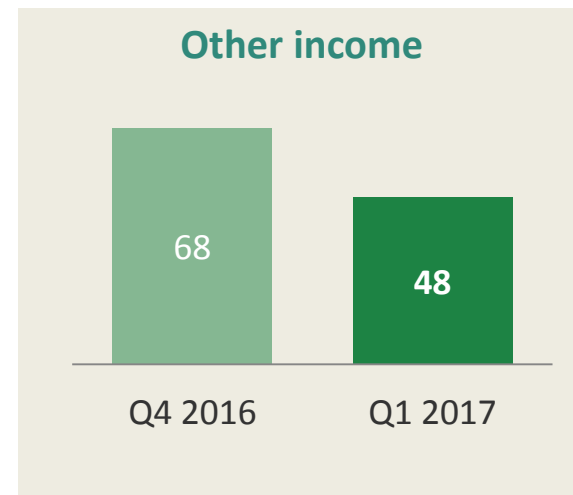
*In U.S.\$ million*

**Other income** decreased by 29.2% or U.S.\$ 19.9 million:

- Gains from changes in biological assets decreased to normal levels after amendment last quarter
- Reclassification of a reversal of provision to Administrative Expenses during 4Q 2016

**Other expenses** increased U.S.\$ 159.6 million:

- Provision for forestry fires losses of U.S.\$ 178.4 million
  - Includes estimation of recovery
  - Does not include insurance payments, estimated to be U.S.\$ 35 million, net of deductibles





# NET INCOME

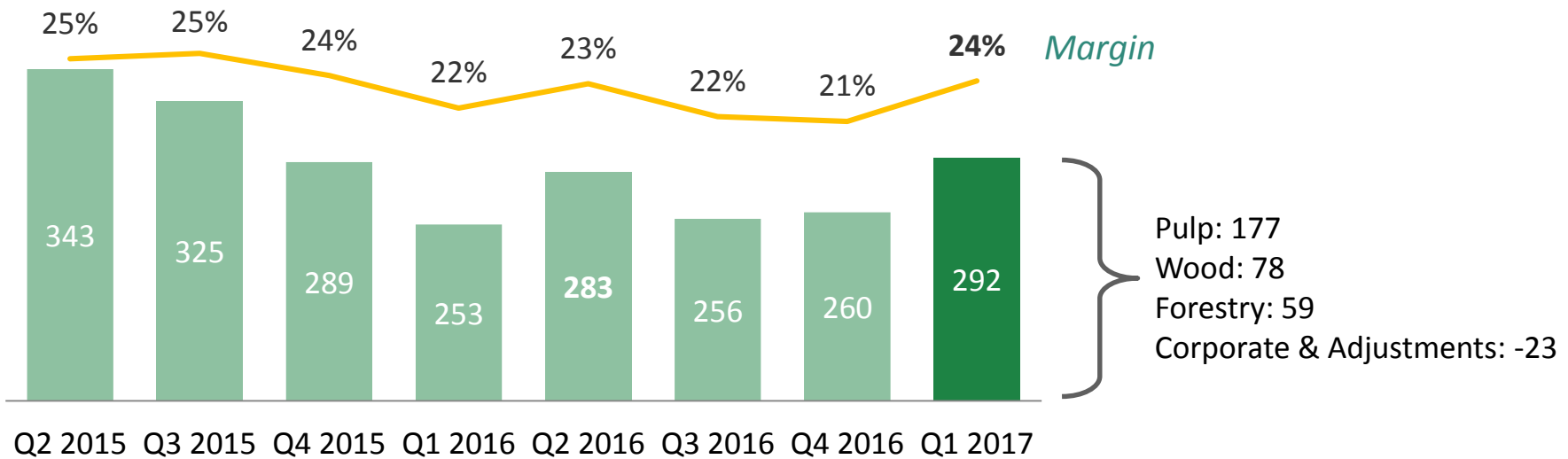
*In U.S.\$ million*

	Q1 2017	Q4 2016	QoQ
Revenues	1,233.7	1,220.6	1.1%
Cost of sales	(871.6)	(896.7)	-2.8%
Distribution costs	(124.0)	(136.0)	-8.8%
Administrative expenses	(120.4)	(110.6)	8.8%
Other income	48.3	68.2	-29.2%
Other expenses	(193.1)	(33.5)	475.8%
Financial income	6.4	3.9	62.7%
Financial costs	(59.9)	(58.0)	3.2%
Participation in (loss) profit in associates and joint ventures accounted through equity method	8.1	9.9	-18.2%
Exchange rate differences	1.5	(3.9)	-137.8%
<b>Income before income tax</b>	<b>(70.9)</b>	<b>64.0</b>	<b>-210.7%</b>
Income tax	25.6	11.7	118.1%
<b>Net income</b>	<b>(45.3)</b>	<b>75.8</b>	<b>-159.8%</b>



# ADJUSTED EBITDA

In U.S.\$ million



- ▶ Adjusted EBITDA rose 12.2% compared to the previous quarter and increased 15.4% compared to the first quarter of 2016
- ▶ Pulp division EBITDA increased 37.8%, boosting pulp EBITDA margin to 31%
- ▶ Price hikes achieved throughout the quarter
- ▶ Wood division EBITDA decreased 8.9% as sawn timber sales lost traction. Plywood and panels sales showed improvement in both sales volume and prices



Financial Review

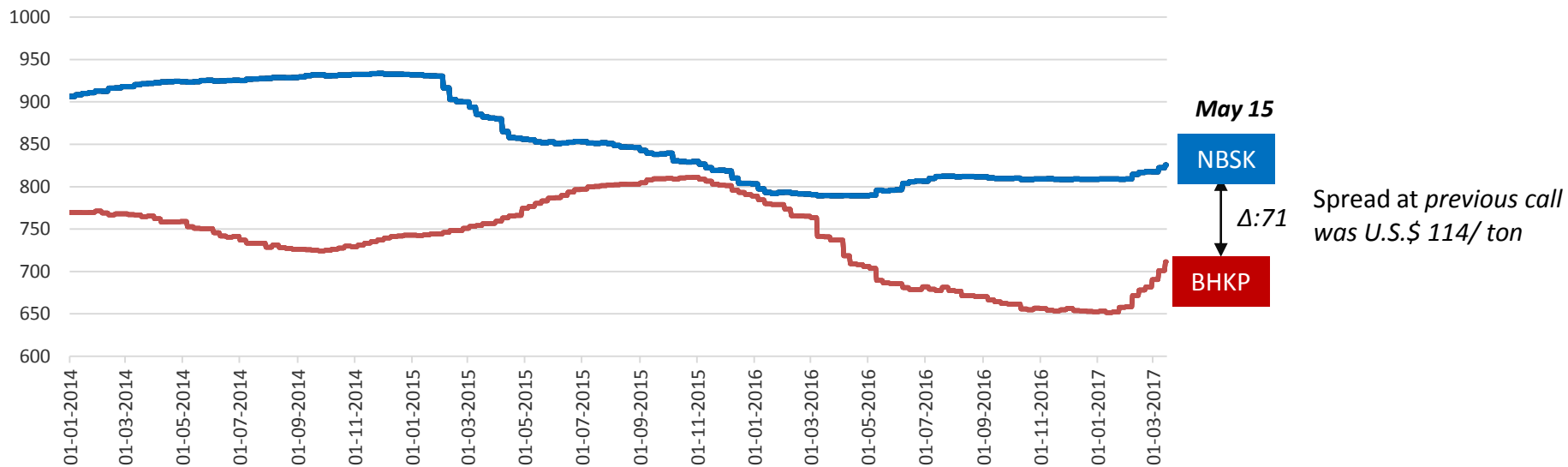
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# PULP BUSINESS

## BHKP and NBSK Indexes



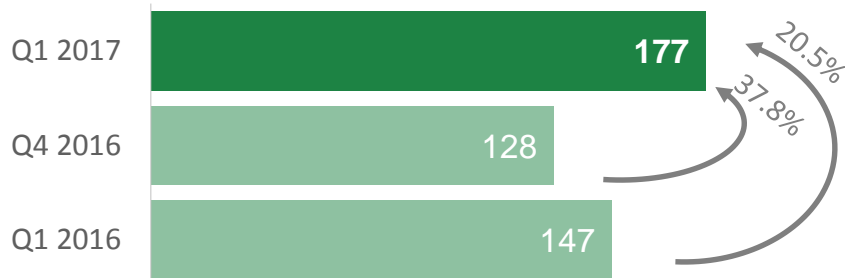
## Demand for bleached chemical pulp March 2017 vs March 2016 (YTD)

Destination	March 2016	March 2017	Δ	%
North America	1,780	1,825	45 ▲	2.5%
West Europe	3,585	3,455	(130) ▼	-3.6%
East Europe	305	340	35 ▲	11.5%
Latin America	800	785	(15) ▬	-1.9%
Japan	440	465	25 ▲	5.7%
China	3,005	3,670	665 ▲	22.1%
Other Asia/ Africa	1,415	1,505	90 ▲	6.4%
Oceania	65	70	5 ▲	7.7%
<b>W-20 Total BCP</b>	<b>11,395</b>	<b>12,115</b>	<b>720 ▲</b>	<b>6.3%</b>

Source: Hawkins Wright

# PULP BUSINESS

## Pulp Adjusted EBITDA (In U.S.\$ million)



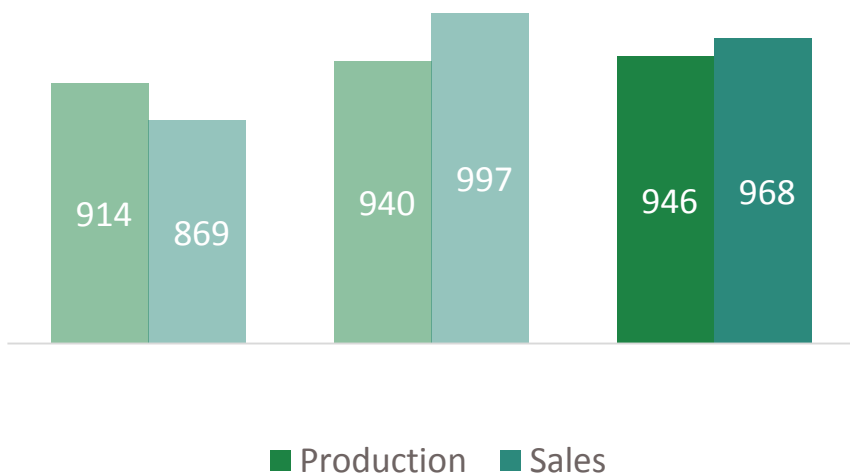
**Q1 2017**

	Price	Volume	Sales
QoQ	6.4%	-2.9%	3.9%
YoY	-0.7%	11.4%	10.2%

- ▶ Worldwide pulp demand remained active, efficiently absorbing incoming supply of OKI Mill's Line 1. Line 2 has recently started ramp-up, impact still to be seen
- ▶ Asia showed price gains in both fibers Q-o-Q as paper producers are operating at close to 100% of plant capacity
- ▶ In Europe, price followed international trend, although margins continue pressured
- ▶ New Klabin pulp mill forces local fiber prices in Brazil downwards

# PULP BUSINESS

**Production and Sales Volume**  
(In Thousand ADT)



**Q4 2016- Q1 2017 Scheduled Pulp Mill Maintenance Stoppages**

Date	Pulp Mill	Annual Capacity (thousand Adt)	Days of Stoppage
Oct	Nueva Aldea	1,027	12 ✓
Nov	Alto Paraná	350	10 ✓
Nov	Valdivia	550	11 ✓
Mar	Constitución	355	15 ✓

**Global Producers Inventory Levels**

<i>In days</i>	Jun 2015	Sep 2015	Dec 2015	Mar 2016	Jun 2016	Sep 2016	Dec 2016	Mar 2017
BSKP	29	30	29	30	28	30	32	29
BHKP	38	38	39	46	41	47	37	38

# PULP BUSINESS

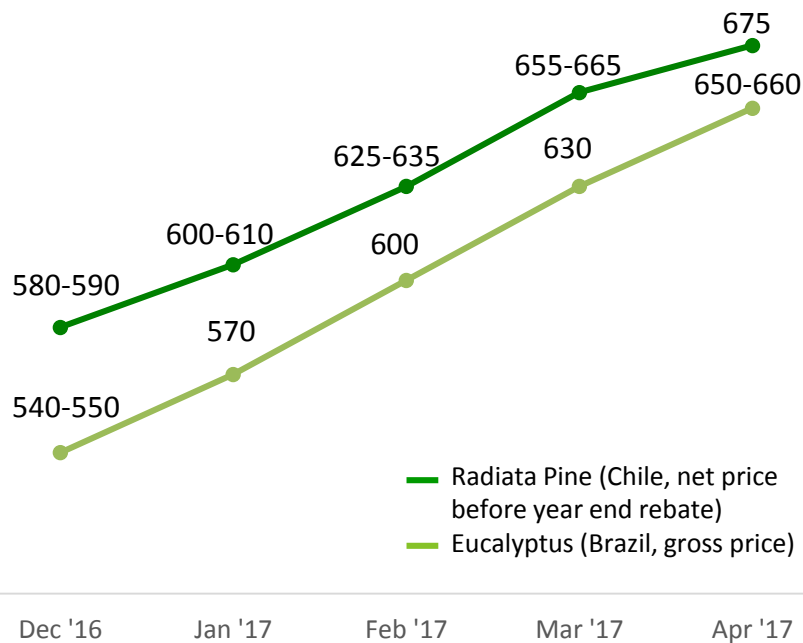
## OUTLOOK

### Long Fiber

- ▶ Prices continue positive trend, although slope decreases during second half of 2Q 2017. Expected pressure in prices at quarter-end as summer in Northern Hemisphere lowers demand

### Short Fiber

- ▶ Price hikes every month during 2Q 2017. Coming months will be more difficult with seasonally lower demand and supply continually increasing as Line 2 of OKI Mill ramps up and volumes start to reach market.

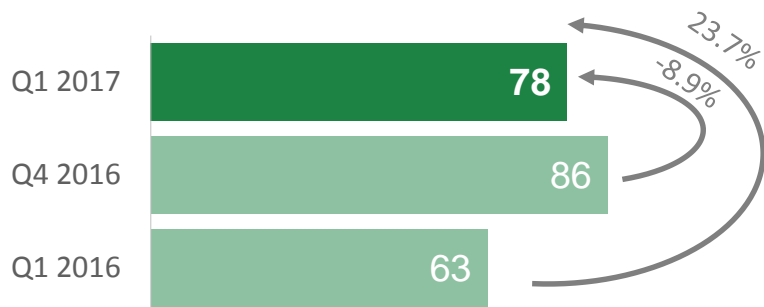


## Q2-Q3-Q4 2017 Scheduled Pulp Mill Maintenance Stoppages

Date	Pulp Mill	Annual Capacity (thousand Adt)	Days of Stoppage
Mar-Apr	Arauco, Line 1	290	15 days
May	Montes del Plata	1,300	11 days
Jul	Licancel	155	11 days
Oct	Arauco, Line 2	510	13 days
Nov	Nueva Aldea	1,027	10 days
Nov	Argentina	350	25 days
Nov-Dec	Valdivia	550	11 days

# WOOD PRODUCTS BUSINESS

## Adjusted EBITDA (In U.S.\$ millions)



	Price	Volume
QoQ	-1.4%	4.4%
YoY	3.4%	3.1%

Panels\*

	Price	Volume
QoQ	-0.2%	-8.4%
YoY	2.1%	-6.4%

Sawn  
Timber\*\*

## Q1 2017

- ▶ In the composite panels market, overall prices decreased due to sales mix. MDF and PB sales increased prices and sales volume.
- ▶ In North America, there were better sales volume in MDF and PB, while MDF moldings continued stable
- ▶ Brazilian markets have been strained, which has decreased overall prices, slightly offset by better sales volume
- ▶ Sawn timber markets more depressed. Production remained at normal levels despite the damage to our El Cruce Sawmill after the forest fires
- ▶ Plywood sales have been steady, with prices decreasing slightly by 0.8%.

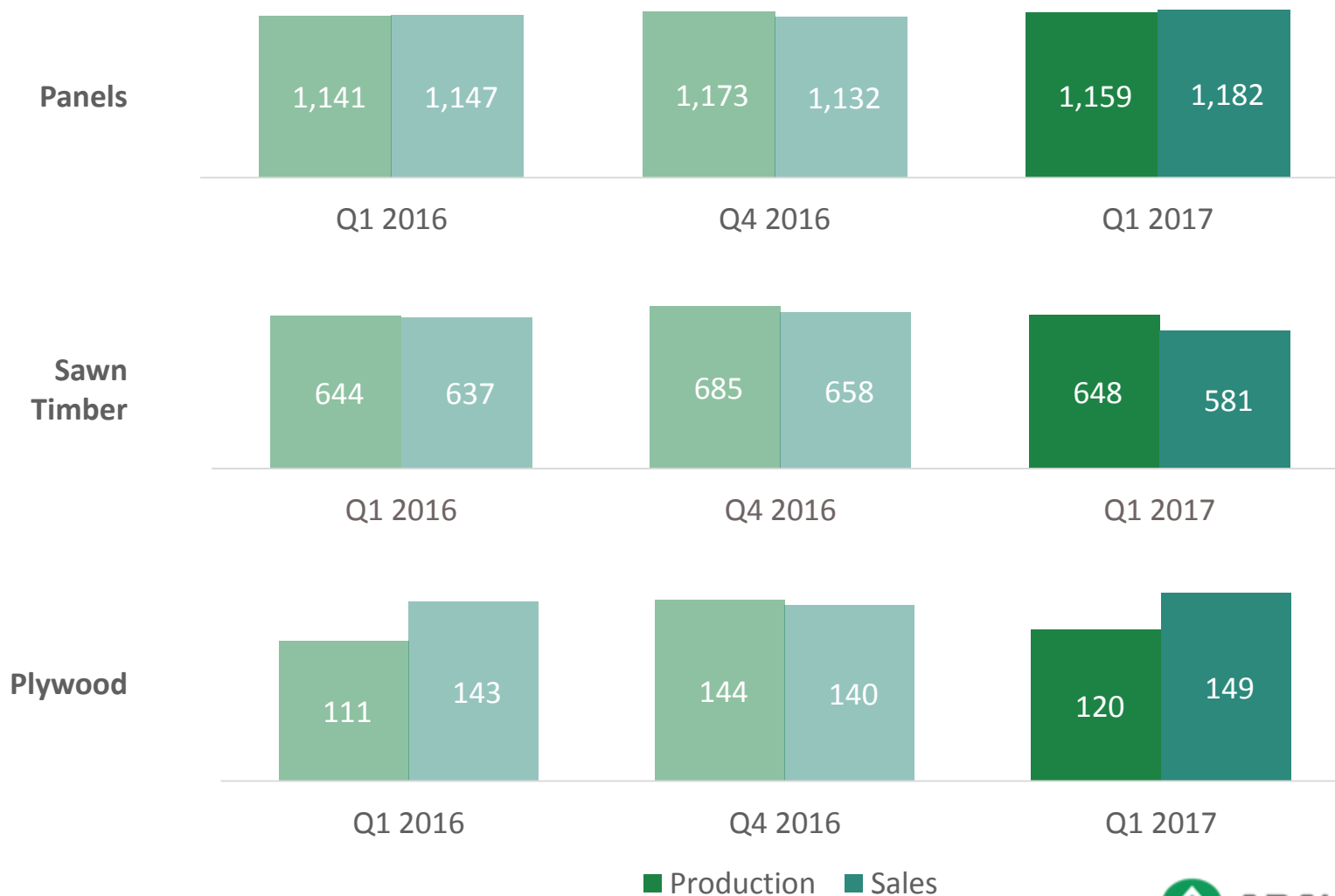
\*MDF, PBO, HB

\*\*sawn timber, remanufactured solid wood, plywood



# WOOD PRODUCTS BUSINESS

Production and Sales Volume  
(In Thousand m<sup>3</sup>)

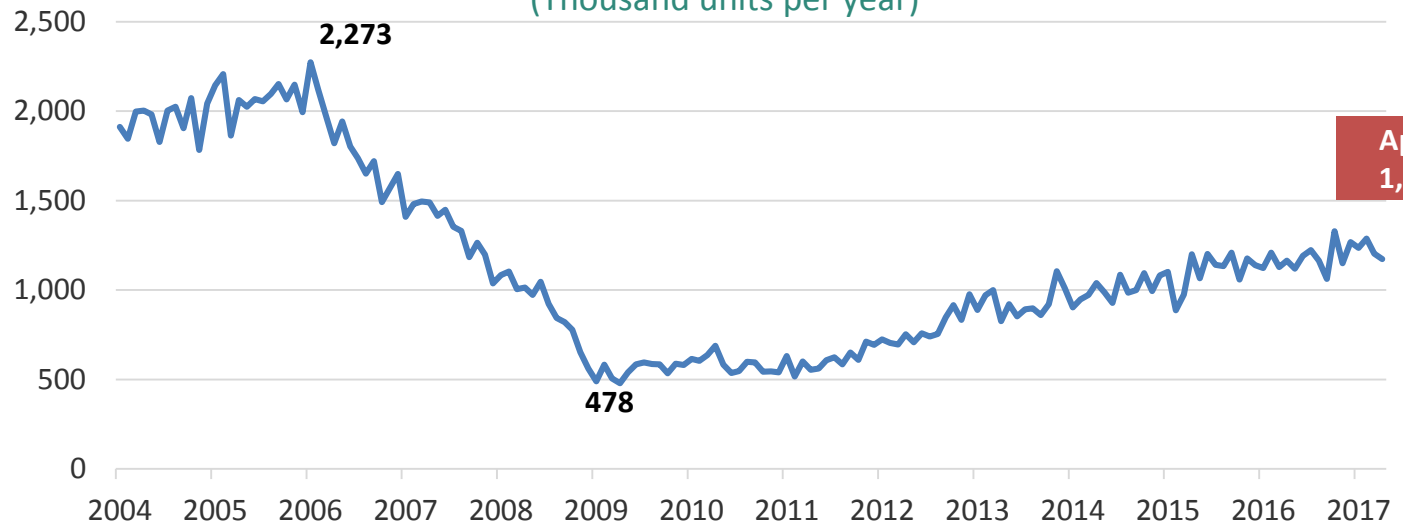


## OUTLOOK

- Housing Starts Index at 1.2 million units per year, after reaching 1.3 million units in February 2017
- MDF: Prices overall stable, imports from our operations in Brazil being sold in this market
- MDF moldings: Stable demand and increasing prices
- Particleboard: Balanced market overall. In Mexico, positive trend in prices
- Plywood: Opportunity for price hikes as lower supply from Chile reach markets

North America  
52%

**U.S. Housing Starts Index**  
(Thousand units per year)



# WOOD PRODUCTS BUSINESS

## OUTLOOK

### Central and South America 32%

Brazil: Instability in markets affect sales volume, while prices remain stable. Part of production is being exported to other markets (such as North America).

Argentina: Supply and demand in balance. Increase in sales of value added products

Chile: Since sales volume in market has been lower after the forest fires, we expect price hikes in the short term

### Asia and Oceania 13%

Asia: We expect price hikes to continue during the second quarter of 2017. European producers pushing for price hikes to compensate higher shipping costs

Oceania: Price and sales volume stable

### Europe and Middle East 3%

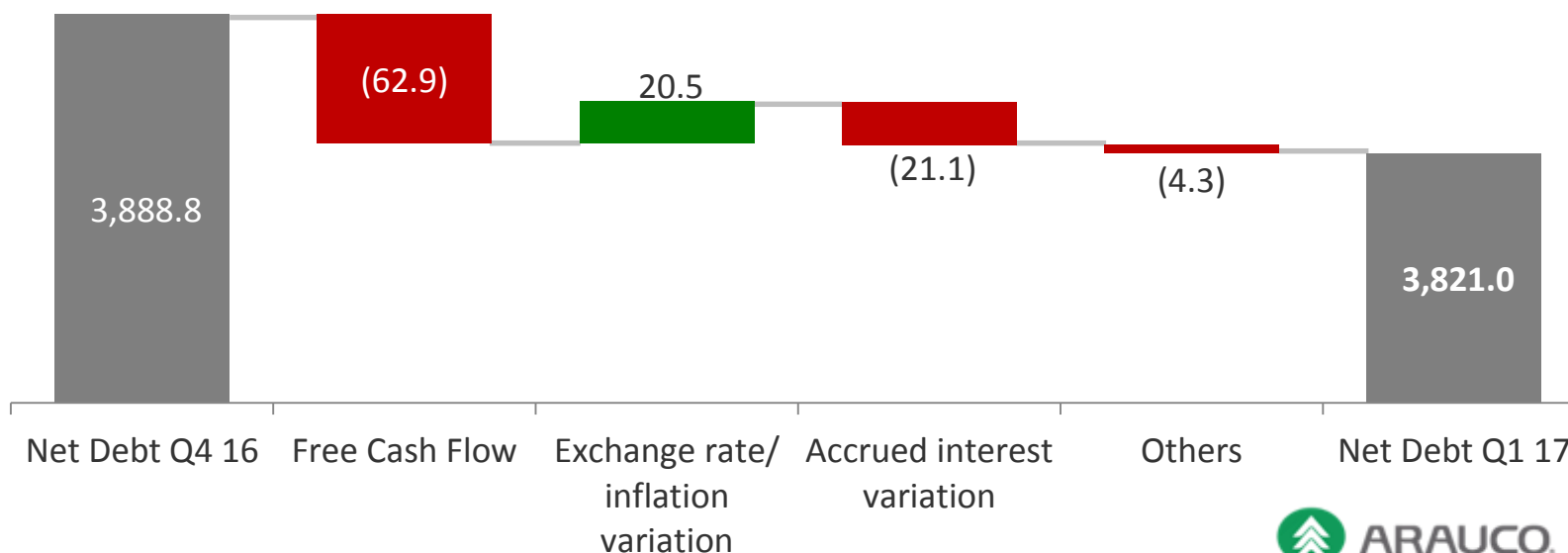
Europe: Less supply from Brazil has enabled to increase prices. Price hikes in plywood

Middle East: Increasing shipping costs from Europe and better-than-expected demand have enabled some price hikes

# FREE CASH FLOW

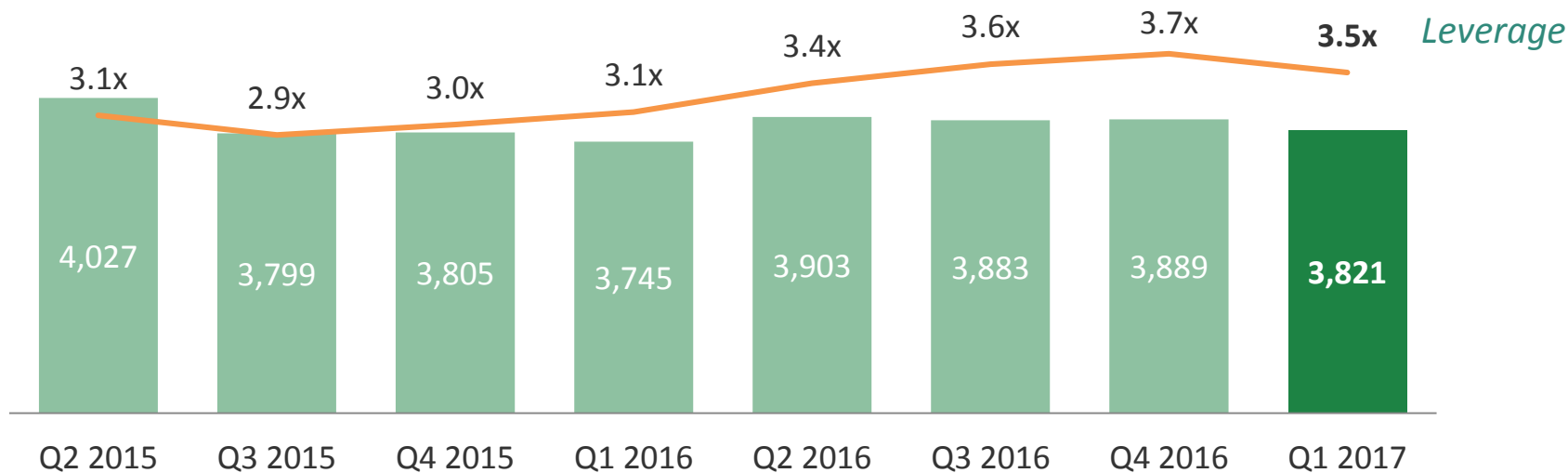
In U.S.\$ million

	Q1 2017	Q4 2016
<b>Adjusted EBITDA (a)</b>	292	260
<i>Others (b)</i>	(111)	(84)
<b>Cash from Operations (a+b)</b>	<b>181</b>	<b>176</b>
<i>Capex (c)</i>	(120)	(164)
<i>Others (d)</i>	1	6
<b>Cash from Investment Activities (c+d)</b>	<b>(119)</b>	<b>(158)</b>
<b>Cash from Financing activities (net of debt)</b>	<b>(1)</b>	<b>(30)</b>
Effect of exchange rate changes	2	5
<b>Free Cash Flow</b>	<b>63</b>	<b>(7)</b>



# NET FINANCIAL DEBT

In U.S.\$ million

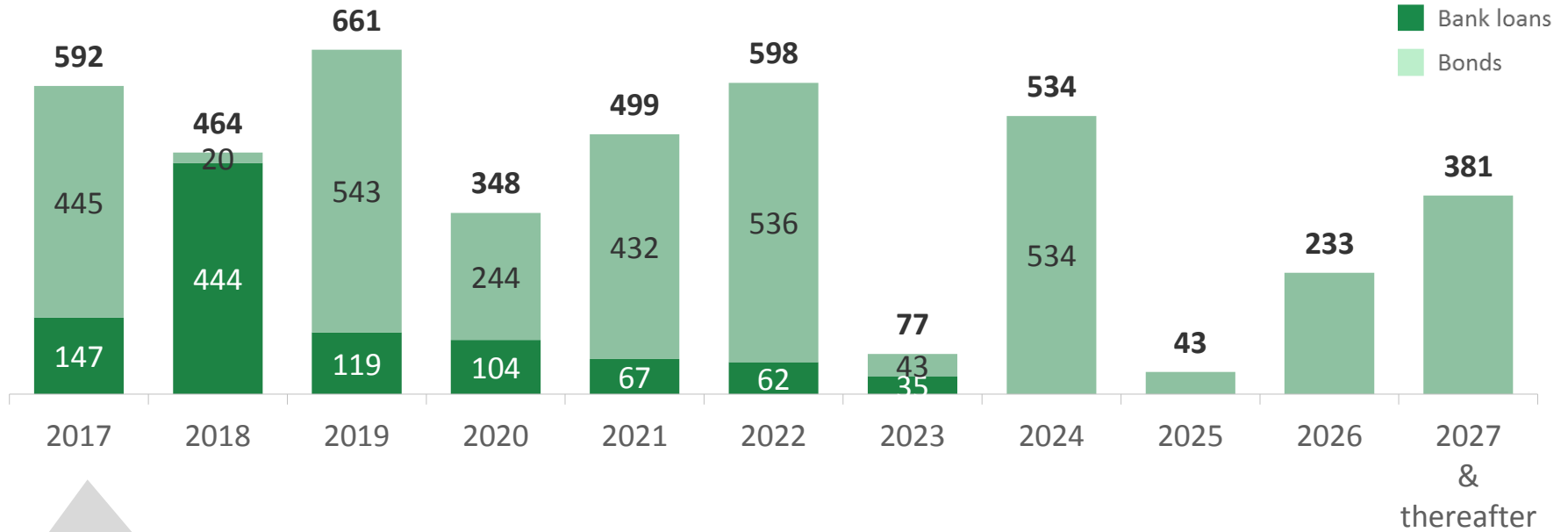


- ▶ **Total financial debt** decreased 1.7% QoQ, mainly led by amortizations in Montes del Plata debt
- ▶ **Cash and cash equivalents** increased 2.7% QoQ
- ▶ **LTM Adjusted EBITDA** increased 3.7% QoQ
- ▶ **QoQ Net Leverage** decreased from 3.7x to 3.5x

Short term financial debt	674
Long term financial debt	3,756
<b>TOTAL FINANCIAL DEBT</b>	<b>4,429</b>
Cash and cash equivalents	609
<b>NET FINANCIAL DEBT</b>	<b>3,821</b>

# DEBT

In U.S.\$ million



Bank obligations for the year 2017 include:

- ▶ U.S.\$ 107.0 million in Montes del Plata
- ▶ U.S.\$ 32.0 million of guaranteed leaseings
- ▶ U.S.\$ 3.2 million in Brazilian subsidiaries
- ▶ U.S.\$ 5.0 million in Arauco Argentina

Bond obligations for the year 2017 include:

- ▶ U.S.\$ 270.0 million in Alto Paraná bond
- ▶ U.S.\$ 125.0 million in Yankee bond (Chile)
- ▶ U.S.\$ 10.0 million in amortization of local bond
- ▶ U.S.\$ 39.6 million in accrued interest



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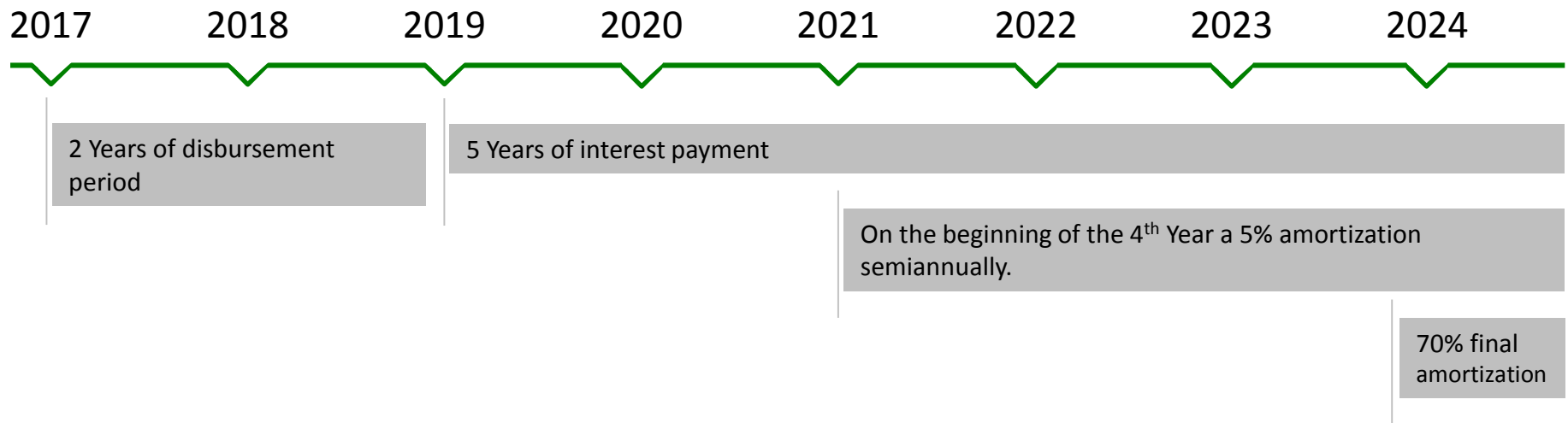
# Groundbreaking ceremony for future Grayling Mill

- ▶ On April 12, 2017, with the presence of the Governor of Michigan and other local authorities, Arauco conducted groundbreaking ceremonies for the future particleboard mill in Grayling, Michigan
- ▶ Investment of particleboard mill estimated at U.S.\$ 400 million
- ▶ Annual capacity estimated at 800,000 m<sup>3</sup>, and will begin start-up during the end of 2018
- ▶ Will create 700 Jobs during construction phase, and 200 direct jobs once it is running

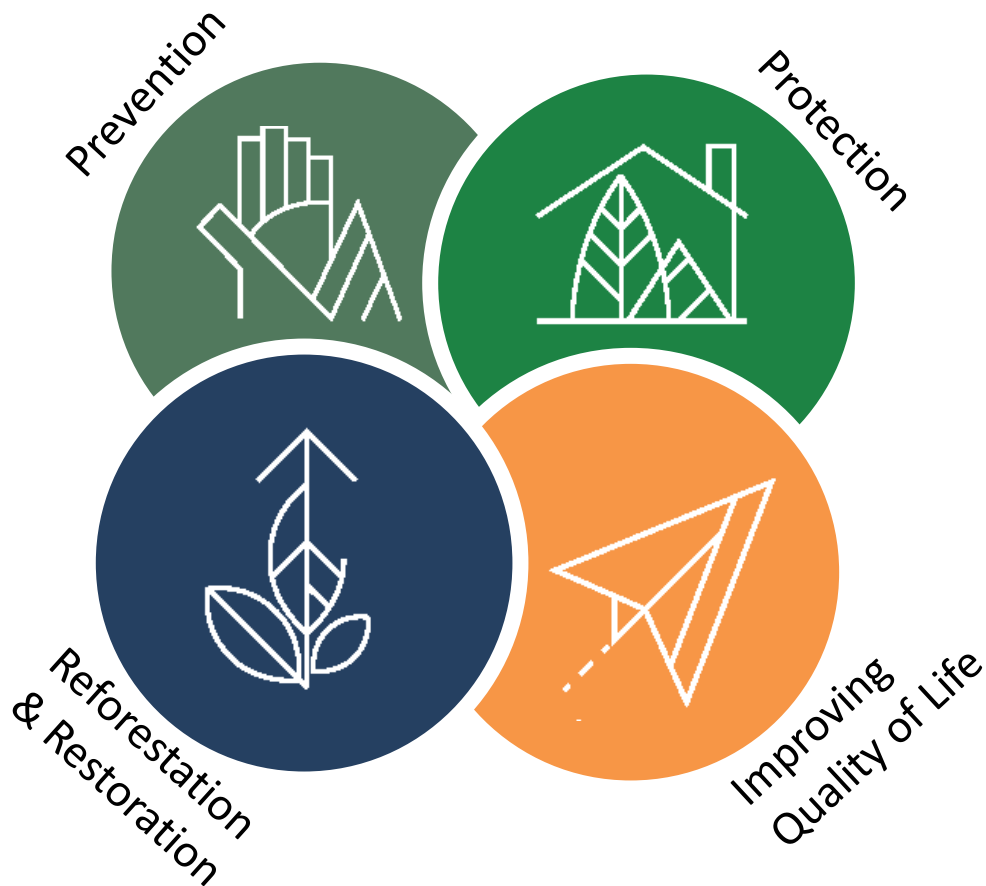


# Arauco obtains financing for Grayling Project

- ▶ On April 21, 2017, Arauco signed a Committed facility agreement for U.S.\$ 300 million through Arauco's subsidiary, Flakeboard America
- ▶ Scotiabank, Banco Estado and EDC acted as counterparties
- ▶ Tenor of this loan is 7 years
- ▶ The remaining U.S.\$ 100 million to finance the U.S.\$ 400 million total investment will be covered with Flakeboard America's own resources



# New strategic plan “DeRaiz” in place after recent forest fires



- ▶ As a response to adapt to climate changes that increase the likelihood of forest fires to propagate
- ▶ Contains four fundamental pillars
- ▶ Through “deRaiz”, there are 14 initial projects already in course, which include: recovery of our production chain, the restoration of native forests, the protection of water basins, and prevention awareness with local communities



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## INVESTOR RELATIONS

A replay of this conference call will be available in our web site and available for 7 days through the following numbers:

Replay for USA	+1-877-344-7529
Replay for other countries	+1-412-317-0088
Conference ID	10107207

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