

Memoria Anual | Annual Report

Realiza directamente actividades de producción y venta de celulosa y es la sociedad matriz de un conjunto de empresas industriales y forestales. Posee además una significativa participación en las empresas Puerto de Lirquén S.A. y Puerto de Coronel S.A.

La sociedad se formó en 1979, por la fusión de las empresas Industrias de Celulosa Arauco S.A. y Celulosa Constitución S.A. Industrias de Celulosa Arauco S.A. fue creada en 1968, con el objeto de desarrollar el proyecto de una planta de celulosa en la zona de Arauco, en la VIII Región. En 1972, CORFO adquirió el total de las acciones, las que licitó públicamente a fines de 1976, siendo adjudicadas a la Compañía de Petróleos de Chile S.A. (COPEC).

Celulosa Constitución S.A. se creó en 1969, con el propósito de construir una planta de celulosa en la zona de Constitución, en la VII Región del país. En 1974, el total de las acciones pasó a propiedad de CORFO, empresa que las licitó y adjudicó a COPEC en 1979.

En la actualidad, COPEC es propietaria del 99,98% de las acciones de Celulosa Arauco y Constitución S.A.

Al conjunto de empresas organizadas bajo la propiedad de Celulosa Arauco y Constitución S.A. se les denomina bajo el nombre genérico de ARAUCO.

**Celulosa Arauco y  
Constitución S.A.**

The organization is directly responsible for the production and sale of woodpulp and is the holding company of a group of industrial and forestry companies. It also has significant shareholdings in Puerto de Lirquén S.A. and Puerto de Coronel S.A.

The company was established in 1979 from the merger of Industrias de Celulosa Arauco S.A. and Celulosa Constitución S.A.

Industrias de Celulosa Arauco S.A. was created in 1968 to develop a pulp mill project in Arauco, in Chile's 8th Region. In 1972, CORFO acquired all its shares and later offered these in a public tender in late 1976 which was awarded to Compañía de Petróleos de Chile S.A. (COPEC).

Celulosa Constitución S.A. was formed in 1969 to build a pulp mill in the Constitución area in the country's 7th region. All its shares were acquired by CORFO in 1974 and were then bought by COPEC in a public tender in 1979.

COPEC today holds 99.98% of the share capital of Celulosa Arauco y Constitución S.A.

The group of companies organized under the ownership of Celulosa Arauco y Constitución S.A. are known under the generic name of ARAUCO.







**ARAUCO** es el nombre con el que se denomina al conjunto de empresas industriales, forestales y comerciales organizadas bajo la propiedad de la sociedad anónima chilena **Celulosa Arauco y Constitución S.A.** Es una de las mayores empresas forestales de América Latina, en términos de superficie y rendimiento de sus

plantaciones, fabricación de celulosa kraft de mercado y producción de madera aserrada y paneles. Sus plantaciones forestales se concentran en Chile, Argentina y Uruguay, mientras que sus instalaciones industriales están emplazadas en Chile y Argentina.





The ARAUCO name refers to the group of industrial, forestry and commercial companies owned by the Chilean corporation Celulosa Arauco y Constitución S.A. It is one of the Latin America's largest forestry enterprises in terms of plantation area and yields, the production of

market kraft woodpulp and of sawntimber and wood panels. Its forest plantations are located in Chile, Argentina and Uruguay, while its industrial facilities are in Chile and Argentina.





En Chile, ARAUCO es propietaria de la mayor superficie de plantaciones forestales del país, con un patrimonio de 669 mil hectáreas, en su mayor parte de pino radiata. A ello se suman aproximadamente 111 mil hectáreas de plantaciones en Argentina, provincia de Misiones - fundamentalmente de pino Taeda- y 20 mil hectáreas plantadas en Uruguay.

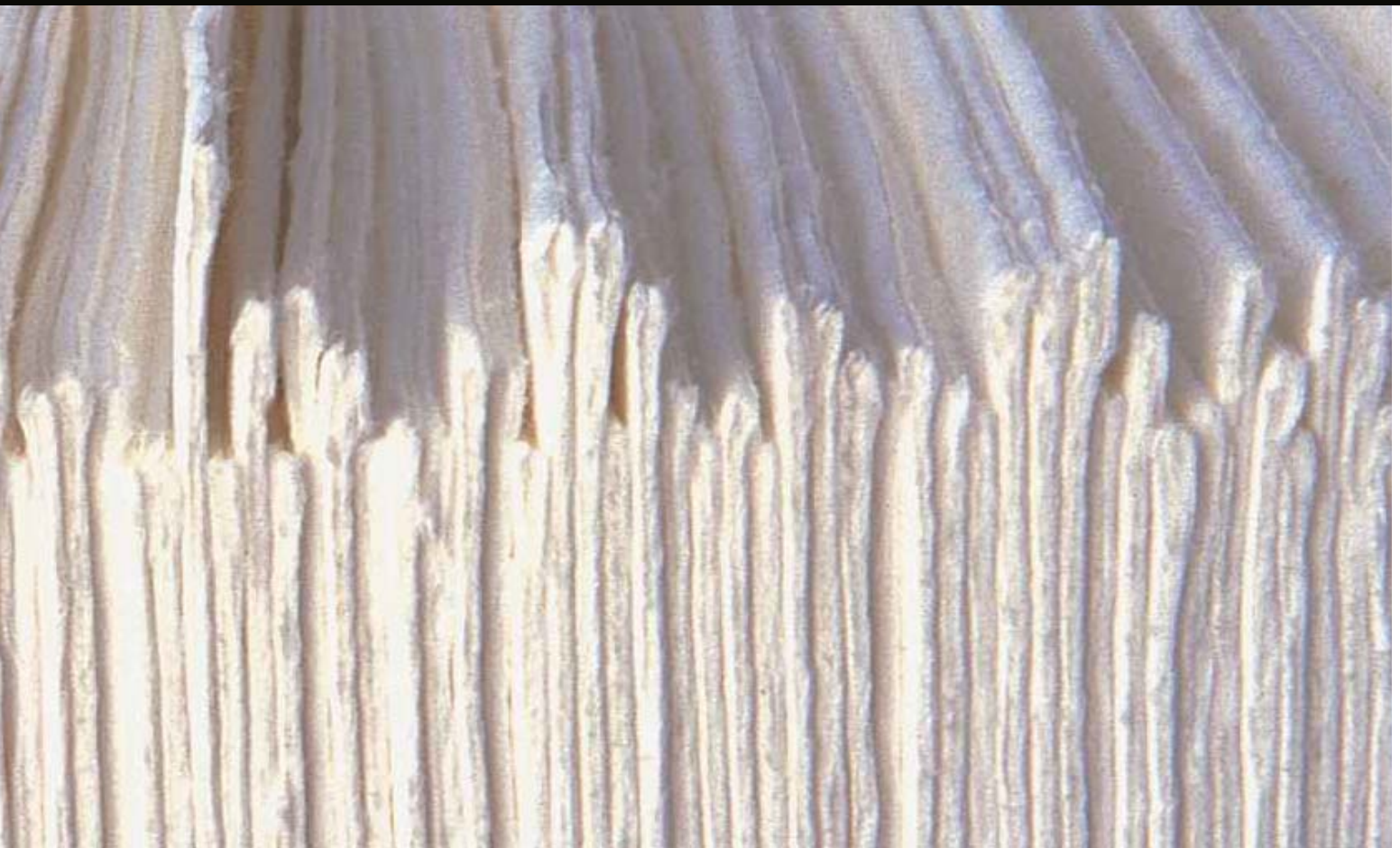
La empresa posee cinco plantas de celulosa: cuatro en Chile -Planta Arauco, Planta Constitución, Planta Licancel y Planta Valdivia- y una en Argentina, Alto Paraná. Su capacidad de producción conjunta sobrepasa los 2 millones de toneladas métricas anuales de celulosa kraft.





In Chile, ARAUCO owns the country's largest area of forest plantations, with a total of 669 thousand hectares mostly of radiata pine. It also has approximately 111 thousand hectares in province of Misiones, Argentina (mainly of taeda pine) and 20 thousand hectares planted in Uruguay.

The Company owns five woodpulp mills, four in Chile (Arauco, Constitución, Licancel and Valdivia) and one in Argentina (Alto Paraná). Its overall production capacity is over 2 million metric tons of kraft pulp per year.







**ARAUCO** también es propietaria de catorce aserraderos - doce en Chile y dos en Argentina, y de siete plantas de remanufactura de madera. En conjunto, la capacidad de aserrío de estas instalaciones alcanza a tres millones 380 mil metros cúbicos anuales de madera aserrada. En el área de paneles, ARAUCO posee en Chile dos plantas de terciados, dos plantas de tableros MDF o Medium Density Fiberboard y una planta de tableros HB o

Hardboard. En Argentina posee una planta de MDF. Su capacidad de producción conjunta es un millón 320 mil metros cúbicos de paneles por año. En el año 2004 las ventas consolidadas de la sociedad alcanzaron a 2.075 millones de dólares y su utilidad neta ascendió a 590 millones de dólares.





ARAUCO also owns fourteen sawmills (twelve in Chile and two in Argentina) and seven wood processing plants. The combined sawmill capacity of these facilities is 3,38 million cubic meters of sawntimber per year. In the panels area, ARAUCO operates in Chile two plywood mills, two medium density fiberboard (MDF) mills and a hardboard (HB) mill. It also has one MDF

mill in Argentina. Their combined annual production capacity is 1.32 million cubic meters of panels. The Company's consolidated sales in 2003 were 2,075 million dollars and net income was 590 million dollars.





## Contenidos | Contents

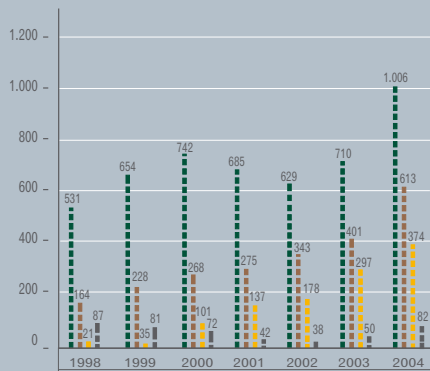
9	10	16	18	20	22	28	32	36
Antecedentes Económicos Consolidados Economic Highlights	Carta del Presidente Chairman's Statement	Directorio, Administración y Accionistas Board of Directors, Management and Shareholders	Las Empresas ARAUCO The ARAUCO Companies	Centros Operativos, Oficinas Comerciales y Representantes Operation Centres, Sales Offices, Representative Contacts Abroad	Area Forestal Forestry Area	Area Celulosa Woodpulp Area	Area Madera Aserrada Sawntimber Area	Area Paneles Panels Area



<b>40</b>	<b>44</b>	<b>50</b>	<b>54</b>	<b>61</b>	<b>100</b>	<b>101</b>	<b>102</b>
Comercialización y Distribución Commercialization and Distribution	Protección del Medio Ambiente Environmental Protection	Aporte a la Comunidad Contribution to the Community	Principales Empresas Filiales y Coligadas Main Subsidiaries and Associated Companies	Estados Financieros Consolidados Auditados Audited Consolidated Financial Statements	Oficinas Comerciales y Representantes Sales Offices and Representatives	Direcciones Addresses	Instituciones Financieras Financial Institutions

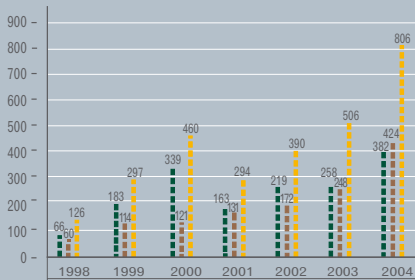


**Sales**  
US\$ Million



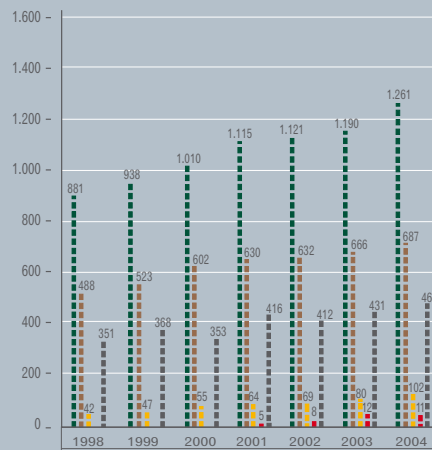
- Pulp
- Sawntimber
- Panels
- Others

**Operating Income**  
US\$ Million



- Woodpulp
- Forestry and other activities
- Operating Income

**Total Timberlands**  
Thousands of Hectares



- Total timberlands owned
- Pine
- Eucalyptus
- Others
- Other uses



		1998	1999	2000	2001	2002	2003	2004
<b>Financial (US\$ Million)</b>								
<b>Sales</b>		803	998	1,183	1,139	1,188	1,458	2,075
	Pulp	531	654	742	685	629	710	1,006
	Sawntimber	164	228	268	275	343	401	613
	Panels	21	35	101	137	178	297	374
	Others	87	81	72	42	38	50	82
<b>Operating Income</b>		126	297	460	294	390	506	806
	Woodpulp	66	183	332	152	190	251	382
	Forestry and other activities	60	114	128	142	200	255	424
<b>Net Income</b>		86	215	324	140	277	409	590
<b>EBITDA</b>		289	444	620	455	527	644	982
<b>CAPEX</b>		123	203	514	195	353	573	735
<b>Total assets</b>		4,460	4,442	4,909	4,969	5,037	5,784	6,296
<b>Fixed Assets</b>		3,758	3,766	4,020	3,759	3,838	4,327	4,785
<b>Equity</b>		2,996	3,072	3,277	3,117	3,207	3,614	4,003
<b>Financial Ratios</b>								
	Debt / Capitalization	28.0%	26.3%	29.3%	34.5%	33.2%	34.4%	32.7%
	Current Ratio	2.90	3.40	2.10	6.43	3.62	7.14	3.29
<b>Non financial</b>								
<b>Sales</b>	(Thousand)							
	Woodpulp							
	ADt	1,262	1,450	1,218	1,721	1,565	1,597	2,001
	Unbleached ADt	287	359	282	424	349	367	362
	Bleached ADt	975	1,091	936	1,297	1,216	1,231	1,639
	Wood products							
	Logs m3	1,751	1,778	1,431	952	989	854	1,187
	Sawn Timber m3	926	1,072	1,257	1,463	1,745	1,964	2,311
	Panels m3	68	115	314	491	643	1,059	1,107
<b>Total Timberlands Owned</b>	(Thousand)							
	Plantations							
	Pine ha.	881	937	1,010	1,115	1,121	1,190	1,261
	Eucaliptus ha.	529	569	657	699	709	758	800
	Other ha.	488	523	602	630	632	666	687
	Other Uses ha.	42	47	55	64	69	80	102
	Other Uses ha.	5	8	12	11	11	11	11
<b>Personnel</b>								
	Number of Employees	2,136	2,474	3,135	3,329	3,431	3,984	4,728

**Antecedentes  
Económicos  
Consolidados** | **Economic  
Highlights**





## Carta del Presidente | Chairman's Statement

Para Celulosa Arauco y Constitución S.A. (ARAUCO) el año 2004 ha sido de excelentes resultados económicos en nuestros negocios y de grandes realizaciones en los sectores productivos de la compañía, teniendo especial importancia el inicio de las operaciones de la planta de celulosa ubicada en la Provincia de Valdivia.

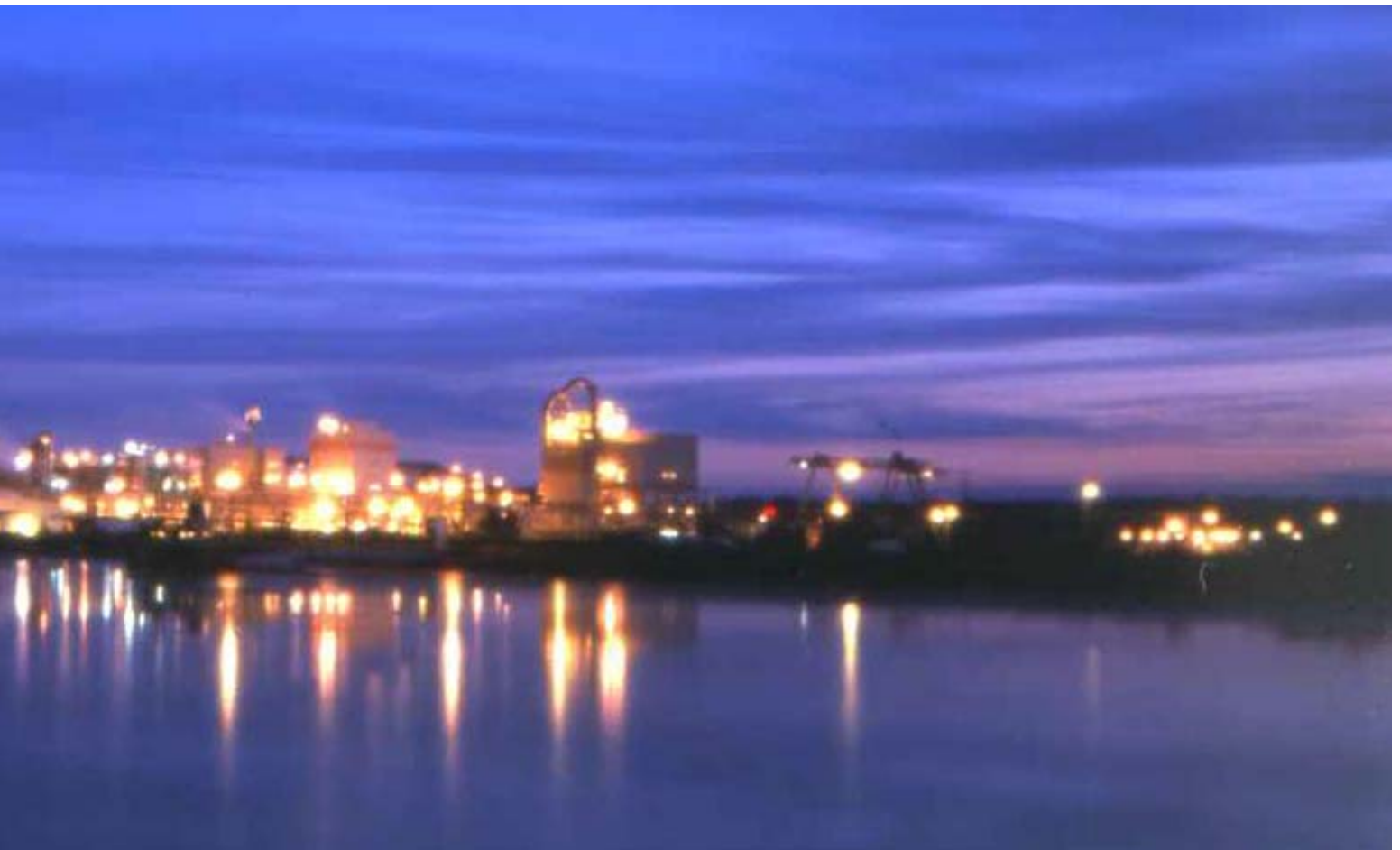
En el área celulosa, incluyendo las plantas de Chile y Argentina, la empresa estableció nuevos valores máximos de producción anual, alcanzando a 2,04 millones de toneladas.

Los doce aserraderos en Chile y los dos en Argentina mostraron nuevos logros operacionales llegando a producir 2.750 mil m<sup>3</sup> de madera aserrada. Por otra parte las 7 plantas de Remanufactura, 5 en Chile y 2 en Argentina, produjeron 367 mil m<sup>3</sup> de madera remanufacturada durante el año.

En el rubro paneles, la producción anual de las plantas de madera terciada de tableros MDF y HB, tanto en Chile como en Argentina alcanzaron una cifra total de 1.124 mil m<sup>3</sup> al año.

Por último las plantas productoras de energía eléctrica, basadas principalmente en la utilización de biomasa proveniente de nuestras instalaciones productivas, generaron un total de 568 mil MWH.

Durante el año calendario 2004, ARAUCO realizó cuantiosas inversiones en diversos rubros de sus actividades productivas. En el área forestal se destaca la adquisición de los activos forestales de la firma argentina Pérez Compac, detallados en la memoria del año 2003 por US\$ 40 millones, que comprenden 60.000 há. de bosques de los cuales 24.000 há. son de plantaciones de pino, y un aserradero con capacidad de producción de 180.000 m<sup>3</sup> de madera aserrada al año. Adicionalmente en Chile se realizaron importantes adquisiciones de terrenos y plantaciones pertenecientes a tres empresas chilenas, que en conjunto significaron una inversión de US\$ 171 millones aumentando nuestro patrimonio en 52.800 há. de plantaciones de pino y eucalipto. En el área Industrial, la inversión de mayor relevancia corresponde a la ejecución de parte de las obras del Complejo Forestal Industrial Nueva Aldea (CFI Nueva Aldea). Este desarrollo industrial de gran magnitud considera una planta con capacidad para producir paralelamente celulosa de pino y eucalipto, un aserradero con una capacidad para 400 mil m<sup>3</sup>/año de producto final y una planta de tableros terciados de 210 mil m<sup>3</sup>/año.



*José Tomás Guzmán Dumas*  
*Presidente del Directorio*  
*Chairman of the Board*

From the standpoint of economic results, 2004 was an excellent year for Celulosa Arauco y Constitución S.A. (ARAUCO). It was also a year of great achievements in the productive sectors of the company, noteworthy among which was the initiation of operations of the pulp plant located in the Province of Valdivia.

In the Woodpulp Area, the company established new levels of maximum annual production producing a total of 2 million 43 thousand tons in its plants in Chile and Argentina.

Our sawmills, twelve in Chile and two in Argentina, reached new operational levels, producing 2 million 750 thousand m<sup>3</sup> of sawn wood. Additionally, the 7 remanufacturing mills, 5 in Chile and 2 in Argentina, produced 367 thousand m<sup>3</sup> of manufactured wood during the year.

In the panels sector, the annual production of plywood, MDF and HB panels in Chile and Argentina reached an annual total of 1 million 124 thousand m<sup>3</sup>.

Lastly, the electric power plants, powered principally by biomass from our production facilities, generated a total of 568 thousand MWH.

During the 2004 calendar year, ARAUCO made numerous investments in different productive areas. In forestry

US\$ 40 million were destined for the acquisition of forest assets from the Argentinean firm, Perez Compac, as detailed in our 2003 corporate report. This addition included 60 thousand hectares of forests, of which 24 thousand are pine plantations, as well as a sawmill with a production capacity of 180,000 m<sup>3</sup> of sawn lumber annually. Additionally, in Chile, there were also significant land and tree plantation acquisitions from three Chilean companies, which in total required investments of US\$ 171 million, thus adding 52,800 hectares of pine and eucalyptus plantations to our holdings. In the Industrial area, the most relevant investment corresponds to the construction of the Nueva Aldea Forestry Complex (IFC Nueva Aldea). This industrial development, of great magnitude, contemplates a bleached woodpulp mill for pine and eucalyptus, a sawmill with a production capacity of 400 thousand m<sup>3</sup>/year and a plywood mill that will produce 210 thousand m<sup>3</sup>/year.

In the commercial area there was a moderate increase in the average price of long fiber (pine) pulp during the year. The efficient commercial management of our sawn lumber and panels companies continues to be a source of pride, and has led to the expansion and consolidation of their



La inversión total realizada por ARAUCO durante el año 2004 alcanzó a US\$ 735 millones que, históricamente es la cifra más alta destinada por nuestra empresa para incrementar sus activos productivos, tanto en bosques como en plantas industriales.

En el área comercial podemos mencionar el aumento moderado del precio promedio de la celulosa de fibra larga (pino). Es importante destacar la eficiente gestión comercial de las empresas de aserraderos y paneles, que han logrado ampliar y consolidar su posición en los principales mercados y al mismo tiempo alcanzar altas rentabilidades operacionales. La efectiva labor de las oficinas comerciales en los distintos países y una muy buena coordinación con las instalaciones productivas de aserraderos y paneles, han permitido disminuir en forma apreciable los negativos efectos de las fuertes variaciones de las demandas de productos de esas áreas de actividad de ARAUCO.

Un aspecto negativo en el área comercial de ARAUCO, cuyos productos están destinados básicamente a la exportación, ha sido el incremento del valor de los fletes, como consecuencia del gran aumento del intercambio comercial de China con el resto de los países del mundo. Se espera que en un futuro cercano se incremente la oferta de fletes, con la consiguiente normalización de sus precios.

Durante el período de puesta en marcha de la planta de celulosa de Valdivia se produjeron interrupciones en el proceso productivo, generándose malos olores que causaron molestias a la población. La empresa reaccionó rápidamente y efectuó las inversiones y cambios en el proceso productivo para resolver esta situación. El monto invertido alcanzó a 5 millones de dólares, y el problema de olores quedó resuelto en Noviembre del año 2004, antes de que concluyera el período legal de puesta en marcha.

También en relación con la planta de Valdivia, creo necesario hacer mención al humedal del río Cruces, en el cual, durante el mes de Octubre de 2004 se detectó una notoria disminución de la población de cisnes de cuello negro, lo que motivó

## Carta del Presidente | Chairman's Statement



market position while simultaneously achieving high operational profits.

The effectiveness of our commercial offices in various countries, and their excellent coordination with productive facilities in the sawn timber and panels areas, has led to an appreciable reduction in the negative effects associated to strong variations in demand for the products that stem from this area of ARAUCO's activities.

ARAUCO's products are basically destined for export, and thus the company's commercial area has been negatively affected by increases in the cost of transportation associated to the enormous increase in commerce between China and the rest of the world. It is expected that in the near-future the supply of vessels will increase resulting consequently in a normalization of freight rates .

During the start-up of the Valdivia pulp mill there were interruptions in the productive process resulting in the generation of bad odors which caused concern in the community. The company reacted quickly and made the necessary investments and changes in the productive process to correct this problem. The investment amounted

to US\$5 million and the odor problem was resolved by November of 2004, prior to the end of the legal start-up period.

With regard to the Valdivia plant, I believe it is also necessary to make mention of the Cruces River wet-lands, where in October of 2004 a notorious decrease in numbers of blacknecked swans was detected, causing the people of Valdivia a great deal of concern. As a result, CONAMA contracted the services of the Universidad Austral de Chile which has

to date published two preliminary reports identifying abnormal concentrations of heavy metals as a possible culprit. These heavy metals may have caused a decrease in the alga that constitutes the basic food source for these swans. Neither study has found any link between the increase in these metals and the liquid effluents of the Valdivia mill, which are discharged into the Cruces River several kilometers upstream from the wet-lands.

In reference to the above, I would like to reiterate ARAUCO's commitment to the environment and to its social responsibilities. These matters are important enough to



gran preocupación de la comunidad de Valdivia. Ante ello, la CONAMA contrató los servicios de la Universidad Austral de Chile, la cual ha emitido dos informes preliminares, donde se identifica como potencial causa del problema la presencia de concentraciones anormales de metales, lo que habría producido la disminución del alga que constituye el alimento base de los cisnes. En estos informes no se ha encontrado vínculo alguno entre el aumento de estos metales y los efluentes líquidos de la planta de Valdivia, que se descargan al río Cruces, varios kilómetros más arriba del humedal. En este sentido, quiero reiterar el compromiso de ARAUCO con el medio ambiente y con su responsabilidad social, materias que por su importancia las hemos tratado en forma más amplia y detallada en un Informe de Responsabilidad Ambiental y Social, que se entrega conjuntamente con esta Memoria. Finalmente, queremos hacer llegar a todo el personal nuestro sincero agradecimiento por su entusiasta apoyo en el desarrollo de las distintas actividades de la empresa durante el presente año.



**José Tomás Guzmán Dumas**  
Presidente del Directorio  
Celulosa Arauco y Constitución S.A.



## Carta del Presidente | Chairman's Statement

merit their treatment in greater detail in a separate Report on Social and Environmental Responsibility which is presented in conjunction with this Annual Report. Finally we would like to extend to all our personnel our

sincerest gratitude for the enthusiastic support they have shown for the great variety of activities that the corporation has engaged in during this past year.



**José Tomás Guzmán Dumas**  
Chairman of the Board  
Celulosa Arauco y Constitución S.A.



*El aporte de cada uno de sus empleados es fundamental para el desarrollo de la empresa.*

*A company grows only through the contributions of each and every one of its employees.*

## Directorio | Board of Directors

José Tomás Guzmán  
Presidente Directorio  
Chairman

Roberto Angelini  
Vice Presidente  
Vice Chairman

## Directores | Members of the Board

Jorge Andueza  
Anacleto Angelini  
Manuel Enrique Bezanilla  
Jorge Bunster  
Carlos Croxatto  
Alberto Etchegaray  
Felipe Lamarca

## Accionistas | Shareholders

Celulosa Arauco y Constitución S.A.  
Accionistas al 31-12-2004  
Shareholders at December 31, 2004

Nombre Name	Número de Acciones Number of Shares	Porcentaje de Participación Percentage Shareholding
Empresas Copec S.A.	113.127.452	99,97791121 %
Chilur S.A.	24.746	0,02186961 %
María Raquel Cruchaga Montes	153	0,00013522 %
AntarChile S.A.	95	0,00008396 %
Total	113.152.446	100,0000000 %

## Directorio, | Board of Directors, Administración | Management and y Accionistas | Shareholders



Administración | Management

Alejandro Pérez  
Gerente General  
President and Chief Executive Officer

Charles Kimber  
Gerente Comercial  
Commercial Director

Matías Domeyko  
Gerente de Administración y Finanzas  
Chief Financial Officer

Sergio Desormeaux  
Gerente de Informática  
Systems Director

Alvaro Saavedra  
Gerente Area Forestal  
Forestry Area Managing Director

Hernán Arriagada  
Gerente de Ingeniería y Construcción  
Engineering and Construction Director

Jorge Garnham  
Gerente Area Celulosa  
Woodpulp Area Managing Director

Cristián Infante  
Gerente Alto Paraná  
Alto Paraná Managing Director

Antonio Luque  
Gerente Area Aserraderos  
Sawntimber Area Managing Director

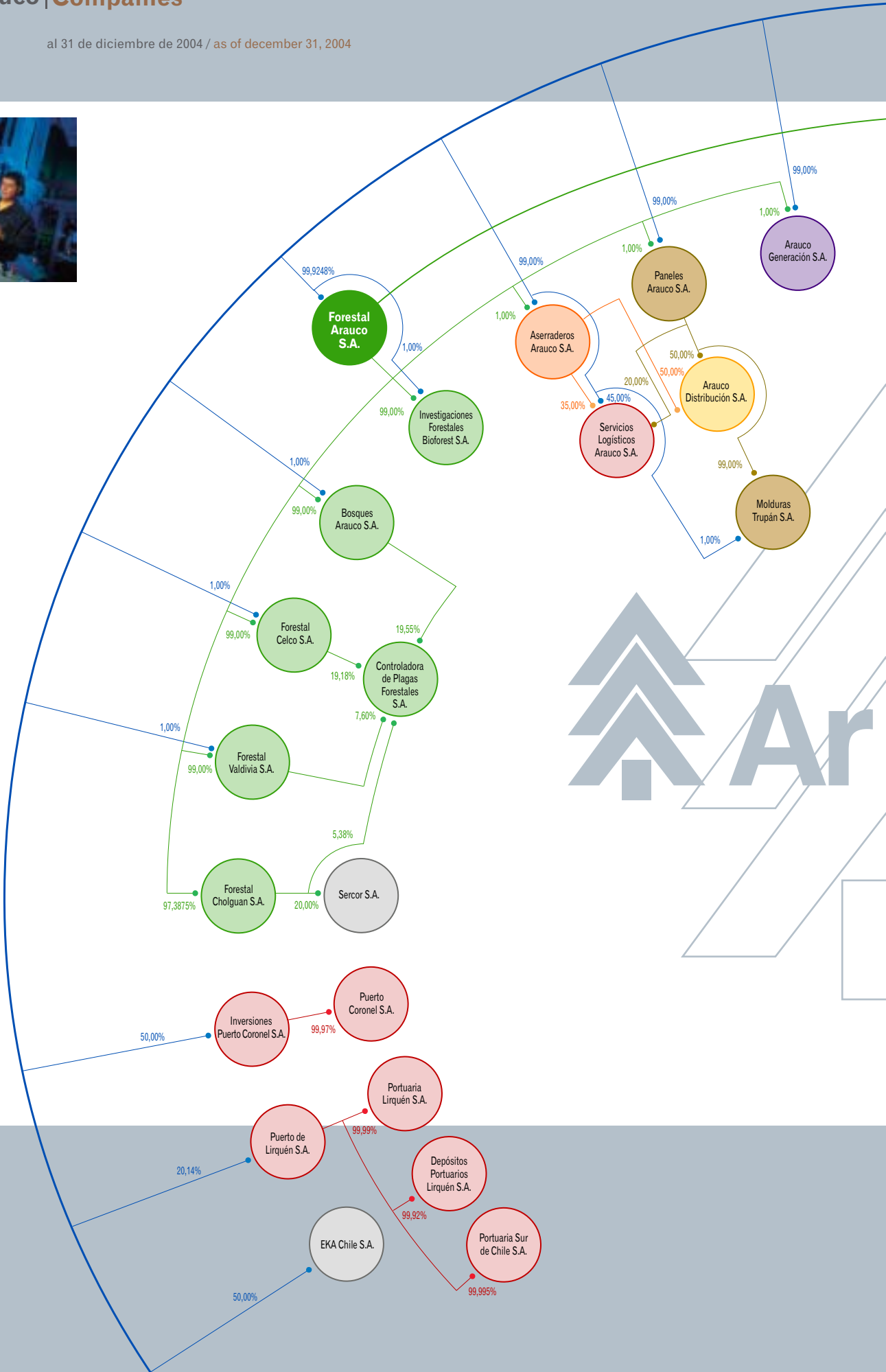
Mario Urrutia  
Gerente Ambiental Industrial  
Industrial Environmental Director

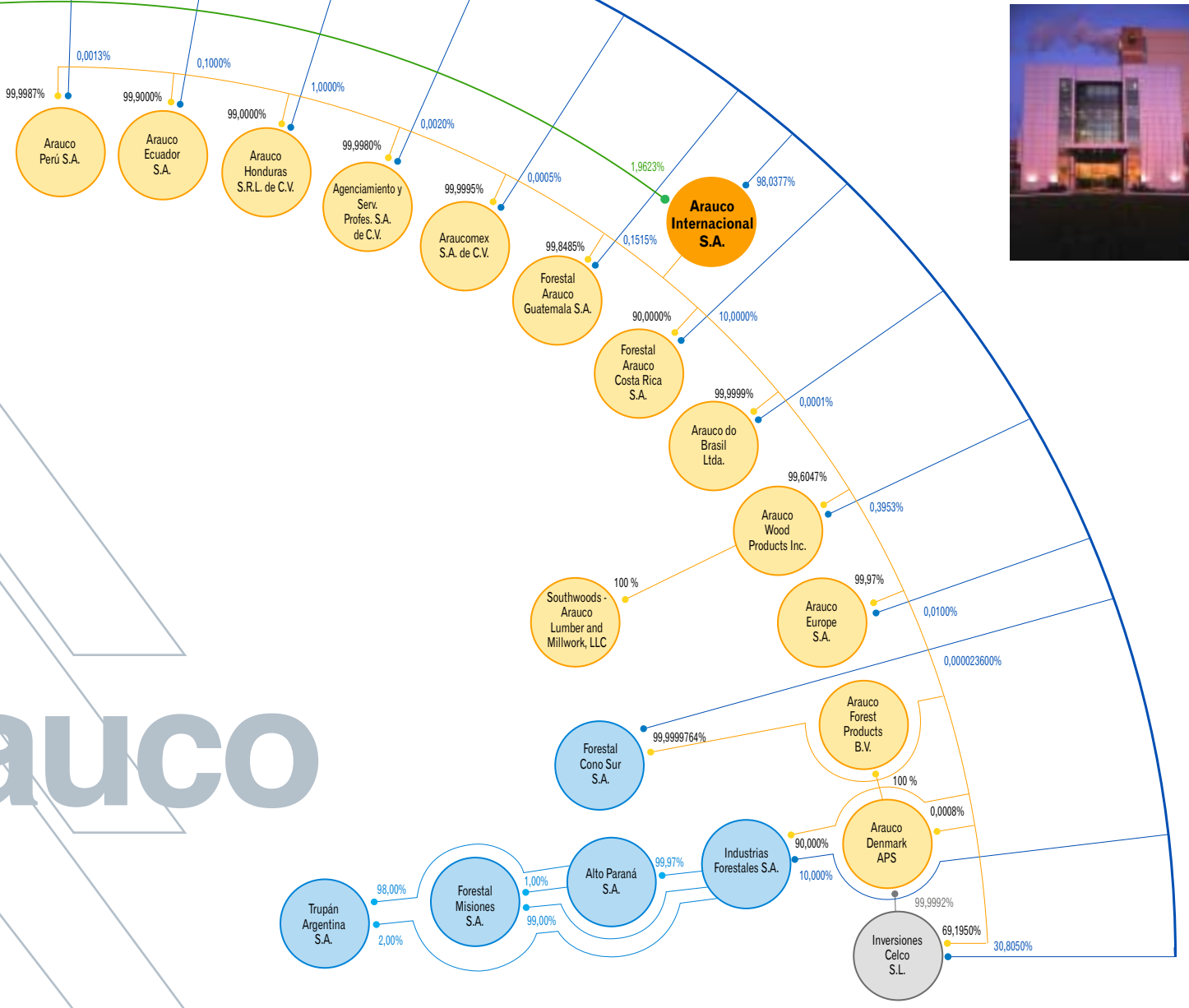
Franco Bozzalla  
Gerente Area Paneles  
Panels Area Managing Director



Complejo Nueva Aldea | Nueva Aldea Complex







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**Centros Operativos,  
Oficinas Comerciales  
y Representantes** | **Operation Centres,  
Sales Offices and  
Representatives**

*Puerto Coronel, | Coronel's Port  
VIII Región, Chile | 8th Region, Chile*





**Centros Operativos**  
Operational Centres

ARGENTINA  
CHILE

**Oficinas Comerciales**  
Sales Offices

ARGENTINA  
BRASIL  
CHILE  
EUROPA  
JAPON  
MEXICO  
PERU  
USA

**Representantes**  
Representatives

AUSTRALIA  
CANADA  
COLOMBIA  
COREA  
CHINA  
FILIPINAS  
INDIA  
INDONESIA  
MALASIA  
TAILANDIA  
TAIWAN  
VENEZUELA

**Simbología**  
Symbology

- Plantación / Forest plantación
- Planta de celulosa / Woodpulp mill
- Aserradero / Sawmill
- Planta de paneles / Panel mill
- Puerto / Port
- Puerto, otros / Port others



ARAUCO es propietaria del más extenso patrimonio de plantaciones forestales en América del sur, con 800 mil hectáreas plantadas en Chile, Argentina y Uruguay.

Tanto el tamaño de sus bosques como el rápido crecimiento que las especies plantadas alcanzan en el hemisferio sur, entregan a la empresa importantes ventajas competitivas en los exigentes mercados mundiales de la celulosa, madera aserrada, paneles y otros productos derivados.

La mayor parte de las plantaciones de ARAUCO son de pino radiata, y en estos se aplican técnicas de manejo forestal, raleos y podas, destinadas a privilegiar la cosecha de madera libre de nudos, la que luego se destina a la fabricación de productos de alto valor agregado. En menor proporción, ARAUCO también tiene plantaciones de eucalipto, las que se manejan de forma de maximizar la obtención de madera pulpable para el abastecimiento de las plantas de celulosa. Como consecuencia de su compromiso en la protección del medioambiente, ARAUCO aplica en su actividad forestal una política de manejo sustentable, la que se traduce en una garantía para sus clientes, ya que les asegura una disponibilidad creciente y sostenida de madera proveniente de bosques plantados y manejados de acuerdo con los más exigentes estándares de manejo forestal.

Todas las plantaciones incorporan los resultados de años de investigación en el campo de la genética, protección fitosanitaria, productividad de los suelos y propiedades de la madera, lo que sitúa a la empresa en la vanguardia tecnológica de la producción forestal y otorga a sus productos un fuerte valor agregado. A ello se suman iniciativas de protección del recurso forestal contra riesgos ajenos al control de la compañía, entre las que cabe mencionar un eficiente sistema de detección precoz de plagas y un completo programa contra incendios forestales.

En conjunto, las plantaciones de ARAUCO en Chile, Argentina y Uruguay entregan empleo directo a 478 trabajadores y crean, indirectamente, más de 12 mil puestos de trabajo que proveen empresas de servicios forestales y de transporte. Esta fuerte incidencia en las zonas donde ejerce su actividad productiva, compromete al sector forestal de ARAUCO en el desarrollo de variadas actividades de apoyo a la comunidad, tales como: el programa de educación ambiental (PEA), el que se realiza en conjunto con escuelas municipalizadas del sur de Chile; la divulgación de mejores prácticas forestales a través de capacitación a pequeños propietarios; el desarrollo de proyectos de agua potable para abastecer a poblados

## Area Forestal | Forestry Area



ARAUCO, with 800 thousand hectares planted in Chile, Argentina and Uruguay, owns the largest forest plantations in South America.

The size of its forest plantations as well as the rapid growth rates of tree species in the Southern Hemisphere, give the company significant competitive advantages in the demanding world markets for woodpulp, sawn wood, panels and other wood products.

The majority of ARAUCO's plantations are made up of Pine, managed to produce knot-free wood, which is then used for the manufacture of high value-added goods. ARAUCO has also eucalyptus plantations, which are managed for maximum production of pulp wood for the supply of pulp mills.

In keeping with its commitment to the protection of the environment, ARAUCO employs sustainable forestry techniques in all of its forest related activities, with the added benefit of guaranteeing clients an increasing and sustained supply of wood obtained from forest planted and managed in accordance with the most demanding standards of forestry management.

All of the company's plantations incorporate the results of years of research in genetics, phytosanitary protection, soil

productivity and wood properties. This research based approach positions the company on the technological forefront of forestry and ensures the production of high value added products. Additionally, the company stresses the protection of its forest resources from external risks. To this end the company has an efficient early warning system for plagues, and a comprehensive forest-fire prevention program.

ARAUCO's plantations in Chile, Argentina and Uruguay provide direct employment to 478 workers, and indirectly create over 12 thousand jobs through forestry service and transportation companies. The strong influence that the company wields in the areas in which it carries out its productive activities carries with it a commitment to the development of a variety of community support activities, such as: the Environmental Education Program carried out in conjunction with the municipal schools in the South of Chile, training in improved forestry practices for small holders; drinking water projects for the supply of small rural communities from within company lands, the establishment of protected parks which are open to the community; and on-going forest-fire prevention programs in conjunction with schools and community organizations. In addition,



rurales desde predios de la compañía; el establecimiento de parques protegidos abiertos a la comunidad; y la permanente realización de programas de prevención de incendios forestales en conjunto con escuelas y juntas de vecinos. A esto se agrega la construcción y reparación, en los últimos 18 años, de más de 1.000 kilómetros de caminos públicos y puentes, que junto con los caminos internos propios de la Empresa, han beneficiado a muchas comunidades rurales, mejorando significativamente sus condiciones de aislamiento.

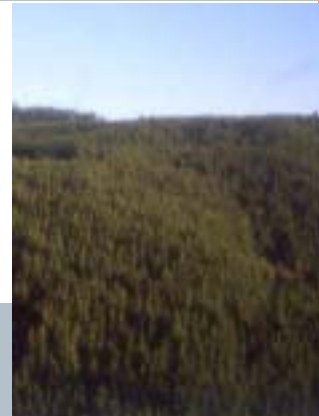
En lo que respecta a la protección del Medioambiente, todas las plantaciones de ARAUCO se rigen por un sistema de gestión ambiental de altísimo nivel que ha sido certificado bajo la norma internacional ISO 14001. Esta garantiza que todas las operaciones forestales se realizan de acuerdo a la legislación vigente, y compromete a la empresa a controlar sus impactos ambientales significativos, a prevenir la contaminación, a capacitar a su personal en estos temas y a mantener un programa de mejoramiento ambiental continuo. En el ejercicio, todas las empresas forestales de ARAUCO recertificaron con éxito su sistema de gestión ambiental bajo esta norma, extendiendo la vigencia de la certificación hasta 2007. Adicionalmente, en Chile las plantaciones cuentan con la certificación forestal CERTFOR, correspondiente al estándar Chileno de Manejo Forestal Sustentable, el cual está homologado por el estándar Europeo PEFC (Programme for the Endorsement of Forest Certification Schemes). Cabe destacar que durante el ejercicio se certificó bajo el mismo estándar la Cadena de Custodia de productos.

**Patrimonio Forestal al 31 de diciembre de 2004 | Forest Resources as of December 31, 2004**

Miles de Hectáreas / Thousands of Hectares

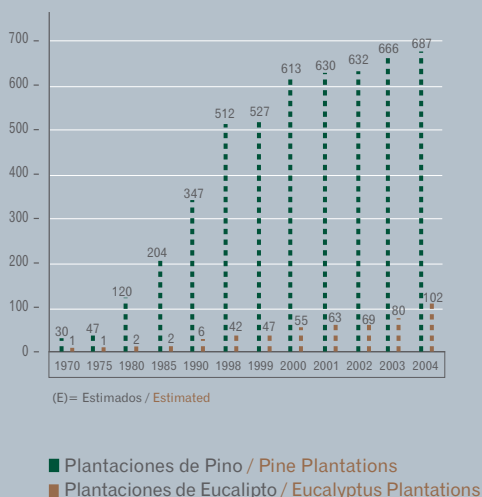
	Plantaciones / Plantations			Bosques Nativos Native Forest	Otros usos Other uses
	Total Total	Pino Pine	Eucalipto Eucalyptus		
Chile	999	568	98	119	211
Argentina	234	99	4	109	14
Uruguay	28	20	0	0	8
<b>Total</b>	<b>1.261</b>	<b>687</b>	<b>102</b>	<b>228</b>	<b>233</b>

**Area | Forestry  
Forestal | Area**



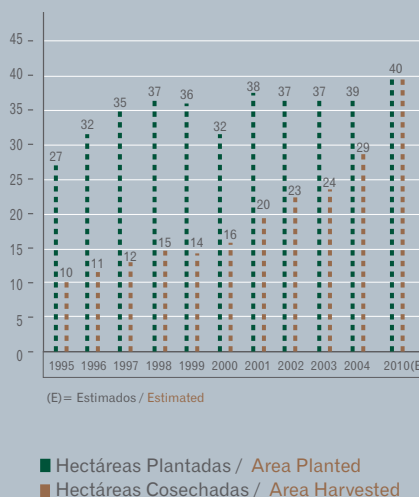
**Inventario de Plantaciones  
Stock of Plantations**

Miles de hectáreas / Thousands of hectares



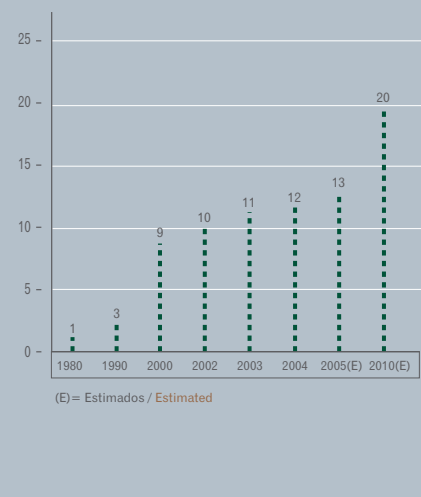
**Plantaciones Anuales  
Annual Forestation  
Hectáreas Cosechadas  
Area Harvested**

Miles de hectáreas / Thousands of hectares



**Cosecha Anual  
Yearly Harvesting**

Millones de m3 / Millions of m3





over the last 18 years the company has built and repaired over 1000 kilometers of public roads and bridges. Moreover, internal roads, owned and operated by the company, have also benefited numerous rural communities by reducing their degree of isolation.

Where the protection of the Environment is concerned, all of ARAUCO's plantations are ISO 14001 certified. This internationally recognized standard guarantees that all forestry operations are carried out in accordance to applicable regulations, and commits the company to the control of any significant impacts, the prevention of pollution, the training of its personnel in these areas, and to a continuous environmental improvement program. During this exercise, all of ARAUCO's forestry divisions were successfully re-certified under this standard, extending their certification until the year 2007. Additionally, the company's Chilean plantations are certified under the national Chilean sustainable forestry standard, CERTFOR, which is homologous to the European Program for the Endorsement of Forest Certification Schemes, (PEFC) standard. It should also be noted that the Chain of Custody for the company's products was certified under the same standard.

### **Forestry Investments**

In 2004, Arauco's forestry investments totaled US\$271 million, which were destined to land acquisition, forest plantation, maintenance, and resource management activities. Of this sum, US\$222 million were invested in Chile, US\$47 million in Argentina, and US\$2 million in Uruguay. A large part of the Chilean investments were for the acquisition of new land and plantations. Among these, it is worth highlighting the purchase of Terranova S.A. assets in the 7th Region, equivalent to 12 thousand hectares of pine forest.

### **Production and sale of logs**

In 2004, 12.5 million cubic meters of logs were harvested, 2.1 million cubic meters of chips and fuel wood were produced and purchased, and 4.7 million cubic meters of logs and chips were purchased from third party suppliers. Of this total, 18.2 million were destined for pulp mills, panels and sawmills belonging to the company, and 1.1 million cubic meters were sold to third parties.



## Area Forestal | Forestry Area

### **Inversiones forestales**

La inversión silvícola total de ARAUCO en 2004 ascendió a US\$ 271 millones, los que se destinaron a la adquisición de terrenos, a la plantación de bosques, a su mantención y actividades de manejo del recurso. La cifra se desglosa en US\$ 222 millones invertidos en Chile; US\$ 47 millones en Argentina; y US\$ 2 millones en Uruguay. Gran parte de la inversión efectuada en Chile corresponde a la adquisición de nuevos terrenos y plantaciones. Entre estas adquisiciones destaca la compra de activos de Terranova S.A., en la VII Región, equivalentes a 12 mil hectáreas plantadas, fundamentalmente de pino.

### **Producción y venta de madera rolliza**

En 2004 se cosecharon 12,5 millones de metros cúbicos de rollizos, se produjeron 2,1 millones de metros cúbicos de astillas y madera combustible y se compraron a terceros 4,7 millones de metros cúbicos de rollizos y astillas. Del total de rollizos y astillas, 18,2 millones fueron destinados a las plantas de celulosa, paneles y aserraderos de la empresa y 1,1 millones de metros cúbicos se vendieron a terceros.

### **Desarrollo tecnológico forestal**

Como parte de un proceso dinámico de mejoramiento de la productividad, rendimiento y calidad de sus plantaciones, ARAUCO mantiene un completo programa propio de investigación. Esta tarea está a cargo de Bioforest S.A., filial de ARAUCO que opera como centro de investigación científico tecnológico en el área forestal y que entrega servicios a la compañía en todos los países donde se han establecido plantaciones.

Bioforest cuenta con personal altamente calificado, instrumental de primera línea y laboratorios, viveros e invernaderos propios en donde se experimentan tecnologías y procedimientos de punta que luego se incorporan a las plantaciones de ARAUCO. Sus principales áreas de investigación son genética, protección fitosanitaria, productividad de sitios y estudios sobre las características y propiedades de la madera. Durante el ejercicio, los mayores esfuerzos se centraron en implementar un modelo de silvicultura clonal de precisión.

### Forestry Related Technological Development

As part of a dynamic process that is designed to improve productivity, yield and quality, ARAUCO funds its own comprehensive research program in the area of forestry technology. This task is carried out by Bioforest S.A., a subsidiary of ARAUCO which functions as a scientific, technological forestry research center, and which provides services to ARAUCO companies in all three countries in which it operates.

Bioforest has highly trained personnel, first-class

instrumentation and laboratories, as well as its own tree nurseries and green houses which are used for experimenting with technologies and procedures which are then incorporated into the company's plantations. The principal areas of research are genetics, phytosanitary protection, soil productivity, and studies on the characteristics and properties of wood. During this exercise, efforts were centered on the implementation of a precision silvicultural cloning model.





ARAUCO es una de las principales empresas del mundo fabricantes de celulosa kraft de mercado blanqueada y no blanqueada y en este ejercicio se dio inicio a la producción de celulosa fluff, en la planta de Alto Paraná, Misiones, Argentina.

Toda la celulosa que produce ARAUCO se produce en Chile a partir de pino radiata y de eucalipto, y en Argentina, a partir de pino taeda. Se trata de especies de rápido crecimiento en el hemisferio sur, lo que otorga a la empresa una importante ventaja respecto de proveedores de otras regiones del globo, tanto en términos de costo como de capacidad para responder a demandas crecientes en el tiempo.

La mayor parte de la producción de celulosa de ARAUCO, elaborada en plantas ubicadas en Chile y Argentina, se comercializa en mercados internacionales, fundamentalmente en Asia, Europa y América. En ellos, ARAUCO se ha consolidado como proveedor confiable en el largo plazo, debido a su competitiva estructura de costos, a la existencia de una red de distribución y comercialización eficiente y de alcance global, y a la permanente incorporación en sus procesos industriales de rigurosos estándares tecnológicos y de protección al medioambiente.

La celulosa blanqueada de ARAUCO es reconocida internacionalmente por sus excelentes propiedades que le permiten una amplia variedad de usos. Entre otros, se utiliza como materia prima en la fabricación de papeles de impresión y de escritura y en la elaboración de papeles sanitarios, papeles industriales y papeles de envolver de alta calidad.

La celulosa no blanqueada se utiliza en la fabricación de papeles para embalaje, filtros, papeles dieléctricos y productos de fibro cemento.

La celulosa fluff es muy demandada para la producción de pañales y toallas higiénicas. Comenzó a fabricarse el 2004 en la planta Alto Paraná, en Argentina, ya que la fibra de pino taeda que procesa esta planta tiene excelentes propiedades para su elaboración. En el período sólo alcanzaron a producirse 2 mil 700 toneladas de este tipo de celulosa, pero está contemplado que de las 350 mil toneladas métricas anuales que produce Alto Paraná, 90 mil se destinen a la calidad fluff. El proyecto de modificación industrial involucró una inversión de 25 millones de dólares.

**Area** | **Woodpulp**  
**Celulosa** | **Area**



ARAUCO is one of the world's main producers of bleached and unbleached market kraft pulp, and has, during this past year, begun production of fluff pulp as well, in the Alto Paraná Mill, Misiones, Argentina.

The woodpulp produced by ARAUCO in Chile comes from radiata pine and eucalyptus, whereas the company's Argentinean pulp mill uses taeda pine. All of these species are fast-growing in the Southern Hemisphere that gives the company a competitive edge with respect to producers in other regions of the world, in terms of both costs and the company's ability to react to growing demand.

Most of ARAUCO's pulp, produced in Chile and Argentina, is destined for international markets, principally Asia, Europe and the Americas. In all these markets ARAUCO has consolidated its position as a reliable long-term supplier. This is largely due to the company's competitive cost structure, its well established, efficient and global distribution network, and the on-going incorporation of industrial processes that are subject to rigorous technological and environmental protection standards. ARAUCO's bleached woodpulp is internationally recognized for its excellent properties which makes it ideal for a variety

of uses, including the manufacture of printing and writing paper, sanitary papers, industrial paper and high quality wrapping paper.

The company's unbleached pulp is used for the manufacture of packaging paper, filters, dielectric papers and fiber cement products.

Fluff pulp is in high demand for the production of disposable diapers and sanitary napkins. Production began in 2004 in the Alto Parana plant in Argentina due to excellent properties of the taeda pine fibers processed at this facility. During the 2004 exercise, only 2,700 tons of this type of pulp were produced, but in the future it is expected that of the 350 thousand metric tons produced annually by Alto Parana, 90 thousand will be destined to fluff pulp. The industrial modification project necessary for the production of this type of pulp required an investment of 25 million dollars. Another noteworthy accomplishment of the exercise was the February start-up of the Valdivia Mill in Chile's 10th Region. This mill has an annual potential capacity of 685 thousand tons of bleached kraft pulp from radiata pine and eucalyptus. Operations began with an excellent learning curve, and almost the entire production met the



Otro aspecto relevante del ejercicio fue la puesta en marcha, en febrero, de Planta Valdivia, en la X Región de Chile, cuya capacidad potencial es de 685 mil toneladas anuales de celulosa kraft blanqueada de pino radiata y de eucalipto. Las operaciones se iniciaron con una excelente curva de aprendizaje, ya que prácticamente la totalidad de la producción cumplió con las especificaciones garantizadas a nuestros clientes internacionales. Con el inicio operativo de Planta Valdivia, la producción total de celulosa de ARAUCO superó los 2 millones de toneladas, lo que representa un aumento del orden del 30 por ciento respecto del 2003.

En conjunto, las cinco plantas de celulosa que posee ARAUCO -cuatro en Chile y una en Argentina- entregan empleo directo a 1.843 personas y empleo indirecto a unas 4.800, a través de servicios asociados. Todos los trabajadores reciben capacitación permanente a fin de cumplir con las estrictas normas de calidad y protección medioambiental que regulan cada una de nuestras operaciones industriales. De las cinco plantas productoras de celulosa, cuatro cuentan con la certificación de calidad ISO 9000 2000 y la nueva Planta Valdivia está en vías de obtenerla. Asimismo, a fines de 2004 todas las plantas comenzaron el proceso de implementación de sus respectivos sistemas de gestión ambiental (SGA), de acuerdo a la norma internacional ISO 14001. Se espera obtener esta certificación a más tardar durante el 2006.

### Proyecto en Ejecución

El complejo forestal-industrial Nueva Aldea, que ARAUCO está construyendo en las inmediaciones de Chillán, en la VIII Región de Chile, contempla la construcción de una nueva planta de pulpa blanqueada de pino y eucalipto con la que se reafirma el compromiso de ARAUCO de consolidar, en el largo plazo, su posición como uno de los principales proveedores de celulosa de mercado en el mundo. Planta Nueva Aldea, que contará con la tecnología más avanzada del momento, realizará también una importante contribución al desarrollo de la región, a través de la creación de nuevos empleos directos y de nuevas empresas proveedoras de productos y servicios. Se estima la puesta en marcha de esta planta para mediados del 2006.

## Area | Woodpulp Celulosa | Area



Planta	Ubicación	Tipo de Celulosa	Producción 2004
Arauco	Chile Octava Región	Kraft blanqueada ECF de pino radiata y de eucalipto. Marca: <b>Arauco BKP</b> <b>Arauco EKP</b>	768 mil toneladas métricas (594 mil de celulosa blanqueada de pino y 174 mil de eucalipto).
Constitución	Chile Séptima Región	Kraft cruda de pino radiata. Marca: <b>Celco UKP</b>	355 mil toneladas métricas.
Licancel	Chile Séptima Región	Kraft blanqueada ECF de pino radiata y de eucalipto. Marca: <b>Arauco BKP</b> <b>Arauco EKP</b>	141 mil toneladas métricas (113 mil de celulosa blanqueada de pino y 28 mil de celulosa blanqueada de eucalipto).
Valdivia	Chile Décima Región	Kraft blanqueada ECF de pino radiata y de eucalipto. Marca: <b>Arauco BKP</b> <b>Arauco EKP</b>	430 mil toneladas métricas (año de puesta en marcha) (227 mil de celulosa blanqueada de pino y 203 mil de celulosa blanqueada de eucalipto).
Alto Paraná	Argentina Provincia de Misiones	Kraft blanqueada ECF de pino taeda. Fluff de pino taeda. Marca: <b>Alto Paraná BKP</b> <b>Alto Paraná FLUFF</b>	349 mil toneladas métricas (346,3 mil de celulosa blanqueada de pino y 2,7 mil de celulosa fluff).

specifications guaranteed to our international customers. With the initiation of operations of the Valdivia Mill, ARAUCO's total annual production of pulp increased to more than 2 million tons, a 30 percent increase with respect to the 2003 production.

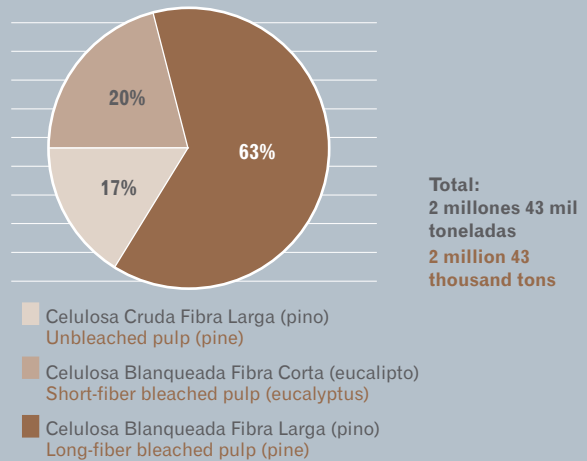
ARAUCO's five mills, four in Chile and one in Argentina, provide direct employment for 1,843 persons, and indirect employment to another 4,800 through associated services. All employees receive on-going training to ensure compliance with the strict quality and environmental protection standards that regulate each and every one of our industrial operations. Of the five pulp plants, four are currently ISO 9000 2000 certified, and the new Valdivia Mill is in the process of obtaining this quality certification. Likewise, towards the end of 2004, all mills began the process of implementing their respective environmental management systems (EMS) in order to achieve ISO 14000 certification by, at the latest, 2006.

**Project Under Construction**

The Nueva Aldea industrial-forestry complex, which ARAUCO is building near Chillan, in Chile's 8th Region, includes the construction of a bleached woodpulp mill for pine and eucalyptus with an annual capacity of 856 thousand tons.

The project underscores the company's commitment to the long term consolidation of its leadership position as one of the principal worldwide producers of market woodpulp. The Nueva Aldea Mill, which will incorporate state of the art technology, will also contribute significantly to the development of the region through the direct creation of a new source of employment, and through the companies that will supply goods and services to the new facility. This facility is currently expected to be completed by late 2006.

**Producción de Celulosa** año 2004  
**Woodpulp production** for the year 2004



Mills	Location	Woodpulp Grade	Production 2004
Arauco	Chile 8th Region.	Bleached ECF Kraft pulp from radiata pine and eucalyptus. Brand: <b>Arauco BKP</b> <b>Arauco EKP</b>	768,000 metric tons. (594,000 tons of bleached pine pulp and 174,000 of eucalyptus pulp).
Constitución	Chile 7th Region.	Unbleached Kraft pulp from radiata pine. Brand: <b>Celco UKP</b>	355,000 metric tons.
Licancel	Chile 7th Region.	Bleached ECF Kraft pulp from radiata pine and eucalyptus. Brand: <b>Arauco BKP</b> <b>Arauco EKP</b>	141,000 metric tons. (113,000 of bleached pine pulp and 28,000 of bleached eucalyptus pulp).
Valdivia	Chile 10th Region.	Bleached ECF Kraft pulp from radiata pine and eucalyptus. Brand: <b>Arauco BKP</b> <b>Arauco EKP</b>	430,000 metric tons (star-up year) (227,000 of bleached pine pulp and 203,000 of bleached eucalyptus pulp).
Alto Paraná	Argentina Misiones province.	Bleached ECF Kraft pulp from taeda pine. Taeda Fluff Pulp. Brand: <b>Alto Paraná BKP</b> <b>Alto Paraná FLUFF</b>	349,000 metric tons. (346,300 of bleached pine pulp and 2,700 of fluff pulp).

ARAUCO es la principal empresa productora de madera aserrada en Latinoamérica y el hemisferio sur y, actualmente es también el mayor productor de molduras de pino radiata en la región. Su capacidad de aserrío, que incluye instalaciones en Chile y Argentina, asciende a 3 millones 380 mil m<sup>3</sup>/año. La capacidad de secado es de 2 millones 659 mil m<sup>3</sup>/año y la capacidad de producción de sus plantas de remanufactura alcanza a 456 mil m<sup>3</sup>/año.

Es también la principal empresa exportadora de Chile en su rubro, con una participación superior al tercio de las exportaciones totales. De hecho, el 87,8% por ciento de la madera aserrada que produce ARAUCO se destina al mercado internacional, fundamentalmente a Norteamérica, Asia, el Medio Oriente y América central y del sur. El 12,2% por ciento restante va al mercado chileno, donde la empresa tiene el primer lugar en las ventas de madera aserrada.

Actualmente, ARAUCO posee catorce aserraderos -doce en Chile y dos en Argentina- donde se fabrican productos de apariencia destinados a la industria del mueble y el diseño, maderas para embalaje y pallets y maderas para la construcción. Además, es propietaria de siete plantas de remanufactura -cinco en Chile y dos en Argentina- en las que se elaboran molduras finger joint y sólidas, paneles encolados y productos laminados.

Esta amplia oferta de productos es resultado del esfuerzo sostenido de la empresa por valorizar sus productos forestales y responder con innovación a la demanda de un mercado cada vez más amplio y exigente. Sus maderas están correctamente clasificadas según normas para los múltiples usos requeridos por los clientes, son de alta calidad de apariencia y existe una variada oferta de productos con diferentes grados de terminación. Ello, sumado al dinamismo y amplitud de su red de ventas y a la solidez y eficiencia de la infraestructura industrial ha permitido que en los últimos años ARAUCO se haya abierto con éxito hacia nuevos mercados en esta área de negocios.

Durante el ejercicio 2004, la empresa obtuvo un mejoramiento importante en sus volúmenes de venta - tanto en madera como en productos remanufacturados- y se registró un aumento significativo en los precios de los productos madereros, todo lo cual se tradujo en excelentes resultados comerciales.

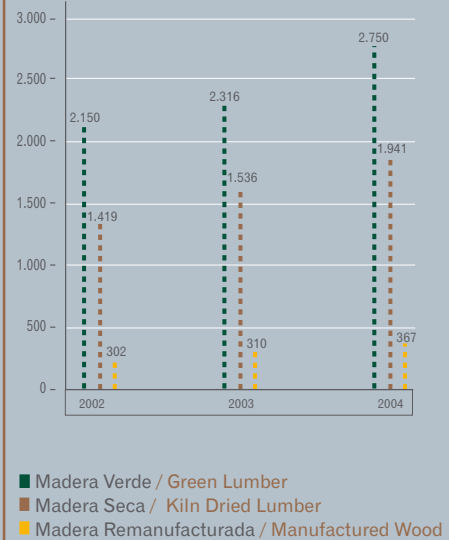
En Chile el volumen de ventas total creció en un 12 por ciento y en Argentina, en un 66 por ciento. El importante incremento en Argentina es directa consecuencia de la adquisición, en 2003, del Aserradero Bossetti (ex Pecom), ubicado en la provincia de Misiones, cuyo control tomó ARAUCO en enero de 2004. En noviembre del mismo año también inició sus

## Area Madera | Sawntimber Aserrada | Area





**Producción Total** en miles de m<sup>3</sup>  
**Total Production** in thousands of cubic meters



ARAUCO is the principal producer of sawn lumber in Latin America and in the Southern Hemisphere, and at present is also the largest producer of radiata pine mouldings in the region. The company has a milling capacity, including facilities in Chile and Argentina, of 3 million 380 thousand m<sup>3</sup>/year; its drying kilns can process 2 million 659 thousand m<sup>3</sup>/year, and its manufacturing plants produce 456 thousand m<sup>3</sup>/year.

ARAUCO is also the main Chilean exporter of sawn lumber products and accounts for over one third of the country's exports in this area. In fact, 87.8% of Arauco's sawn lumber production is destined for international markets, principally North America, Asia, the Middle East and South and Central America. The remaining 12.2% is marketed in Chile where the company is the market leader in sales of sawn lumber. At present ARAUCO owns 14 sawmills - 12 in Chile and 2 in Argentina. These mills manufacture products for the furniture and design industry, wood for pallets and packaging, and construction wood. In addition the company owns 7 manufacturing plants - 5 in Chile and 2 in Argentina - which produce solid and finger-joint mouldings, glued panels, and laminated products.

This wide variety of products is the result of sustained efforts by the company to increase the value of its products and to respond with innovation to a market that is simultaneously growing and becoming more demanding. The company's sawn lumber is classified according to standards for clients' multiple uses, their appearance and quality are excellent, and we offer a wide variety of products with different finishing grades. The above, when added to the dynamism and extension of its sales network, and the solidity and efficiency of its industrial infrastructure has, in recent years, allowed ARAUCO to successfully penetrate new markets in this area of business.

During the 2004 exercise, the company saw a substantial increase in its sales volumes - in sawn lumber as well as manufactured products - and in the price of wood products in general, all of which translated into excellent commercial results.

In Chile the total sales volume increased by 12 % and in Argentina by 66.3%. This strong increase in Argentina is the direct result of the 2003 acquisition of the Bossetti, (ex Pecom), sawmill located in Misiones Province. ARAUCO took control of this facility in January of 2004. In November

operaciones el nuevo aserradero Nueva Aldea ubicado en la VIII Región de Chile, que comprometió una inversión de 30 millones de dólares. Se trata del aserradero más grande y moderno del país, con una capacidad de producción de 400 mil m<sup>3</sup>/año.

El área de madera aserrada de ARAUCO da empleo directo e indirecto a más de siete mil personas en Chile y Argentina. Durante el año 2004 se invirtieron más de 50 mil horas hombre en capacitación, que beneficiaron a más de 3 mil trabajadores en un total de 350 cursos. El interés de ARAUCO por mantener una relación estrecha con las comunidades aledañas se traduce también en los cursos que brinda a familiares de sus trabajadores y en una política de puertas abiertas en sus instalaciones industriales, para que alumnos de colegios y liceos cercanos las visiten y eventualmente hagan prácticas estudiantiles.

La empresa mantiene una estricta política de protección al medioambiente en sus aserraderos y plantas de manufactura, lo que se ratifica con el hecho de que todas sus instalaciones en Chile cuentan con la certificación ambiental internacional ISO 14001 desde hace dos años. Durante el período, además, las plantas en Chile se sometieron exitosamente a la auditoría de cadena de custodia -que forma parte de la certificación CERTFOR- y, en agosto, suscribieron el Acuerdo de Producción Limpia, establecido entre autoridades y empresas del sector para estimular el desarrollo de un manejo ambiental preventivo a objeto de evitar la contaminación y disminuir la generación de residuos y emisiones en las operaciones propias de esta área de negocios. Las instalaciones en Argentina cuentan con la certificación de calidad ISO 9001, el aserradero Bossetti cuenta también con la certificación 14001, el aserradero Piray la obtendrá el 2006 y, junto a las instalaciones en Chile, está en proceso de obtener la certificación OHSAS 18000.

## Area Madera | Sawntimber Aserrada | Area



the new Nueva Aldea sawmill, located in Chile's 8th Region, and which required investments of US\$30 million also started production. This new mill is the country's largest and most modern, and has a production capacity of 400 thousand m<sup>3</sup>/year.

ARAUCO's sawn lumber sector directly employs over 7000 workers in Chile and Argentina. In 2004 over 50 thousand man hours were invested in training, benefiting over 3000 workers in a total of 350 courses. ARAUCO maintains close ties with adjacent communities, offering courses for the families of workers, and maintaining an open-door policy in its industrial facilities so that students in nearby schools and lyceums can visit and eventually participate in student internships.

The company maintains a strict environmental protection policy in its sawmills and manufacturing plants. Proof positive of this is that all the company's facilities in Chile have been ISO 14001 certified for the last two years. During this past exercise, the mills in Chile successfully passed

the audit of their chains of custody - which forms part of the Certfor certification. In August these same facilities signed the Clean Production Agreement between authorities and forestry companies to stimulate the development of preventative environmental management practices in order to avoid pollution, and reduce the generation of residues and emissions related to this area of business. All the facilities in Argentina are ISO 9001 certified, and the Bossetti sawmill is also ISO 14001 certified. The Piray mill will obtain this latter certification in 2006. Additionally, all of the company's mills, in both Chile and Argentina, are in the process of obtaining the OHSAS 18000 certification.

Chile			
Aserraderos y Plantas de Remanufactura / Sawmills and Remanufacturing Mills			
Aserradero Sawmill	Capacidad m3 Capacity m3	Planta de Remanufactura Remanufacturing Mill	Capacidad m3 Capacity m3
Araucana	130.000	Horcones	136.000
Colorado	360.000	Viñales	120.000
Horcones I	360.000	Cholguan	66.000
Escuadrón	100.000	Cholguan Vigas	8.000
Coelemu	80.000	Valdivia	72.000
Mutrum	130.000		
Viñales	260.000		
Valdivia	360.000		
El Cruce	100.000		
Horcones II	250.000		
Cholguan	350.000		
Nueva Aldea	400.000		

Argentina			
Aserraderos y Plantas de Remanufactura / Sawmills and Remanufacturing Mills			
Aserradero Sawmill	Capacidad m3 Capacity m3	Planta de Remanufactura Remanufacturing Mill	Capacidad m3 Capacity m3
Piray	320.000	Piray	36.000
Bossetti	180.000	Bossetti	18.000





En menos de una década, desde que ARAUCO ingresó en el mercado de Paneles, la compañía se ha situado entre las más exitosas del mundo en este tipo de producto. En el período la producción total de tableros de ARAUCO alcanzó a 1 millón 124 mil metros cúbicos, lo que implica un aumento del 10% respecto del ejercicio anterior.

La fortaleza de ARAUCO en el área de paneles se origina en la calidad, variedad y amplitud de su gama de productos, lo que le permite convertirse en único proveedor para clientes con demandas diversificadas, los que también valoran la capacidad de ARAUCO para garantizarles una oferta constante y creciente en el tiempo. Esto último está respaldado por el vasto patrimonio forestal de la empresa y por un sistema de producción flexible que permite vender contra demanda según los requerimientos de los clientes.

Así, en los últimos años, ARAUCO ha ganado un lugar de importancia en el mercado mundial de Paneles, expandiendo sus mercados y ampliando tanto sus líneas de productos como el volumen de su producción.

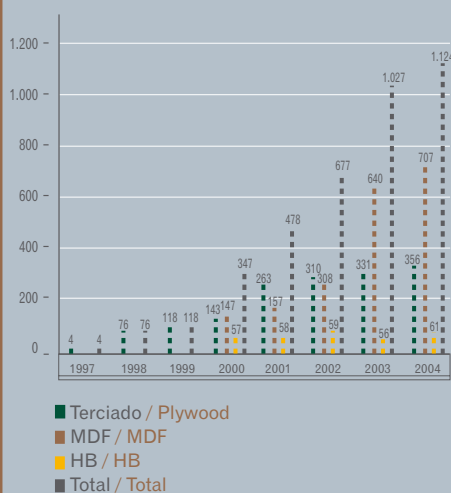
En la actualidad, ARAUCO gestiona tres líneas de productos: Tableros Terciados libres de nudos de alta calidad marca AraucoPly, MDF marca Trupan, y HB marca Cholguan, que son comercializados en más de 35 países de Europa, Asia, Norteamérica y Latinoamérica. La producción de Terciados y HB se concentra exclusivamente en Chile, mientras el MDF se produce tanto en Chile como en Argentina. Parte de la producción de paneles se destina en Chile, en la planta Trupan-Cholguan, a tres líneas de valor agregado que, en conjunto, tienen una capacidad de 264 mil metros cúbicos al año de tableros de fina terminación. Éstas son: una línea de molduras MDF ultraliviana (comercializada bajo la marca Trupan Ultralight), cuya creciente valoración y demanda en el mercado mundial ha llevado a la empresa a incrementar sostenidamente su capacidad de producción, la que en este ejercicio alcanzó a 210 mil m<sup>3</sup>/año; una línea de recubrimiento de Melamina, con capacidad de 42 mil m<sup>3</sup>/año; y una línea de revestimiento laqueado para HB (comercializada bajo la marca Durolac), con una capacidad de 12 mil m<sup>3</sup>/año.

Consciente de la importancia de dotar a sus productos forestales de mayor valor agregado, la empresa ha asumido la decisión estratégica de continuar invirtiendo en nuevos proyectos industriales vinculados al área de Paneles. Así, en diciembre de 2004 se puso en marcha la nueva planta de Terciados Nueva Aldea, ubicada en el complejo forestal-industrial

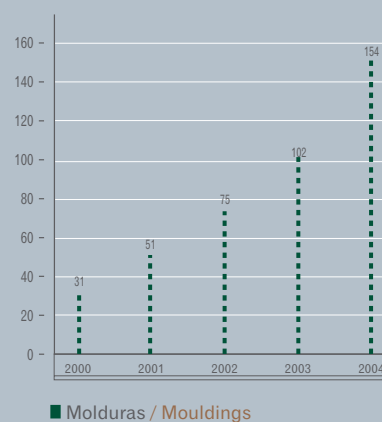
## Area | Panels Paneles | Area



**Producción de Paneles** en miles de m<sup>3</sup>  
**Production of Panels** in thousands of m<sup>3</sup>



**Producción de Molduras** en miles de m<sup>3</sup>  
**Production of Mouldings** in thousands of m<sup>3</sup>





In less than a decade since ARAUCO's debut in the panels market, the company has become one of the world's most successful enterprises in this type of product. During the present exercise, ARAUCO's total production of panels was 1,124 thousand cubic meters which represents a 10% increase over the previous year.

ARAUCO's strength in the panel market is based on the quality, variety and breadth of its product line, which makes us the sole supplier for clients with diversified needs. These clients also value ARAUCO's capacity for delivering a constant and growing supply over time, which in turn is supported by the company's vast forests, and by a flexible production system which allows sales on demand according to the requirements of individual clients.

Thus, in recent years, ARAUCO has achieved an important position in the world panel market, expanding its markets and increasing both its product line and production volume. At present, ARAUCO markets three product lines - AraucoPly plywood panels, Trupan brand MDF, and Cholguan brand HB - in over 35 countries in Europe, Asia, and North and South America. Plywood and HB is produced exclusively in Chile, while MDF is produced in Argentina as well. A part of the production of panels in Chile at the Trupan-

Cholguan plant centers on three value added product lines, which together represent a capacity of 264 thousand cubic meters of high quality panels. These lines are the following: an ultra light line of MDF mouldings (marketed under the brand name Trupan Ultralight) that has been very well received in the global market, and for which the increasing demand has led to an increase in productive capacity, which is now at 210 thousand m<sup>3</sup>/year; a Melamine panel line with a capacity of 42 thousand m<sup>3</sup>/year and a lacquered line for HB (marketed under the brand name Durolac) with a capacity of 12 thousand m<sup>3</sup>/year.

Ever aware of the need to increase the value added of its forestry products, the company has made the strategic decision to continue investing in new industrial projects in the area of panels. 2004 saw the start-up of the new Nueva Aldea plywood mill, which is part of the industrial forestry complex of the same name owned by ARAUCO and located in Chile's 7th Region. This mill required an investment of US\$ 70 million, and its initial production capacity will be 210 thousand m<sup>3</sup>/year, which represents a 60% increase over ARAUCO's previous plywood production, making us the principal plywood producer in Latin America.

del mismo nombre que ARAUCO posee en la VIII Región de Chile. Implicó una inversión de 50 millones de dólares y su capacidad inicial será de 210 mil m<sup>3</sup>/año, cifra que implica aumentar en un 60% la capacidad total de producción de Terciados de ARAUCO, consolidándose como la principal empresa productora de terciados en Latinoamérica. Todo ello se está realizando con perfecto apego a las estrictas normas ambientales que la empresa ha hecho propias. Todas las instalaciones cumplen con los exigentes estándares de la legislación chilena y cuentan con tecnología que les permiten manejar residuos, reciclar y reutilizar desechos industriales. Al respecto, cabe señalar que este año las plantas de Terciados Arauco recibieron la certificación de cadena de custodia bajo el estándar CERTFOR. Paneles Arauco y su filial Molduras Trupan entregan empleo directo a 1.319 personas e indirecto a unas 1.487, a través de servicios asociados. En 2004, su personal recibió capacitación en 114 cursos a los que se destinaron más de 40 mil horas hombre. También entrega nivelación de estudios para sus trabajadores y cursos de profundización en áreas técnicas. A ello se suman actividades de capacitación para familiares y otras dirigidas hacia la comunidad, como cine infantil, obras de teatro, un conjunto folclórico y campeonatos deportivos.

## Area | Panels Paneles | Area



All of these investments have been carried out in strict compliance with the stringent environmental regulations that the company has adopted in this area of business. All of these facilities comply with Chile's demanding standards and incorporate technology that allows the proper management of pollutants, and the reuse and recycling of industrial wastes. During this past year, ARAUCO's plywood mills chain of custody obtained CERTFOR certification. Paneles Arauco and its subsidiary Molduras Trupan provide direct employment to 1,319 workers, and indirectly employ another 1,487 through associated services. In 2004, 98% of personnel in the panels areas received training in 114

courses which required the investment of over 40 thousand man-hours. The company also provides complementary schooling for its employees, and specific technical courses. To these are added training activities for worker's families and other activities of this type that target the surrounding community such as children's movies, theater, a folklore group and sports championships.

## Los paneles de Arauco | Arauco Panels

(en Chile y Argentina / in Chile and Argentina)

Producto	Marca	Características	Usos	Producción 2004
Terciados	Arauco Ply	<ul style="list-style-type: none"> <li>Resistentes, livianos, versátiles y fáciles de trabajar.</li> <li>Se producen en grados para apariencia (libre de nudos), estructurales, moldajes y multipropósitos.</li> <li>Certificaciones internacionales en Norteamérica (PS 1-95), en Alemania (BFU-100), en Japón (JAS) y en la comunidad Económica Europea (EN 13986).</li> </ul>	<ul style="list-style-type: none"> <li>Construcción: estructura para pisos, recubrimiento decorativo en techos y muros, moldaje para hormigones.</li> <li>Industria: fabricación de carrocerías, casas rodantes, pisos para embarcaciones, buques, embalajes especiales, muebles y juguetes.</li> </ul>	356 mil m3
Medium Density Fiber Board (MDF)	Trupan	<ul style="list-style-type: none"> <li>Fabricado con fibras de pino radiata y Taeda. De color claro, fácil de moldurar, ensamblar y perforar, con buenas propiedades para la industria del mueble.</li> <li>Tipos: Trupan, Trupan Ultraliviano Trupan Enchapado Trupan Ranurado Trupan Melamina Trupan Laqueado Molduras Ultralivianas Trupan</li> </ul>	<ul style="list-style-type: none"> <li>Fabricación de muebles, molduras, pisos y decoración de interiores en general.</li> </ul>	707 mil m3
Hardboard (HB)	Cholguan	<ul style="list-style-type: none"> <li>Fabricado con fibras de pino radiata. Flexible, resistente a la humedad, fácil de trabajar, de gran resistencia superficial.</li> </ul>	<ul style="list-style-type: none"> <li>Construcción: revestimientos de interior, puertas y pisos.</li> <li>Industria: Fabricación de muebles, soportes publicitarios y escenografías.</li> </ul>	61 mil m3



Product	Brand	Characteristics	Uses	Production 2004
Plywood	Arauco Ply	<p>Strong, light, versatile and easy to work. Produced in different grades according to appearance (knot free) structural, molds and multipurpose. Internationally certified in North America (PS 1-95), in Germany (BFU-100) in Japan (JAS) and the EEC (EN 13986)</p>	<p>Construction: Floor structures decorative siding for walls and roofs, and concrete molds</p> <p>Industry: manufacture of mobile homes, boat floors, ships, special packaging, furniture and toys.</p>	356,000 m3
Medium Density Fiber Board (MDF)	Trupan	<p>Manufactured with radiata and taeda pine fibers. Light in color, and easy to mold, assemble and drill. Excellent properties for the furniture industry.</p> <p>Types: Trupan Trupan Ultralight Veneered Trupan Grooved Trupan Trupan Melamine. Lacquered Trupan Ultralight Trupan Mouldings</p>	<p>Furniture manufacture, molds, floors, and interior decoration.</p>	707,000 m3
Hardboard (HB)	Cholguan	<p>Manufactured with radiata pine radiata. Flexible, resistant to humidity, easy to work, with high surface resistance.</p>	<p>Construction Interior lining doors and floors</p> <p>Industry: Furniture manufacture, advertising supports and scenery.</p>	61,000 m3

## Comercialización

ARAUCO es una empresa de amplio alcance a nivel mundial, con presencia en más de 50 países del mundo a través de una amplia variedad de productos y servicios. Esta globalización es consecuencia del sostenido crecimiento industrial y de la significativa ampliación en la cartera de productos que ha caracterizado el desarrollo de ARAUCO en los últimos años, lo que ha impulsado a la empresa hacia una constante expansión comercial en busca de mercados internacionales cada vez más diversos, exigentes y competitivos.

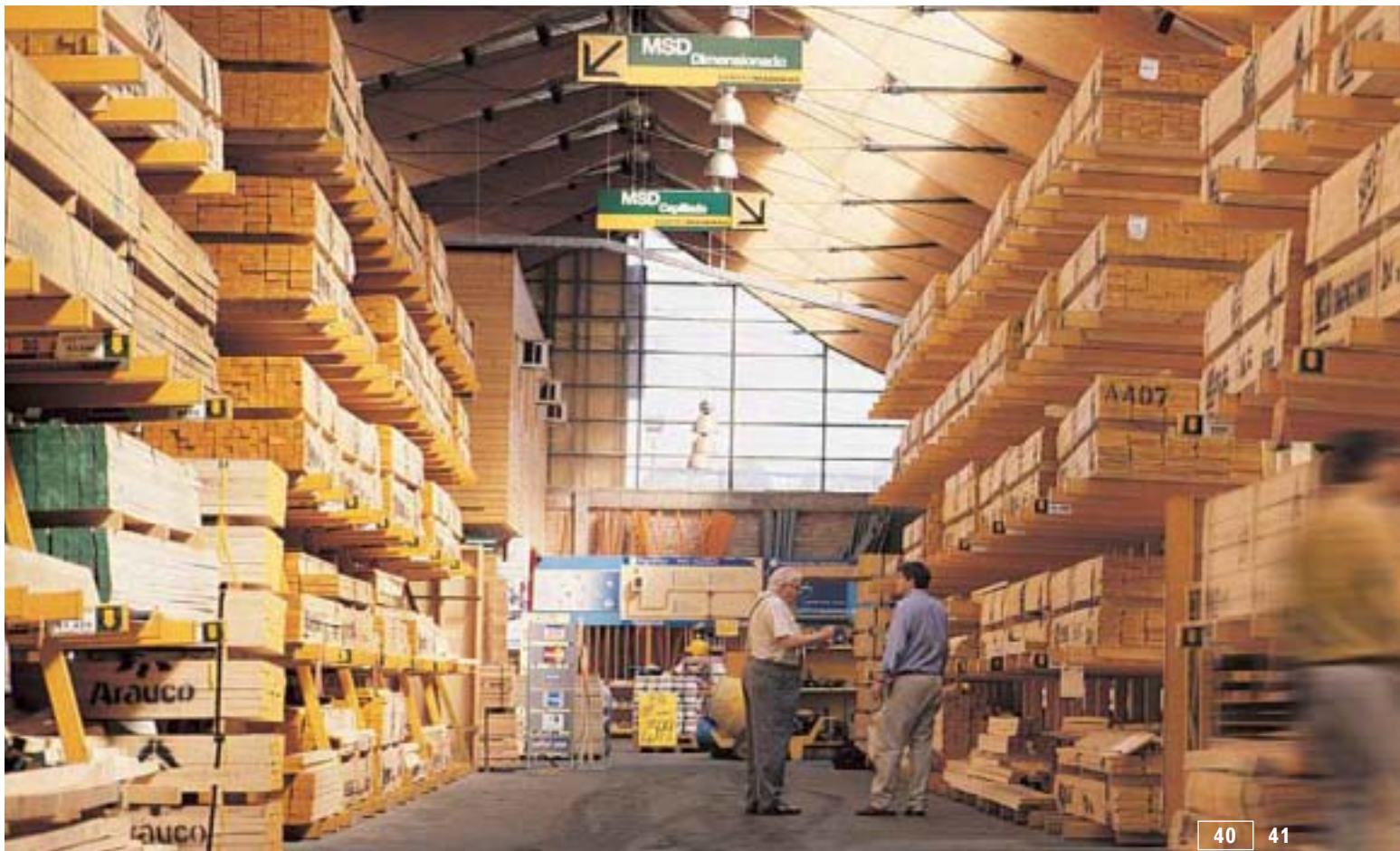
Para enfrentar esta tarea, ARAUCO se apoya en un diseño de operación industrial que le permite la producción contra demanda y en una organización de ventas por área de negocios capaz de analizar y evaluar con gran precisión y conocimiento los escenarios de comercialización a nivel local, regional e internacional. La interrelación fluida de estos dos elementos-, rápido análisis de mercado y sistema de producción flexible, sumada a la solidez que aporta su vasto patrimonio forestal, otorgan a ARAUCO una posición de privilegio en cuanto a su capacidad para responder a los clientes internacionales en forma rápida, dinámica y con garantía de solvencia en el tiempo.

Esto se ve reforzado por el permanente interés de ARAUCO de entregar a sus clientes la más alta satisfacción de servicio. Así, a fin de facilitar una atención cercana y expedita, la compañía ha creado oficinas comerciales en varios países, lo que le otorga un importante elemento diferenciador en relación a otras empresas del rubro. Entre estas oficinas, las principales son Arauco Wood Products, en EE.UU.; Arauco Asia, en Japón; Arauco México, Arauco Perú, Arauco do Brasil y Arauco Forest Products, en Holanda. Esta última oficina, creada en 2003 para centralizar la venta de celulosa hacia el conjunto del mercado europeo, experimentó una excelente consolidación durante el ejercicio.

En Argentina, los productos de ARAUCO son comercializados a través de la oficina Alto Paraná y, en Chile, la tarea de promocionar y vender la madera aserrada y los paneles de ARAUCO está en manos de la filial Arauco Distribución, que posee un indiscutido liderazgo en el país como proveedora de productos forestales para el mercado de la construcción y mueblería.

El año 2004 fue de significativa expansión comercial para ARAUCO. Por primera vez en su historia, y como directa consecuencia de la puesta en marcha de Planta Valdivia, la empresa alcanzó una venta de celulosa superior a los dos millones de toneladas, un 30% superior al 2003. El crecimiento en las ventas de celulosa de pino significó un aumento

## Comercialización y Distribución | Commercialization and Distribution



## Commercialization

ARAUCO is a corporation with broad international reach, and is present in over 50 countries world wide with a broad variety of products and services. This globalization is a direct consequence of the company's sustained industrial growth, and the significant increase in the variety of its product line. Both of these aspects have characterized ARAUCO's development during the last few years, pushing the company towards a continuous commercial expansion in search of international markets that are increasingly diverse, demanding and competitive.

In order to meet this challenge, ARAUCO employs an industrial operations design that allows production on demand, and maintains a sales organization operated by business area, which is capable of precise analysis and evaluation of market scenarios at the local, regional and international level. The smooth interaction of these elements - dynamic market analysis and a flexible production system - together with the strength of its vast forest resources, give ARAUCO a privileged position in its capacity to respond to the demands of international clients quickly, dynamically, and with long term solvency.

The above is complemented by ARAUCO's continued

commitment to providing clients with the best service possible. In order that this service be both personalized and agile, the company has opened sales offices in various countries, setting itself apart from other companies in the sector. Among these offices the most important are: Arauco Wood Products, in the USA; Arauco Asia, in Japan; Arauco México, Arauco Peru, Arauco do Brazil and Arauco Forest Products, in Holland. This last office, opened in 2003 in order to centralize European pulp sales, saw excellent consolidation during the exercise.

In Argentina, ARAUCO's products are marketed through Alto Paraná, and in Chile the task of marketing and selling sawn wood and panels is in the hands of Arauco Distribution which has an undisputed leadership position in the country as a supplier of forestry products for the local construction and furniture markets.

2004 was a year of significant commercial expansion for ARAUCO. For the first time in our history, and as a direct consequence of the start-up of the Valdivia mill, the company broke the 2 million metric ton barrier in pulp sales, a 30% increase over sales in 2003. The growth of pine pulp sales resulted in a significant increase in volumes exported to Europe and Asia. Eucalyptus pulp also experienced growth



*Centromaderas, Santiago, Chile.*



importante en los volúmenes exportados a Europa y Asia, y en el caso de la celulosa de eucalipto, además de un incremento en estos dos continentes, se registró también un mayor volumen de ventas hacia América.

Considerando que la celulosa de fibra larga mostró en el ejercicio precios promedios superiores al año anterior en aproximadamente un 15 por ciento, esta alza en los volúmenes de ventas se tradujo en resultados comerciales altamente ventajosos para la empresa.

Igual tendencia se observó en el mercado de la madera aserrada, pues durante 2004 se observó un mejoramiento importante tanto en los volúmenes como en los precios de venta de la madera que produjo ARAUCO tanto en Chile como en Argentina.

En Chile, el volumen total de ventas creció en un 12 por ciento respecto del 2003 y, en Argentina, en un 66 por ciento. En esta área de negocios, el mayor volumen en la producción, unido a una eficiente gestión comercial, permitió a la empresa abrir nuevos e importantes mercados. Desde Chile se iniciaron exportaciones de madera aserrada hacia Nueva Zelanda, Australia, Vietnam y Colombia; y, desde Argentina, hacia Haití, Trinidad y Tobago, Jamaica y el Medio Oriente.

En cuanto a paneles, un área de negocios de alto valor agregado y de rápida penetración en los mercados internacionales, se observó un importante aumento de la producción, con un aumento del 10 por ciento respecto del ejercicio anterior.

Especialmente relevante fue el incremento productivo en el área de terciados, con un 8 por ciento respecto de 2003.

### **Distribución**

A fin de asegurar a sus clientes en el mundo entero el oportuno abastecimiento de productos y su arribo a destino en óptimas condiciones, ARAUCO posee un sistema logístico de vanguardia en materia de transporte, embarque, almacenaje y distribución de productos.

El control de todos los aspectos involucrados desde que los productos salen de sus plantas industriales hasta su entrega en los puntos de destino, recae en la empresa filial Servicios Logísticos Arauco, la cual también asume funciones de comercio exterior. Todas las operaciones en el extranjero las realiza directamente y siempre en coordinación con las oficinas comerciales que ARAUCO mantiene en diversos países del mundo.

Cabe destacar que los tres principales puertos chilenos desde los cuales se realizan las exportaciones de ARAUCO -Coronel, Lirquén y San Vicente, todos ubicados en la VIII Región del país- cuentan con infraestructura moderna y equipamiento de alta tecnología, que permanentemente se monitorea y renueva. Además, ARAUCO participa de la propiedad de los puertos de Coronel y de Lirquén, con un 50 por ciento y un 20 por ciento respectivamente.

## Comercialización y Distribución | Commercialization and Distribution





in exports to these two regions as well as to the Americas. Given that the average price of long fiber pulp increased by approximately 15% with respect to the previous year, these increases in sales volumes translated into highly favorable commercial results for the company.

The same trends were observed in the sawn lumber markets; in 2004 there were increases in both sales volumes and price for the lumber ARAUCO produced in Chile and Argentina. In Chile, sales grew by 12% with respect to 2003, and in Argentina by 66%. In this area of business, increases in production volumes, together with improved marketing, led to the opening of new markets. From Chile, wood exports were begun to New Zealand, Australia, Vietnam and Colombia; and from Argentina, to Haiti, Trinidad and Tobago, Jamaica and the Middle East.

In the panels sector, a business area with high value added products as well as fast penetration of international markets, there was a 10% increase in production over the last exercise. Notably, there was an 8% increase in production of plywood with respect to 2003.

#### **Distribution**

In order to ensure clients world wide both a timely supply of products, and the arrival of these in optimum conditions, ARAUCO has a state-of-the-art logistics system for the transportation, shipping, storage and distribution of products.

Servicios Logísticos Arauco is a subsidiary which also oversees international commerce functions and controls all aspects of distribution, from the moment products leave our industrial plants, until their delivery at their point of destiny. All international operations are carried out directly by Servicios Logísticos Arauco in coordination with the sales offices ARAUCO maintains in diverse countries world wide.

The three principal Chilean ports from which ARAUCO's exports its products, Coronel, Lirquen, and San Vicente - located in Chile's 7th Region - have modern infrastructure and high technology equipment which is permanently being monitored and renewed. Moreover, ARAUCO is a part owner of the ports of Coronel and Lirquen, with a 50% and 20% interest respectively.





## Protección del Medioambiente | Environmental Protection

En atención a la importancia que tiene para ARAUCO la protección del medio ambiente, nuestra empresa ha estudiado y realizado acciones en cada uno de los aspectos vinculados con el desarrollo sustentable y la responsabilidad que le corresponde dentro de la comunidad, los que aparecen detallados en el Informe de Responsabilidad Ambiental y Social de ARAUCO año 2004, donde se refleja claramente la preocupación y coherencia con que se han trabajado cada uno de estos temas.

ARAUCO está consciente que su futuro depende de un medioambiente saludable. Esto la ha llevado a ejecutar sus proyectos considerando tanto las realidades de mercado como la necesidad de implementar medidas de protección ambiental. Por ello, desde hace años, ARAUCO aplica el principio de desarrollo sustentable en todas sus actividades productivas. Para asegurar la efectiva presencia de este criterio, la empresa invierte importantes recursos financieros y horas hombre en capacitación y entrenamiento de su personal; ha creado instancias internas que velan por el cumplimiento de la normativa ambiental vigente; y se somete a auditorías periódicas para certificar sus operaciones bajo rigurosos estándares internacionales.

### Area forestal

Las actividades forestales de ARAUCO en Chile y Argentina se ejecutan bajo su Sistema de Gestión Ambiental (SGA) que cuenta con la certificación ambiental ISO 14001. Durante el año 2004, todas las empresas forestales de ARAUCO en Chile lograron la recertificación de su SGA, lo que extiende la vigencia del certificado ISO 14001 hasta el año 2007. El sistema en cuestión permite a ARAUCO asegurar el cumplimiento de sus políticas y normas en esta materia y revisar y evaluar permanentemente el desempeño ambiental de todos sus procesos forestales.

En los últimos años, uno de los principales esfuerzos de ARAUCO relacionados con esta materia ha sido contribuir a la creación, instalación y fortalecimiento del estándar chileno CERTFOR de manejo forestal sustentable. En 2003 ARAUCO certificó todas sus empresas forestales en Chile bajo este sello y, en el presente ejercicio, se produjo un importante salto cualitativo, pues CERTFOR se convirtió en el primer programa no Europeo de certificación forestal que recibe la homologación



*Parque Oncol, Valdivia, Chile | Oncol Park, Valdivia, Chile*



In keeping with the importance that ARAUCO places on protection of the environment, the company has researched and developed the different aspects related to sustainable development and its responsibilities to the community. These are presented in ARAUCO's Report on Social and Environmental Responsibility published in 2004, in which the company clearly details the concern and coherence with which these different topics have been treated. ARAUCO recognizes that its future depends on a healthy environment. Therefore, both the realities of the market place, and the need to implement measures for the protection of the environment are considered in our business decisions. Thus, for many years now, ARAUCO has applied the principles of sustainable development to all of its productive activities.

In order to ensure the effective application of these principles, the company invests significant financial resources and man-hours in the education and training of its personnel, creates internal policies that ensure compliance with existing environmental regulations, and submits to periodic audits to certify its operations under rigorous international standards.

### **Forestry**

All of ARAUCO's forestry activities in Chile and Argentina are under an Environmental Management System (EMS) which is ISO 14001 certified. During 2004, all of ARAUCO's forestry subsidiaries in Chile achieved re-certification, which extends the ISO 14001 certificates until the year 2007. The EMS ensures compliance with ARAUCO's policies and regulations and provides with a proper framework to constantly review and evaluate the company's forestry related activities.

In recent years, one of the principal goals of ARAUCO, regarding these matters, has been to contribute to the creation, implementation and strengthening of CERTFOR, the Chilean sustainable forestry standard. In 2003 ARAUCO certified all of its forestry companies under this seal, and in the present exercise, the most significant achievement was the endorsement of CERTFOR by PEFC (Programme for Endorsement of Forest Certification Schemes - the world leader in forestry certification), thus becoming the first non-European forestry certification standard to receive this recognition.

PEFC (Programme for Endorsement of Forest Certification Schemes), el sistema líder de certificación forestal en el mundo. El hecho no sólo implica un importante reconocimiento para ARAUCO, sino también para el conjunto del sector forestal chileno, que lleva años involucrado en un esfuerzo multisectorial -junto al gobierno, ONG's, empresas y gremios- para contar con un estándar nacional de manejo forestal sustentable de calidad reconocida a nivel mundial.

En 2004, todas las empresas forestales de ARAUCO cumplieron con la primera auditoría de seguimiento bajo este estándar y, durante el segundo semestre, la empresa canadiense QMI realizó auditorías de certificación de la cadena de custodia bajo el sello CERTFOR. Esta cadena de custodia es una norma complementaria al estándar que se aplica a los procesos industriales a fin de asegurar que los productos finales provengan, efectivamente, de bosques certificados. En ARAUCO, las auditorías se aprobaron con éxito tanto en las empresas forestales como en los aserraderos, plantas de manufactura de madera y plantas de terciados. En cuanto a las plantas de celulosa y de MDF, estas auditorías están actualmente en proceso.

Consciente de la importancia de resguardar y proteger la biodiversidad y en concordancia con los compromisos adquiridos, ARAUCO, además de sus terrenos forestales productivos, posee y preserva una superficie aproximada de 357 mil hectáreas - 244 mil en Chile, 109 mil en Argentina y 4 mil en Uruguay- de terrenos de protección y bosque nativo. En estos predios se mantiene una amplia diversidad de ecosistemas naturales. Y se resguardan especies de flora y fauna, incluso algunas consideradas en peligro con especial participación de nuestra filial Bioforest. Especial mención merecen las actividades de investigación, proyectos de conservación, turismo y otros que ARAUCO desarrolla con la participación de Universidades y Organizaciones Ambientalistas en estos predios.

### **Instalaciones industriales**

El concepto de protección del medioambiente también está presente en las instalaciones y procesos industriales de ARAUCO, que se ajustan rigurosamente a los requerimientos de la moderna y exigente ley chilena que corresponde a los más altos estándares mundiales en la materia.

Protección del Medioambiente | Environmental Protection



This is an important achievement not only for ARAUCO, but for the entire Chilean forestry sector which has invested several years - together with government, NGOs, and other companies - to achieve a national sustainable forestry standard that is recognized world wide.

In 2004, all ARAUCO's forestry companies passed the first follow-up audit under the CERTFOR standard, and during the second semester QMI, a Canadian company, carried out certification audits of the chain of custody under this same standard. The chain of custody standard is a regulation that complements the standard applied to industrial processes, in order to ensure that all final products do, in fact, stem from certified forests. ARAUCO's forestry subsidiaries, saw mills, wood manufacturing plants and plywood plants, all successfully passed these audits. Our pulp and MDF plants are currently in the process of being audited. Aware of biodiversity importance and according to the compromises acquired, ARAUCO apart from its productive forests, owns and preserves approximately 357 thousand hectares - 244 thousand in Chile, 109 thousand in Argentina and 4 thousand in Uruguay - of protected land and native forests. These forests contain a wide diversity of natural ecosystems and protect numerous species of

flora and fauna. ARAUCO in conjunction with Universities and Non Government Environmental Organizations carries out research activities, conservation projects, tourism and recreational activities in these areas.

#### **Industrial Facilities**

Protection of the environment is also incorporated into ARAUCO's industrial processes and facilities, all of which comply rigorously with Chile's modern and exacting environmental legislation, and with the most stringent world standards in this area.

All of ARAUCO's industrial mills use state-of-the-art systems for the efficient use of energy, and for the control and monitoring of liquid, solid and gaseous emissions. Moreover, the company constantly researches, tests and implements new technology for the minimization of any environmental impact associated with its operations. In 2004, by way of example, just in the area of pulp production, the company invested US\$15 million on emissions reductions.

It should be noted that these clean production initiatives not only protect the environment, but also strengthen ARAUCO's corporate competitiveness by making the company a secure, long-term supplier.



En todas sus plantas industriales, la empresa cuenta con sistemas de vanguardia en utilización eficiente de energía y para el control y monitoreo de emisiones líquidas, sólidas y gaseosas. Además, permanentemente investiga, prueba y aplica nuevas tecnologías destinadas a minimizar el impacto ambiental que pueda derivarse como resultado de sus operaciones. En 2004, sin ir más lejos, sólo en el área celulosa, la empresa invirtió 15 millones de dólares en equipamiento destinado a reducir emisiones.

Es importante señalar que estas iniciativas de producción limpia, además de proteger el medioambiente fortalecen la competitividad empresarial de ARAUCO, pues le convierten en un proveedor confiable en el largo plazo.

Desde hace dos años todos los aserraderos y plantas de manufactura de madera cuentan con la certificación ambiental ISO 14001. Durante el presente ejercicio, las plantas de celulosa iniciaron el proceso de implementación de los sistemas de gestión ambiental que conducen a la obtención de la norma y las plantas de terciados lo harán en 2005. El objetivo es que todas las plantas industriales de ARAUCO estén certificadas bajo ISO 14001 durante el 2006.

Otro suceso relevante en el período fue la suscripción, en el mes agosto, del Acuerdo de Producción Limpia que firmaron el Área de Madera aserrada de ARAUCO y otras empresas del sector con las autoridades. El acuerdo tiene por finalidad estimular, en todas las instalaciones industriales, el desarrollo de procesos ambientales preventivos que eviten la contaminación y disminuya la generación de residuos y emisiones.

Protección del Medioambiente | Environmental Protection





For the last two years, all of our sawmills and wood manufacturing plants have been ISO 14001 certified. During the present exercise the company's pulp mills started the process of implementing environmental management systems which will lead to obtaining this same certification, and the plywood plants will do so in 2005. The final objective is that all of ARAUCO's industrial facilities be ISO 14001 certified during 2006.

August of 2004 saw another important achievement in environmental matters; ARAUCO's Sawn Lumber companies signed the Clean Production Agreement with the government and other companies in the sector. The agreement seeks to stimulate, in all industrial facilities, the development of preventative environmental management strategies to avoid pollution, and reduce the generation of residues and emissions.

La inserción y aporte a la comunidad, la preocupación por sus trabajadores, el aporte concreto en materia educacional y el trabajo desarrollado permanentemente por nuestra empresa en torno a la protección del medio ambiente y el desarrollo sustentable, son parte sustancial del Informe sobre Responsabilidad Ambiental y Social de ARAUCO 2004, donde cada uno de estos aspectos de nuestro quehacer empresarial han sido analizados con la profundidad que ameritan.

### **Inserción en la comunidad**

Consciente de la relevancia que tiene la empresa en las zonas donde opera, ARAUCO se preocupa de mantener estrechos vínculos con las comunidades cercanas, a las cuales apoya de diversas maneras.

Su presencia ha contribuido a crear empleos y servicios asociados, convirtiéndose en un motor de dinamismo para el desarrollo regional. En este sentido, la construcción y mantenimiento de los caminos forestales que la empresa efectúa para realizar sus operaciones, ha sido un importante factor de progreso para poblados que antes se encontraban aislados. El compromiso de ARAUCO con la educación también se extiende, desde hace 23 años, al financiamiento y gestión de tres colegios -Arauco, Constitución y Cholguán-, que brindan educación de calidad a los hijos de sus trabajadores y están abiertos a todos los niños de la región. En el ejercicio, los tres colegios obtuvieron excelentes posiciones en los puntajes de la Prueba de Selección de ingreso a las Universidades (PSU) y en la prueba Simce, de medición de calidad de la enseñanza, ubicándose entre los mejores del país. El Colegio Constitución se ubicó, en la prueba Simce, en el primer lugar nacional y el Colegio Arauco, obtuvo el segundo lugar, a su vez el Colegio Cholguán logró tres puntajes máximos a nivel nacional en la PSU Matemáticas.

## **Aporte a la Comunidad** | **Contribution to the Community**





ARAUCO's commitment to community development is a key element of its corporate policy. As such the company is committed to the well-being of its workers, to making concrete contributions to education, to protection of the environment and to the principles of sustainable development. All these aspects are treated with the depth they deserve in ARAUCO's Report on Social and Environmental Responsibility published in 2004.

#### **Community Involvement**

ARAUCO is sensitive to its impact on the lives of the people in the communities where the company operates, and consequently takes active measures to maintain strong ties to these communities, contributing to their development in a variety of ways.

The company's presence has created employment and services in the communities in which it operates, becoming the motor that drives regional development. In this sense, the construction and maintenance of the forestry roads used for operations has been an important factor in the development of settlements that were previously isolated. ARAUCO's commitment to education is manifested by the

company's financing and administration of three schools over the last 23 years. These schools-Arauco, Constitución and Cholguán-, provide quality education for the children of employees, and are open to all children in the region. During the past exercise, these institutions obtained excellent scores in Chile's national University Selection Exam (PSU) and in the Simce tests, (which measure quality of education) and are currently ranked among the best schools in the country. In fact, in the 2004 version of the Simce, Colegio Constitución and Colegio Arauco placed first and second in the nation respectively. Furthermore, three students from Colegio Cholguán obtained maximum scores in the PSU's mathematical component.





## Aporte a la Comunidad | Contribution to the Community

### **Fundación Educacional Arauco**

ARAUCO ha decidido focalizar el mandato de responsabilidad social que le compete como empresa en el ámbito de la Educación. Es así como, desde hace 16 años, viene desarrollando programas de apoyo educacional en localidades cercanas a la áreas de actividad de la empresa y que exhiben índices elevados de pobreza, indicadores sociales de alto riesgo y bajos resultados educativos.

Estos programas son creados y gestionados por la Fundación Educacional Arauco, Fundar, en colaboración con los mejores especialistas del país. Se trata, en su mayoría, de apoyo a escuelas rurales municipalizadas, en las que se capacita a docentes de básica y pre-básica con el objeto de mejorar sus destrezas pedagógicas y actualizar sus conocimientos. Además se donan bibliotecas y material pedagógico.

Desde 1989, Fundar ha desarrollado más de 20 de estos proyectos, en 11 comunas de Chile, que han beneficiado a 1.574 profesores y 36.903 niños.

La trayectoria, calidad y resultados de los diversos programas de capacitación docente efectuados por la Fundación Educacional Arauco, recibieron en el ejercicio un importante reconocimiento: la Cámara Chileno Norteamericana de Comercio (AMCHAM) le otorgó a Fundar el Premio al Buen Ciudadano Empresarial 2004, por considerar que su acción es un aporte efectivo al desarrollo del país.



### **Fundación Educacional Arauco**

ARAUCO, in keeping with its commitment to social responsibility, has made a corporate decision to focus its efforts in this area on strengthening Education. Thus, over the last 16 years, the company has worked on the development of educational support programs in areas nearby to the company's activities that show high poverty indices, high social-risk indicators, and low educational results.

These programs are designed and administrated by the Fundación Educacional Arauco (Fundar) in collaboration with the best educational specialists in the country. For the most part these programs support municipalized schools by providing training for primary and pre-school teachers in the areas of pedagogic expertise and the updating of

content matter. Additionally Fundar donates libraries and pedagogic material.

Since 1999, Fundar has developed over 20 of these projects in 11 municipalities in the country, benefiting 1,574 teachers and 36,903 children.

The trajectory, quality and results of these diverse teacher training programs carried out by Fundar received important recognition during the exercise: the Chilean-American Chamber of Commerce (AMCHAM) granted Fundar the 2004 Prize for Corporate Citizenship, in consideration of the foundation's effective contribution to the development of the nation.

## Principales Empresas Filiales y Coligadas | Main Subsidiaries and Associated Companies

### Forestal Arauco S.A.

Formada en 1969 como subsidiaria forestal de Industrias de Celulosa Arauco S.A. Posteriormente en 1989, se constituyó en la empresa matriz de las filiales forestales de ARAUCO. Sus principales funciones son coordinar las actividades operacionales y definir las políticas de desarrollo de Forestal Celco S.A., Bosques Arauco S.A., Forestal Valdivia S.A. y Forestal Cholguán S.A.

Established in 1969 as the forestry subsidiary of Industrias de Celulosa Arauco S.A. Later, in 1989, it became the parent company of ARAUCO's forestry subsidiaries. Its principal functions are to coordinate the operating activities and define the development policies of Forestal Celco S.A., Bosques Arauco S.A., Forestal Valdivia S.A. and Forestal Cholguan S.A.

### Aserraderos Arauco S.A.

Se constituyó en 1993, sus principales funciones son producir y comercializar madera aserrada y productos de remanufacturas. En la actualidad es propietaria de 12 aserraderos y 5 plantas de remanufactura.

Established in 1993, its principal functions are to produce and sell sawntimber and manufactured products. It is currently the owner of 12 sawmills and 5 remanufacturing.

### Paneles Arauco S.A.

El 13 de Noviembre de 1986 se constituyó Trupán S.A. con el objeto de producir y comercializar tableros de MDF. En el año 1997 se inicia la comercialización de Tableros Terciados y el año 2000 se incorporan también los activos destinados a producir HB. En la actualidad las dos plantas de terciados, las dos plantas de Tableros MDF y la Planta de Tableros HB se agrupan bajo Paneles Arauco S.A.

Established on November 13, 1986 as Trupán S.A. to produce and sell MDF boards. The plywood board commercialization started in 1997, and during the year 2000, the company incorporated the HB productive assets. At the present time, the two plywood mills, the two MDF boards mills and the HB board mill are grouped under the Company Paneles Arauco S.A..



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Carlos Croxatto  
Alejandro Pérez

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Gerente / Managing Director  
Alvaro Saavedra

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Charles Kimber  
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**Alto Paraná S.A.  
(Argentina)**

Fue creada el 8 de Septiembre de 1975 y adquirida en Diciembre de 1996 por ARAUCO a través de su filial Industrias Forestales S.A., es la encargada de la producción y comercialización de todos los productos de ARAUCO. Actualmente cuenta con una planta de celulosa, dos aserraderos, dos plantas de remanufactura y una planta de tableros MDF.

Established on September 8, 1975 and acquired in December 1996 by ARAUCO through its subsidiary Industrias Forestales S.A.. It is responsible for the production and commercialization of all ARAUCO's products. It presently has a pulp mill, two sawmills, two remanufacturing plants and a MDF board mill.

**Molduras Trupan S.A.**

Se constituyó el 20 de Febrero de 2004, con el propósito de producir y comercializar molduras de MDF.

Established on February 20, 2004. Produces and sells MDF mouldings.

**Bosques Arauco S.A.**

Se formó el 26 de mayo de 1969 con la misión de abastecer de rollizos pulpables a Planta Arauco. Hoy en día ejecuta actividades de forestación, reforestación, manejo y cosecha de bosques de su propiedad, ubicados fundamentalmente en la VIII Región, cuya producción es vendida tanto a clientes relacionados como externos.

Established on May 26, 1969 to supply pulp logs to the Arauco mill. It is involved in the businesses of forestation, reforestation, forest management and harvesting on its own land, mainly located in the 8th Region. Its production is sold both to related companies and to third parties.

**Forestal Celco S.A.**

Se constituyó el 9 de Noviembre de 1978, con la finalidad de abastecer de rollizos pulpables a la Planta Constitución. Hoy, desarrolla actividades de forestación, reforestación, manejo y cosecha de predios ubicados en la VII Región y en las cercanías de Concepción, en la VIII Región, cuya producción de rollizos es vendida a clientes relacionados y externos.

Established on November 9, 1978 to supply pulp logs to the Constitución mill. It is now involved in the businesses of forestation, reforestation, forest management and harvesting on its own land, mainly located in the 7th Region and areas near Concepcion. Its log production is sold both to related companies and to third parties.



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Charles Kimber  
Antonio Luque  
Alvaro Saavedra

**Administración | Management**

Gerente / General Manager  
Rigoberto Rojo

# Principales Empresas Filiales y Coligadas | Main Subsidiaries and Associated Companies

## Forestal Valdivia S.A.

Se constituyó el 1 de diciembre de 1989, con la finalidad de abastecer de rollizos pulpables a la Planta Valdivia. La sociedad realiza actividades de forestación, reforestación, manejo y cosecha de bosques de su propiedad, ubicados en la IX y X Región.

Established on December 1, 1989 to supply the Valdivia pulp mill. The company carries on the businesses of forestation, reforestation, management and harvesting of forests on its land located in the 9th and 10th Regions.

## Forestal Cholguán S.A.

Fue creada en 28 de noviembre de 1978 y adquirida por ARAUCO a través de su filial Forestal Arauco S.A. En la actualidad, desarrolla actividades de forestación, reforestación, manejo y cosecha de predios ubicados principalmente en la VII y VIII Región.

Established on November 28, 1978 and acquired by ARAUCO through its subsidiary Forestal Arauco S.A. It currently carries on the businesses of forestation, reforestation, management and harvesting of forests on its land located mainly in the 7th and 8th Regions.

## Investigaciones Forestales Bioforest S.A.

Se formó en 1990 con el propósito de realizar investigación aplicada a fin de maximizar la productividad potencial de los recursos forestales de ARAUCO.

Established in 1990 to perform applied research for maximizing the productive potential of ARAUCO's forest resources.



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Rigoberto Rojo  
Jorge Serón  
Ricardo Schaffner

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Eduardo Rodríguez

**Fundación Educativa Arauco**

Fundación Educativa Arauco, Fundar, fue creada el 11 de Abril de 1989, por la empresa Celulosa Arauco y Constitución S.A. y subsidiarias, con el propósito de hacer un aporte social a las comunidades donde desarrolla su actividad.

Fundación Educativa Arauco, Fundar, was established on April 11, 1989 by Celulosa Arauco y Constitución S.A. and subsidiaries in order to make a social contribution to the communities where they operate their business.

**Arauco Generación S.A.**

Esta sociedad inició sus operaciones en el sector energético en Diciembre de 1988 con el objeto de generar y comercializar la electricidad producida a partir de los excedentes energéticos de las plantas de celulosa.

This company started to operate in the energy sector in December 1988 to generate and sell electricity produced as part of the energy surpluses of the pulp mills.

**Arauco Wood Products, Inc.**

Fue creada el 2 de Junio de 1995 con el propósito de actuar en el mercado de Norte América para la comercialización de todos los productos de ARAUCO.

Established on June 2, 1995 to commercialize all ARAUCO's products in the North American market.

**Arauco Internacional S.A.**

Formada el 7 de Septiembre de 1989 como subsidiaria de Forestal Arauco Ltda.. Posteriormente y después de algunas reestructuraciones, el 16 de Octubre de 2002 pasó a ser filial de Celulosa Arauco Constitución S.A., con el propósito de consolidar todas las empresas internacionales del grupo ARAUCO.

Established on September 7, 1989 as a subsidiary of Forestal Arauco Ltda.. Subsequently and after some restructurations, on October 16, 2002 became subsidiary of Celulosa Arauco y Constitución S.A. to consolidate all of the international companies of ARAUCO.



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Matías Domeyko  
Robinson Tajmuchi

**Administración | Management**

Gerente / General Manager  
Robinson Tajmuchi

# Principales Empresas Filiales y Coligadas | Main Subsidiaries and Associated Companies

## Arauco Distribución S.A.

Se creó el 7 de Septiembre de 1995 para la distribución de los productos de Aserraderos Arauco S.A. y Paneles Arauco S.A. en el mercado nacional, a través de un moderno centro de distribución en las afueras de Santiago.

Established on September 7, 1995 to distribute the products of Aserraderos Arauco S.A. and Paneles Arauco S.A. in the Chilean market through a modern distribution center on the outskirts of Santiago.

## Araucocomex S.A. de C.V.

Fue creada el 1º de Septiembre de 2000 con el propósito de actuar en el mercado de México para la comercialización de todos los productos ARAUCO.

Established on September 1, 2000 to act in the Mexican market for commercializing all ARAUCO's products.

## Arauco Forest Products B.V.

Fue creada en Diciembre de 1999 con el propósito de actuar como agente en el mercado europeo para la comercialización de los productos de madera y paneles de las empresas ARAUCO. A partir de Abril de 2003 también actúa como Agente de Ventas de Celulosa en el mercado Europeo.

Established in December 1999 to act as agent in the European market for commercializing the wood and panel products of the ARAUCO Group. Starting in April 2003, it also acts as woodpulp sales agent for the European market.



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Charles Kimber

Directores / Directors  
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Franco Bozzalla  
Matías Domeyko  
Francisco Figueroa  
Antonio Luque

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Gerente / General Manager  
Alfredo Corthorn

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Franco Bozzalla  
Matías Domeyko  
Francisco Figueroa  
Antonio Luque

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Andrés Vial

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Alejandro Pérez

Directores / Directors  
Matías Domeyko  
Jorge Garnham  
Charles Kimber  
Ricardo Strauszer

### Administración | Management

Gerente / General Manager  
Ricardo Strauszer

### Servicios Logísticos Arauco S.A.

La sociedad Servicios Logísticos Arauco S.A. se constituyó en Agosto de 2001 a partir del cambio de giro de Portuaria Arauco S.A.. Esta asume adicionalmente a la actividad portuaria, todos los aspectos involucrados desde que los productos terminados salen de las plantas industriales hasta su entrega a los clientes en el destino final.

Servicios Logísticos Arauco S.A. was established in August 2001 out of the change of business of Portuaria Arauco S.A.. It also performs port activities and all logistical matters involved once finished products leave the industrial plants and until their delivery to the end customer.

### Puerto de Lirquén S.A.

Se constituyó en 1970, como continuadora de las actividades portuarias de la empresa Muelles y Bosques S.A. Su principal actividad es actuar como operador en la movilización portuaria y en la estiba y desestiba de naves en el Puerto de Lirquén, VIII Región, que le pertenece a través de su filial Portuaria Lirquén S.A.

Established in 1970 as successor to the port activities of Muelles y Bosques S.A. Its principal activity is to act as the operator in port movement and stevedoring of ships in Lirquén port, 7th Region, which is owned through its subsidiary Portuaria Lirquén S.A.

### Compañía Puerto de Coronel S.A.

La sociedad fue creada en 1989 con el propósito de construir, explotar y operar un puerto de carga en la bahía de Coronel, VIII Región.

Company established in 1989 to build, exploit and operate a cargo port in Coronel Bay, 8th Region.

### EKA Chile S.A.

Formada en Enero de 2003 tras una asociación entre EKA Chemicals y ARAUCO con la misión de abastecer de clorato a las plantas de celulosa. Hoy en día produce, importa y comercializa productos químicos y maquinarias y equipos para su procesamiento industrial. Además presta servicios para la mantención de los equipos antes señalados.

Established in January 2003 as an association between EKA Chemicals and ARAUCO to supply chlorate to the pulp mills. It now produces, imports and commercializes chemical products and machinery and equipment for industrial processing. It also provides maintenance services for this equipment.



#### Directorio | Board of Directors

Presidente / Chairman  
Jorge Garnham

Directores / Directors  
Franco Bozzalla  
Charles Kimber  
Antonio Luque  
Alvaro Saavedra

#### Administración | Management

Gerente / General Manager  
Alberto Walker

#### Directorio | Board of Directors

Presidente / Chairman  
Emilio Pellegrini

Directores / Directors  
Carlos Croxatto  
Juan Carlos Eyzaguirre  
Gonzalo García  
Jaime Lea-Plaza  
Alejandro Pérez  
Pedro Schlack

#### Administración | Management

Gerente / General Manager  
Juan Manuel Gutiérrez

#### Directorio | Board of Directors

Presidente / Chairman  
Eduardo Hartwing

Directores / Directors  
Alvaro Brunet  
José Cox  
Enrique Elgueta  
Jorge Garnham  
Alberto Walker

#### Administración | Management

Gerente / General Manager  
Alberto Miranda

#### Directorio | Board of Directors

Presidente / Chairman  
Gustavo Romero

Directores / Directors  
Jorge Garnham  
Alejandro Pérez  
Bo Welander

#### Administración | Management

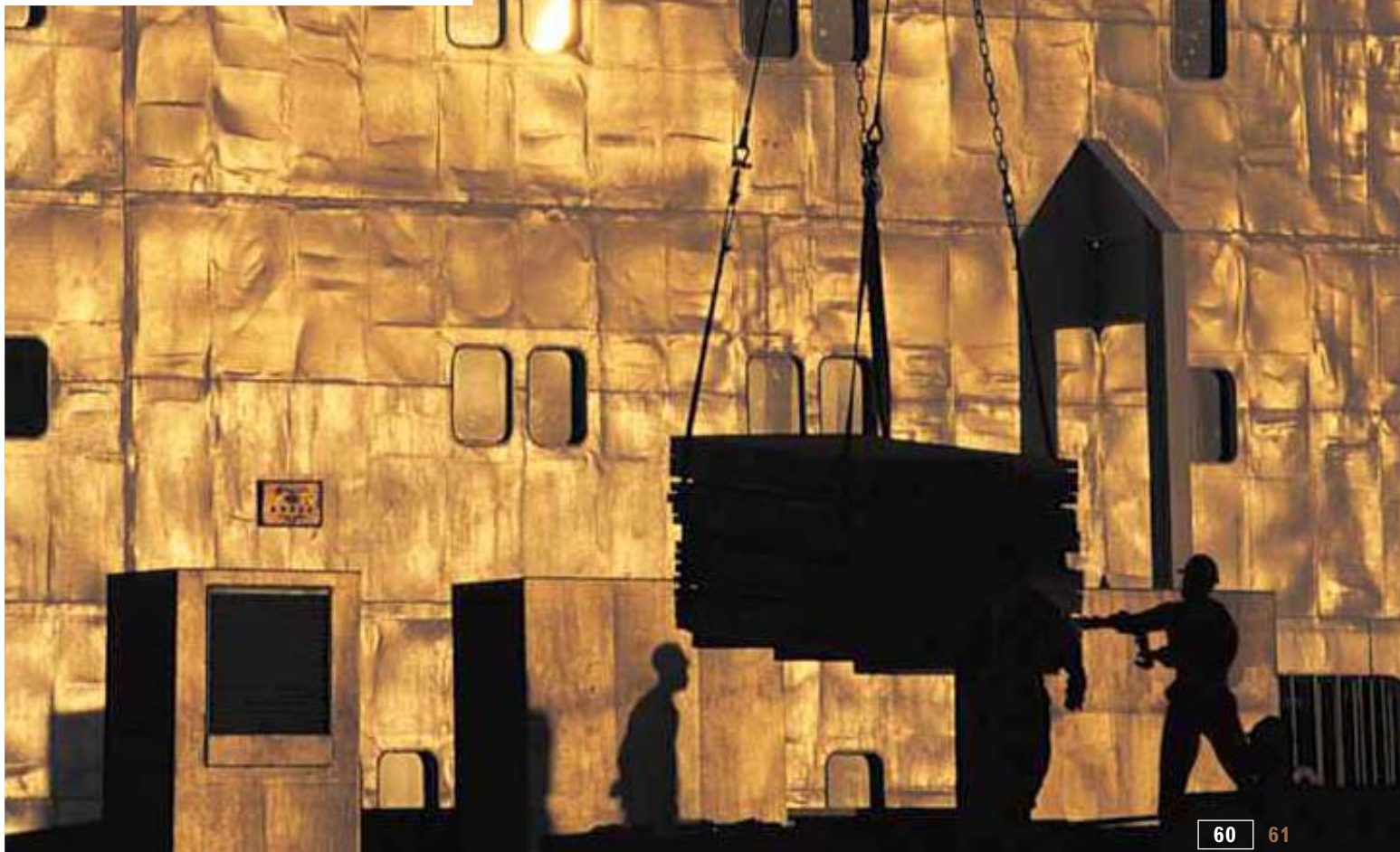
Gerente / General Manager  
Gustavo Romero





*ARAUCO posee un sistema logístico de vanguardia en materia de transporte, embarque, almacenaje y distribución de productos.*

*ARAUCO has a state-of-the-art logistics system for the transportation, shipping, storage and distribution of products.*





**Estados  
Financieros  
Consolidados  
Auditados** | **Audited  
Consolidated  
Financial  
Statements**

Celulosa Arauco y Constitución S.A. and Subsidiaries | 2004

<b>62</b>	<b>64</b>	<b>65</b>	<b>67</b>	<b>99</b>	
Consolidated Balance Sheet	Consolidated Statement of Income	Statement of Consolidated Cash Flows	Notes to the Consolidated Financial Statements	Report of Independent Accountants	

<b>ASSETS</b>	<b>At December 31,</b>	
	<b>2003</b>	<b>2004</b>
	<b>ThU.S.\$</b>	<b>ThU.S.\$</b>
<b>CURRENT ASSETS:</b>		
Cash	9,604	10,491
Time deposits	11,940	43,795
Marketable securities (note 3)	522,793	332,126
Trade accounts receivable (note 4)	221,933	346,976
Notes receivable	4,537	8,088
Other receivables	25,964	25,122
Notes and accounts receivable from related parties (note 18)	1,663	4,062
Inventories (note 5)	435,469	507,150
Recoverable taxes	50,366	44,321
Prepaid expenses	23,004	30,456
Deferred tax assets (note 15)	4,256	1,291
Other current assets	42,028	47,624
<b>Total current assets</b>	<b>1,353,557</b>	<b>1,401,502</b>
<b>PROPERTY, PLANT AND EQUIPMENT:</b> (note 6)		
Land	364,826	390,389
Forests	1,980,278	2,122,267
Buildings and other infrastructure	1,433,210	1,718,222
Machinery and equipment	1,418,742	1,753,633
Other	813,908	618,643
Technical revaluation	68,769	68,769
Less: Accumulated depreciation	(1,752,998)	(1,886,571)
<b>Net property, plant and equipment</b>	<b>4,326,735</b>	<b>4,785,352</b>
<b>OTHER NON-CURRENT ASSETS:</b>		
Investments in related companies (note 7)	47,441	55,996
Investments in other companies	134	218
Goodwill (note 8)	12,272	8,753
Negative goodwill (note 8)	(6,442)	(949)
Long-term receivables	11,567	12,005
Intangibles	604	659
Amortization	(216)	(268)
Other (note 9)	38,807	32,904
<b>Total other non-current assets</b>	<b>104,167</b>	<b>109,318</b>
<b>Total assets</b>	<b>5,784,459</b>	<b>6,296,172</b>

<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>At December 31,</b>	
	<b>2003</b>	<b>2004</b>
	<b>ThU.S.\$</b>	<b>ThU.S.\$</b>
<b>CURRENT LIABILITIES:</b>		
Current bank borrowings (note 10)	1,368	-
Current portion of long-term bank borrowings (note 14)	2,360	2,733
Current portion of bonds (note 12)	33,638	208,640
Current portion of other long term liabilities	330	476
Dividends payable	1,507	1,524
Trade accounts payable	106,272	120,819
Sundry accounts payable	3,676	5,126
Notes and accounts payable to related companies (note 18)	1,329	822
Accrued liabilities (note 13)	25,277	37,587
Withholding taxes	5,810	8,268
Income tax payable	3,879	38,455
Deferred income	3,363	888
Other current liabilities	703	617
<b>Total current liabilities</b>	<b>189,512</b>	<b>425,955</b>
<b>LONG-TERM LIABILITIES:</b>		
Long-term bank borrowings (note 14)	402,020	451,606
Bonds (note 12)	1,457,500	1,282,500
Notes payable	1	-
Sundry accounts payable	341	5,927
Accrued liabilities (note 13)	14,361	16,801
Deferred tax liabilities (note 15)	88,165	98,216
Other long-term liabilities	5,663	5,267
<b>Total long-term liabilities</b>	<b>1,968,051</b>	<b>1,860,317</b>
<b>Minority interest (note 23)</b>	<b>13,212</b>	<b>6,847</b>
<b>SHAREHOLDERS' EQUITY:</b> (note 20)		
Paid-up in capital	347,551	347,551
Share premium	5,625	5,625
Forestry and other reserves	1,483,076	1,459,746
Retained earnings	1,433,461	1,686,520
Interim dividends	(65,221)	(86,833)
Net income for the year	409,192	590,444
<b>Total shareholders' equity</b>	<b>3,613,684</b>	<b>4,003,053</b>
<b>Total liabilities and shareholders' equity</b>	<b>5,784,459</b>	<b>6,296,172</b>

# Consolidated Statements of Income

December 31, 2004  
Amounts in thousands  
of U.S. dollars, except  
as indicated

	At December 31,	
	2003 ThU.S.\$	2004 ThU.S.\$
<b>OPERATING INCOME:</b>		
Sales revenue	1,458,220	2,075,052
Cost of sales	(668,890)	(883,859)
Gross profit	789,330	1,191,193
Administration and selling expenses	(283,225)	(384,704)
<b>Operating income</b>	<b>506,105</b>	<b>806,489</b>
<b>NON-OPERATING INCOME:</b>		
Interest earned	22,035	26,275
Share of net income of related companies (note 7)	6,001	6,473
Other non-operating income (note 21)	10,025	8,798
Amortization of goodwill (note 8)	(3,787)	(3,519)
Interest expenses	(86,928)	(123,453)
Other non-operating expenses (note 22)	(18,146)	(15,061)
Price-level restatement (note 1)	322	347
Foreign currency exchange rate (note 1)	50,728	15,669
<b>Non-operating loss</b>	<b>(19,750)</b>	<b>(84,471)</b>
Income before taxes, minority interest and amortization of negative goodwill	486,355	722,018
Income taxes (note 15)	(83,131)	(136,747)
Income before minority interest and amortization of negative goodwill	403,224	585,271
Minority interest (note 23)	(199)	(321)
Income before amortization of negative goodwill	403,025	584,950
Amortization of negative goodwill (note 8)	6,167	5,494
<b>Net income for the year</b>	<b>409,192</b>	<b>590,444</b>

	At December 31,	
	2003 ThU.S.\$	2004 ThU.S.\$
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income for the year	409,192	590,444
<b>LOSS (PROFIT) ON SALE OF ASSETS:</b>		
Loss (profit) on sale of property, plant and equipment	258	2,206
<b>ITEMS AFFECTING INCOME NOT INVOLVING THE MOVEMENT OF CASH:</b>		
Depreciation	107,550	132,486
Amortization of intangibles	34	33
Write-offs and provisions	9,636	6,377
Profit from investments accounted for under the equity method	(6,014)	(6,473)
Loss from investments accounted for under the equity method	13	-
Amortization of goodwill	3,787	3,519
Amortization of negative goodwill	(6,167)	(5,494)
Net price level restatement	(322)	(347)
Foreign currency exchange rate	(50,728)	(15,669)
Others	31,409	32,690
<b>DECREASE (INCREASE) IN CURRENT ASSETS:</b>		
Clients and debtors	(72,807)	(127,442)
Inventory	(52,760)	(58,339)
Other current assets	24,173	3,483
<b>INCREASE (DECREASE) IN CURRENT LIABILITIES:</b>		
Suppliers and creditors	46,929	18,520
Interest payable	(1,121)	20,417
Provision for income taxes	19,581	70,661
Other current liabilities	48,880	48,986
<b>Net cash flows from operating activities</b>	<b>511,523</b>	<b>716,058</b>

**Statements of  
Consolidated  
Cash Flows**

December 31, 2004  
Amounts in thousands  
of U.S. dollars, except  
as indicated

<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>	<b>At December 31,</b>	
	<b>2003</b>	<b>2004</b>
	<b>ThU.S.\$</b>	<b>ThU.S.\$</b>
Loans from financial institutions	182,291	307,697
Bonds issue	295,482	-
Loans paid	(100,821)	(259,869)
Repayments of bonds	(83,785)	-
Dividends paid	(133,906)	(175,387)
Other financing activities	(523)	(42)
<b>Net cash flow from financing activities</b>	<b>158,738</b>	<b>(127,601)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Sales of property, plant and equipment	1,528	2,860
Purchase of property, plant and equipment	(511,477)	(728,769)
Permanent investments	(61,169)	(6,691)
Capitalized interest paid	(24,852)	(14,688)
Other investments	27,283	(40,553)
<b>Net cash flow from investment activities</b>	<b>(568,687)</b>	<b>(787,841)</b>
Net cash flows from operating, investing and financing activities	101,574	(199,384)
Effect of inflation	49,066	5,927
Net decrease in cash and cash equivalents	150,640	(193,457)
Initial balance of cash and cash equivalents	399,426	550,066
<b>FINAL BALANCE OF CASH AND CASH EQUIVALENTS</b>	<b>550,066</b>	<b>356,609</b>

# Nota 1

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### (a) Organization and basis of presentation

Celulosa Arauco y Constitución S.A., a Chilean corporation (the "Company"), and its subsidiaries are engaged principally in the production of pulp, forestry and wood products and the management of its subsidiaries' forestry assets. The financial statements of the Company and its subsidiaries (collectively known as "Arauco") are presented on a consolidated basis and have been prepared on the basis of accounting principles generally accepted in Chile and specific guidelines issued by the Superintendencia de Valores y Seguros (the "Chilean Securities Commission"). The Company consolidates the financial statements of the companies in which it controls a majority of voting shares. All significant intercompany transactions have been eliminated. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Certain minor reclassifications among account headings have been made to these consolidated financial statements in order to present them on a basis more familiar to readers of financial statements in the United States (the "U.S."). The consolidated financial statements as of December 31, 2003 and 2004 include the following direct and indirect subsidiaries of the Company, all of which are incorporated in Chile (except as otherwise noted).

Subsidiary company	Interest of the Company as of December 31, 2004			Total as of December 31, 2003
	Direct %	Indirect %	Total %	Total %
Agenciamiento y Servicios Profesionales S.A. (México)	-	99.99	99.99	99.99
Alto Paraná S.A. (Argentina)	-	99.97	99.97	99.97
Arauco Denmark ApS (Denmark)	-	99.99	99.99	99.99
Arauco Do Brasil Ltda. (Brazil)	-	99.99	99.99	99.99
Arauco Ecuador S.A. (Ecuador)	0.10	99.89	99.99	99.99
Arauco Europe S.A. (Switzerland)	0.01	99.97	99.98	99.98
Arauco Forest Products B.V.(The Netherlands)	-	99.99	99.99	99.99
Arauco Generación S.A.	99.00	0.99	99.99	99.99
Arauco Honduras S. de R.L. de C.V. (Honduras)	1.00	98.99	99.99	99.99
Arauco Internacional S.A.	98.03	1.96	99.99	99.99
Arauco Perú S.A. (Peru)	-	99.99	99.99	99.99
Arauco Wood Products, Inc. (U.S.A.)	0.39	99.60	99.99	99.99
Araucocom S.A. de C.V. (Mexico)	-	99.99	99.99	99.99
Aserraderos Arauco S.A.	99.00	0.99	99.99	99.99
Bosques Arauco S.A.	1.00	98.93	99.93	99.93
Controladora de Plagas Forestales S.A.	-	51.09	51.09	51.09
Arauco Distribución S.A. ( ex - Distribuidora Centromaderas S.A.)	-	99.99	99.99	99.99
Forestal Arauco Costa Rica S.A. (Costa Rica)	10.00	89.99	99.99	99.99
Forestal Arauco Guatemala S.A. (Guatemala)	0.15	99.84	99.99	99.99
Forestal Arauco S.A.	99.92	-	99.92	99.92
Forestal Celco S.A.	1.00	98.93	99.93	99.93
Forestal Celsur S.A.	-	-	-	82.12
Forestal Cholguán S.A.	-	97.31	97.31	97.31
Forestal Conosur S.A. (Uruguay)	-	99.99	99.99	99.99
Forestal Misiones S.A. (Argentina)	-	99.99	99.99	99.99
Forestal Valdivia S.A.	1.00	98.93	99.93	99.93
Industrias Forestales S.A. (Argentina)	10.00	89.99	99.99	99.99
Inversiones Celco S.L. (Spain)	30.80	69.19	99.99	99.99
Investigaciones Forestales Bioforest S.A.	1.00	98.93	99.93	99.93
Molduras Trupán S.A.	1.00	98.99	99.99	-
Paneles Arauco S.A.	99.00	0.99	99.99	99.99
Servicios Logísticos Arauco S.A.	45.00	54.96	99.96	99.96
Southwoods Arauco-Lumber and Millwork LLC (U.S.A.)	-	99.61	99.61	99.61
Trupán Argentina S.A. (Argentina)	-	99.99	99.99	99.99



**(b) Currency records**

On January 1, 2002, the Company and its subsidiaries Aserraderos Arauco S.A. and Paneles Arauco S.A. began maintaining their accounting records and preparing their financial statements in U.S. dollars.

On January 1, 2003, the subsidiaries Forestal Arauco S.A., Forestal Celco S.A., Bosques Arauco S.A., Forestal Valdivia S.A., Forestal Cholguán S.A. and Arauco Internacional S.A. also began maintaining their accounting records and preparing their financial statements in U.S. dollars.

The Company's other Chilean subsidiaries maintain their accounting records and prepare their financial statements in Chilean pesos.

**(c) Price-level restatement and foreign currency exchange rate**

(i) Price-level restatement

The charge or credit for price-level restatement of the subsidiaries that record and prepare their financial statements in Chilean pesos in the consolidated financial statements is comprised of the following two factors:

(A) the effect of changes in the purchasing power of the Chilean peso during each period presented in the consolidated financial statements; and

(B) the change in the value of assets and liabilities which are denominated in inflation index-linked units of account called Unidades de Fomento ("UF").

(ii) Changes in purchasing power

The effect of the changes in the purchasing power of the Chilean peso during each period presented in the consolidated financial statements, relating to the effect of the changes on the assets, liabilities and net income of the subsidiaries that record and prepare their financial statements in Chilean pesos, is calculated by restating non-monetary assets, liabilities, shareholders' equity and income statement accounts to reflect changes in the Chilean consumer price index from the date they were acquired or incurred to the end of the year. The net purchasing power gain or loss calculated as described above, and included in net income, reflects the effect of Chilean inflation on the value of non-monetary assets and liabilities (other than UF- and foreign currency-denominated assets and liabilities) held by these subsidiaries. The restatements were calculated using the official consumer price index of the Chilean National Institute of Statistics and are based on the "prior month rule," according to which inflation adjustments are based on the CPI at the close of the month preceding the close of the relevant period or transaction. This index is considered by the business community, the accounting profession and the Chilean government to be the index which most closely complies with the technical requirement to reflect the variation in the general level of prices in Chile and, consequently, is widely used for financial reporting purposes in Chile.

The values of the CPI were as follows:

	Index	Change from previous December 31
December 31, 2003	114.07	1.1%
December 31, 2004	116.84	2.4%

The values of the CPI used for the price-level restatement for the two most recent fiscal periods were as follows:

	Index	Change from previous November 30
November 30, 2003	114.44	1.0%
November 30, 2004	117.28	2.5%

The above-mentioned price-level restatements do not purport to represent appraisal or replacement values and are intended only to restate all non-monetary financial statement components in terms of local currency of a single purchasing power and to include in the net result for each period the gain or loss in purchasing power arising from the holding of monetary assets and liabilities exposed to the effects of inflation.

## (iii) Inflation Index-linked units of account (UF)

Assets and liabilities that are denominated in inflation index-linked units of account are stated at the period-end values of the respective units of account. The principal inflation index-linked unit used in Chile is the UF, which changes daily to reflect the changes in Chile's CPI.

Interest-bearing assets and liabilities that are denominated in UFs have their interest rates expressed in terms of an interest rate spread in excess of the indexation of the UF.

Values for the UF were as follows (historical pesos per UF):

	<b>Ch\$</b>
December 31, 2003	16,920.00
December 31, 2004	17,317.05

## (iv) Foreign currency exchange rate

The charge or credit for foreign currency exchange rate is comprised of the change in the value of assets and liabilities denominated in foreign currencies.

## (v) Assets and liabilities denominated in foreign currencies

Assets and liabilities denominated in foreign currencies other than U.S. dollars are detailed in note 17 and have been translated into U.S. dollars at the relevant observed exchange rate reported by the Central Bank of Chile. The observed exchange rates for foreign currencies reported by the Central Bank on the specified dates were as follows:

	<b>At December 31,</b>	
	<b>2003 U.S.\$ 1</b>	<b>2004 U.S.\$ 1</b>
Chilean peso	593.80	557.40
Yen	107.04	103.03
Euro	0.80	0.73
GBP	0.56	0.52
Argentine peso	2.94	2.98

The differences arising in the valuation of assets and liabilities denominated in foreign currencies as a result of variations in the exchange rates are accounted for in the income statement as an item of foreign currency exchange rate in the period in which they arise. Realized and unrealized losses and realized gains on interest rate swaps are accounted for under the account headings "Interest and other financial expenses" and "Interest earned" in the period in which they arise. See note 1(o).

Credit (charge) to income for price-level restatement in each of the reporting periods was comprised of the restatements of non-monetary assets, UF and foreign currency-denominated monetary assets and liabilities, shareholders' equity and income statement accounts as follows:

Credit (charge) to income for price-level restatement:

	Year ended December 31,	
	2003 ThU.S.\$ Credit (Charge)	2004 ThU.S.\$ Credit (Charge)
<b>Assets, liabilities and equity restated by CPI</b>		
Shareholders' equity of subsidiaries in Chilean pesos	(338)	(653)
Property, plant and equipment, net	203	509
Inventories	357	273
Other assets and liabilities, net	118	265
<b>Net effect on income</b>	<b>340</b>	<b>394</b>
Price-level restatement of income statement accounts	(18)	(47)
<b>Credit (charge) to income by CPI</b>	<b>322</b>	<b>347</b>

Credit (charge) to income for foreign currency exchange rate:

	Year ended December 31,	
	2003 ThU.S.\$ Credit (Charge)	2004 ThU.S.\$ Credit (Charge)
<b>Assets restated by foreign currency</b>		
Trade accounts receivable	3,077	2,095
Other assets	72,483	17,691
Liabilities restated by foreign currency		
Bonds	(73)	11
Other liabilities	(24,759)	(4,128)
<b>Net effect on income from foreign currency</b>	<b>50,728</b>	<b>15,669</b>

**(d) Time deposits, marketable securities and investments purchased under agreements to resell**

Time deposits are shown at cost plus accrued interest.

Marketable securities are shown at the lower of cost plus accrued interest or market value.

Financial instruments purchased under agreements to resell are held at acquisition cost plus accrued interest.

Investment in money market funds are stated at market value based on year-end quoted values.

**(e) Inventories**

Inventories of raw materials, spare parts and supplies have been stated at the average price or restated cost as determined by price-level restatement principles for those subsidiaries that maintain their accounting records and prepare their financial statements in Chilean pesos. Imports in transit are held at accumulated cost at the balance sheet date plus price-level restatement for subsidiaries that maintain their accounting records and prepare their financial statements in Chilean pesos.

For those subsidiaries that maintain their accounting records and prepare their financial statements in Chilean pesos, finished goods are stated at an average unit production cost for the period, including production overhead and depreciation of fixed assets, plus price-level restatement.

Inventory of forests in exploitation is stated at the commercially appraised value at which these forests were transferred from fixed assets.

Finished goods are valued at the lower of average cost of production or market value. For those subsidiaries that maintain their accounting records and prepare their financial statements in Chilean pesos, inventory is valued at the lower of price-level restated cost (or transferred value in the case of forest inventory) and market value.

**(f) Property, plant and equipment**

(i) Property, plant and equipment, excluding forests

The property, plant and equipment of the Company and those of its subsidiaries that maintain their accounting records and prepare their financial statements in U.S. dollars are valued at cost. The property, plant and equipment of the other Chilean subsidiaries, excluding forests, are valued at cost plus price-level restatement. The carrying value of property, plant and equipment was adjusted in 1979 in accordance with the regulations of the Chilean Securities Commission. See note 6.

Property, plant and equipment, excluding forests and land, is depreciated on a straight-line basis over the estimated remaining useful lives of the underlying assets

Financing costs of projects requiring major investments in long-term construction and those costs incurred from financing specific projects are capitalized and amortized over the estimated useful lives of the related assets. Profits and losses on the sale of property, plant and equipment, excluding forests, are accounted for as the difference between the book value and the consideration received.

(ii) Forests

Radiata pine that is less than 16 years old is valued at the cost of development, maintenance and protection plus price-level restatement (until December 31, 2002). Finance costs related to the development of the forests are not capitalized but are expensed in the income statement.

Radiata pine that is 16 or more years old is valued in accordance with a commercial valuation performed by Arauco based on sample measurements of forest growth carried out by independent third parties. The difference between the commercial valuation at year-end and the prior year's valuations plus price-level restatement (until December 31, 2002) is accounted for as an adjustment to "Forests" and to shareholders' equity under the account heading "Forestry and other reserves."

Forests which are due to be exploited within one year are reallocated to inventory under current assets.

On the sale of a related finished good, the shareholders' equity account "Forestry and other reserves" is reduced by the amount of the commercial valuation allocable to such finished good. Such commercial valuation is excluded from cost of sales.

Commercial valuations are not performed on native forests.

**g) Investments in related companies**

Investments in companies over which Arauco exercises significant, but not controlling, influence are shown under other non-current assets and are accounted for using the equity method. Arauco is presumed to exercise significant influence where its participation in a company is between 20% and 50%.

Arauco's proportionate share in the net income and losses of related companies is recognized in non-operating income in the statement of income on an accrual basis, after eliminating any unrealized profits from transactions between related companies.

Investment in related companies acquired through December 31, 2003 are accounted for using the equity method, in accordance with Circular Letter No. 368 of the Chilean Securities Commission.

Investment in related companies acquired after December 31, 2003 are accounted for using the proportional net worth method, in accordance with Circular Letter No. 1697 of the Chilean Securities Commission. Acquisitions in 2004 had no significant effect on the accompanying financial statements.

Investments in foreign companies are accounted for in accordance with Technical Bulletin No. 64 of the Accountants Association of Chile.

**(h) Income taxes**

Arauco made provisions at each year-end for income taxes currently payable in accordance with current tax regulations. The details of the provisions for income taxes are in note 15.

Since December 31, 1999, including on December 31, 2004, deferred income taxes have been recognized at the end of each year for all temporary differences between the financial reporting and tax bases of assets and liabilities. Prior to December 31, 1999, Arauco recognized deferred income taxes in the same manner except for the tax loss carry forwards of certain subsidiaries.

**(i) Bonds**

Bonds are shown at face value plus accrued interest as of each year-end. The discount on, and expenses incurred in, the issue of the bonds are shown under other non-current assets and are amortized over the term of the instruments.

**(j) Staff severance indemnities**

Arauco has recorded a liability for long-term severance indemnities in accordance with the collective agreements entered into with its employees. Generally, upon leaving Arauco, employees who have completed five years of service are entitled to one month's salary for each year of service, up to the retirement age of 60 and 65 years for women and men, respectively. The provision for severance compensation is calculated on the basis of the present value of the total accrued cost of this benefit, discounted at a real annual interest rate of 5%.

**(k) Research and development expenses**

The cost of research, project development and special studies are charged to income in the year in which they are incurred, except for the cost of fixed assets once development has been approved. The cost of research and development charged to income was U.S.\$ 1,685 thousand and U.S.\$ 1,968 thousand for the years ended December 31, 2003 and 2004, respectively.

**(l) Negative goodwill on investments**

Any excess of the book value of a company acquired over the purchase consideration paid is accounted for as a reduction of the consolidated assets in the balance sheet and is amortized to the income statement over a five-year period.

**(m) Goodwill on investments**

Any consideration paid to acquire a company in excess of its book value is accounted for as an increase of the consolidated assets in the balance sheet and is amortized over a five-year period.

**(n) Cash and cash equivalents**

Arauco considers cash and cash equivalents as representing cash and cash instruments with an original maturity of less than three months.

**(o) Interest rate swaps**

Interest rate swap agreements are considered hedges of existing items and accounted for in accordance with Technical Bulletin No. 57 of the Accountants Association of Chile.

**(p) Government grants awarded for forestry activities**

Grants that are received from the Chilean government for forestry activities are accounted for as a credit to shareholders' equity or as a reduction in the cost of the forests. These amounts are realized as income on sale of the related finished goods.

**(q) Provision for vacation pay**

Vacation pay earned by employees but not paid is accounted for on an accrual basis.

**(r) Allowance for doubtful accounts**

Allowance for doubtful accounts is recorded based on analyses of collectibility on an individual account basis.

**(s) Leasing assets**

Financing leases are recorded at the present value of the minimum lease payments, discounted by the purchase option interest rate indicated in the contract. The obligations are recorded as current and long-term liabilities net of deferred interest.

**(t) Intangibles**

Intangible assets are recorded at cost, adjusted for price-level restatement, and are amortized over 20 years.

**(u) Revenue recognition policy**

Revenues are recorded in accordance with Technical Bulletin No. 70 of the Accountants Association of Chile.

**(v) Interest rate swap contracts**

Interest expense on swap contract-related debt is adjusted for the net amount receivable or payable under the swap contract. The initial premium payable upon entry into the swap contract is amortized over the period of the underlying contract.

**(w) Software**

Internal development software costs are expensed when incurred. Purchased software is capitalized and amortized over the estimated useful life up to a maximum of four years. Capitalized software assets are classified in "Property, plant and equipment" as "other assets."

**(x) Translation of foreign subsidiaries**

Beginning January 1, 2002, the financial statements of the Company's foreign subsidiaries are translated into U.S. dollars in accordance with B.T. No. 64. In accordance with B.T. No. 64, the financial statements of foreign subsidiaries whose activities do not constitute an extension of the Chilean parent company's operations and operate in countries that are exposed to significant risks, restrictions or inflation/exchange fluctuations, are remeasured into U.S. dollars before translation into the accounting records of the parent company. The Company has remeasured the operations of its Argentinean subsidiaries and the Panamanian agency that are not considered an extension of Arauco's operations into U.S. dollars as follows:

- Monetary assets and liabilities are translated at year-end rates of exchange between the U.S. dollar and the local currency.
- All non-monetary assets and liabilities and shareholders' equity are translated at historical rates of exchange between the U.S. dollar and the local currency.
- Income and expense accounts are translated at average rates of exchange between the U.S. dollar and the local currency.
- The effects of any exchange rate fluctuations as compared to the U.S. dollar are included in the results of operations for the relevant year.

Until December 31, 2001, under B.T. No. 64, each investment in foreign subsidiaries was price-level restated, in order to separate the effect of price-level restating the foreign investment, which was reflected in income, from the effect of the foreign currency translation gain or loss, which was reflected in equity in the account "Cumulative Translation Adjustment", as the foreign investment itself was measured in U.S. dollars. For the years ended December 31, 2004 and 2003, as allowed by B.T. No. 64, the Company designated U.S. dollar denominated debt as an economic hedge of its net foreign investment in Argentina.

The Company uses an exchange rate of 2.979 Argentine pesos per U.S. dollar in translating its assets and liabilities denominated in Argentine pesos into U.S. dollars, pursuant to Chilean Securities Commission instructions and in accordance with B.T. No. 64. The recognition resulted in a profit of U.S.\$ 2.5 million.

As of December 31, 2004, the Company's investments in Argentina represented 10.8% of its consolidated assets, compared to 12.1% as of December 31, 2003.

It is not possible to predict what developments will occur in the Argentine economy, what effects the Argentine economic crisis and the devaluation of the Argentine peso may have on the economic and financial condition of the Company's Argentine subsidiaries or whether the Argentine economic crisis may affect developments in other emerging markets including Chile. The Company's financial statements include the financial effects of recent current Argentine developments in accordance with both Chilean Securities Commission instructions and Technical Bulletin guidelines.

## Nota 2

**2. CHANGES IN ACCOUNTING POLICIES**

There are no changes in accounting principles or presentation for the years covered in these consolidated financial statements.

## Nota 3

### 3. MARKETABLE SECURITIES

Marketable securities as of each year-end, were as follows:

	As of December 31,	
	2003 ThU.S.\$	2004 ThU.S.\$
Mutual fund units	522,793	332,126
<b>Total marketable securities</b>	<b>522,793</b>	<b>332,126</b>

## Nota 4

### 4. TRADE ACCOUNTS RECEIVABLE

Trade accounts receivable as of each year-end were as follows:

	As of December 31,	
	2003 ThU.S.\$	2004 ThU.S.\$
Trade accounts receivable	226,399	355,759
Allowance for doubtful accounts	(4,466)	(8,783)
<b>Total trade accounts receivable</b>	<b>221,933</b>	<b>346,976</b>

As of December 31, 2003 and 2004, no single customer accounted for more than 10% of the outstanding balance of accounts receivable. Arauco takes steps to reduce the risk of non-payment for goods sold, including the use of letters of credit, receipt of advance payments and the use of insurance policies. If such measures were to fail, Arauco would be exposed to a maximum credit loss equivalent to the accounting balance. Arauco has not experienced any significant losses as a result of non-payment of accounts receivable.

## Nota 5

### 5. INVENTORIES

Inventories have been valued in accordance with the policy described in note 1(e). The principal components were as follows:

	As of December 31,	
	2003 ThU.S.\$	2004 ThU.S.\$
Finished goods (pulp)	20,879	37,552
Finished goods (timber and panels)	94,171	124,712
Finished goods on consignment (pulp)	27,619	28,118
Work in progress	3,767	7,370
Sawlogs, pulpwood and chips	22,571	18,163
Raw material	54,624	50,299
Forests under exploitation	199,306	225,197
Pending imports	159	1,274
Other	12,373	14,465
<b>Total inventories</b>	<b>435,469</b>	<b>507,150</b>

## Nota 6

### 6. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment, including forests, have been valued as described in note 1(f).

Technical revaluation and adjustment of book value

The balances of buildings and other infrastructure, machinery and equipment and other include amounts arising from the technical revaluation of certain assets performed during 1979, in accordance with regulations of the Chilean Securities Commission.

The accumulated net book value of these revaluations as of each year-end is detailed below by class of asset:

	As of December 31,	
	2003 ThU.S.\$	2004 ThU.S.\$
Buildings and other infrastructure	2,968	2,608
Machinery and equipment	445	275
Other	-	-
<b>Total increase in value due to technical revaluation of property, plant and equipment</b>	<b>3,413</b>	<b>2,883</b>

Depreciation of property, plant and equipment was calculated as described in note 1(f) and was as follows:

	As of December 31,	
	2003 ThU.S.\$	2004 ThU.S.\$
Depreciation of:		
Property, plant and equipment (excluding land and forests)	106,982	131,956
Technical revaluation	568	530
<b>Total</b>	<b>107,550</b>	<b>132,486</b>

Accumulated depreciation was as follows:

	As of December 31,	
	2003 ThU.S.\$	2004 ThU.S.\$
Accumulated depreciation of:		
Property, plant and equipment (excluding land and forests)	1,688,571	1,821,614
Technical revaluation	64,427	64,957
<b>Total</b>	<b>1,752,998</b>	<b>1,886,571</b>

### Forests

The cost and the commercial valuation increment of the forests, determined as described in note 1(f), was as follows:

	As of December 31,	
	2003 ThU.S.\$	2004 ThU.S.\$
Cost of forests	543,945	715,023
Commercial valuation increment	1,436,333	1,407,244
<b>Total</b>	<b>1,980,278</b>	<b>2,122,267</b>



## Nota 7

### 7. INVESTMENTS IN RELATED COMPANIES

During 2003, Arauco made the following investments in related companies:

From January to December 2003, the Company contributed U.S.\$ 1.76 million to Forestal Cono Sur S.A.

On January 2, 2003, the Company contributed U.S.\$ 25 million to Eka Chile S.A. and acquired U.S.\$ 3.5 million in additional shares. The investment resulted in goodwill of U.S.\$ 12.1 million.

In May 2003, the subsidiary Arauco Internacional S.A. acquired 4,000 shares of Arauco Europe S.A. for U.S.\$ 30 thousand. As a result, Arauco Internacional S.A. now holds a 99.97% controlling interest in Arauco Europe S.A.

On December 23, 2003, the subsidiary Forestal Celco S.A. acquired 735,042,070 shares of Forestal Celsur S.A., equivalent to 83.05% of property.

During 2004, Arauco made the following investment in related companies:

On January 5, 2004, the subsidiary Forestal Celco S.A. acquired 149,999,999 shares and the subsidiary Forestal Arauco S.A. acquired one share of Forestal Celsur S.A. for U.S.\$ 6.7 million. In December 2004, Forestal Celco S.A. and Forestal Celsur S.A. were merged.

#### Received dividends

During 2004, the Company received dividends of U.S.\$ 1.1 million, compared to U.S.\$ 0.9 million in 2003, from Puerto de Lirquén S.A. and U.S.\$ 0.3 million, compared to U.S.\$ 0.2 million in 2003, from Inversiones Puerto Coronel S.A.

#### Taxes on unremitted earnings

Deferred taxes have not been recorded, nor has the investment been adjusted, for taxes that may arise on the distribution or remittance of earnings from investments in related companies as these earnings will either be indefinitely reinvested or will not result in the imposition of additional taxes.

#### Liabilities that hedge investments in related companies

The Company maintains debt with the public (the Company's Yankee Bonds 2nd Issue) that were specifically designated as hedging instruments for the Company's investment in Industrias Forestales S.A., in Argentina.

The investments in related companies at each year-end were as follows:

	Percentage Participation		As of December 31,			
			Investment Value		Net income of investee	
	2003 %	2004 %	2003 ThU.S.\$	2004 ThU.S.\$	2003 ThU.S.\$	2004 ThU.S.\$
Puerto de Lirquén S.A.	20.14	20.14	18,215	20,920	2,379	2,267
Inversiones Puerto Coronel S.A.	50.00	50.00	8,030	9,745	1,588	1,971
Sociedad CDEC-SIC Ltda.	7.69	-	46	-	(13)	-
Servicios Corporativos Sercor S.A.	20.00	20.00	457	630	70	130
Eka Chile S.A.	50.00	50.00	20,693	24,701	1,977	2,105
<b>Total</b>			<b>47,441</b>	<b>55,996</b>	<b>6,001</b>	<b>6,473</b>

## Nota 8

### 8. GOODWILL AND NEGATIVE GOODWILL

a) Negative goodwill as of each year-end was as follows:

	As of December 31,			
	2003			2004
	Amortization for the year ThU.S.\$	Balance of negative goodwill ThU.S.\$	Amortization for the year ThU.S.\$	Balance of negative goodwill ThU.S.\$
Alto Paraná S.A.	624	343	343	-
Licancel S.A.	907	680	680	-
Forestal Cholguán S.A.	4,422	5,354	4,422	932
Maderas Prensadas Cholguán S.A.	214	65	49	17
<b>Total negative goodwill</b>	<b>6,167</b>	<b>6,442</b>	<b>5,494</b>	<b>949</b>

b) Goodwill as of each year-end was as follows:

	As of December 31,			
	2003			2004
	Amortization for the year ThU.S.\$	Balance of goodwill ThU.S.\$	Amortization for the year ThU.S.\$	Balance of goodwill ThU.S.\$
Forestal El Aguaray S.A.	39	12	12	-
Paneles Arauco S.A.	786	1,376	786	590
Inversiones Puerto Coronel S.A.	241	-	-	-
Eka Chile S.A.	2,421	9,684	2,421	7,263
Southwoods-Arauco Lumber L.L.C.	300	1,200	300	900
<b>Total goodwill</b>	<b>3,787</b>	<b>12,272</b>	<b>3,519</b>	<b>8,753</b>

## Nota 9

### 9. OTHER NON-CURRENT ASSETS

Other non-current assets as of each year-end were as follows:

	As of December 31,	
	2003	2004
	ThU.S.\$	ThU.S.\$
Recoverable taxes	21,582	19,007
Bond issue expenses	14,166	11,530
Discounts on bond issues	1,981	1,744
Other	1,078	623
<b>Total other non-current assets</b>	<b>38,807</b>	<b>32,904</b>

## Nota 10

### 10. CURRENT BANK BORROWINGS

Current bank borrowings as of year-end were as follows:

	As of December 31,	
	2003 ThU.S.\$	2004 ThU.S.\$
Total outstanding	1,368	-
Principal outstanding	1,368	-
Weighted average annual interest rate	-	-

Current bank borrowings were denominated as follows:

	As of December 31,	
	2003 ThU.S.\$	2004 ThU.S.\$
Obligations in foreign currency	1,368	-
Obligations in local currency	-	-
<b>Total current bank borrowings</b>	<b>1,368</b>	<b>-</b>

## Nota 11

### 11. CURRENT LIABILITIES

(a) The following liabilities, excluding bank borrowings, fall due within one year:

	As of December 31,	
	2003 ThU.S.\$	2004 ThU.S.\$
Current portion of bonds	33,638	208,640
Current portion of other long-term liabilities	330	476
Trade accounts payable	106,272	120,819
Accounts and notes payable to related parties	1,329	822
Current provisions	25,277	37,587
Sundry accounts payable and other liabilities	18,938	54,878
<b>Total</b>	<b>185,784</b>	<b>423,222</b>

(b) The percentages of these obligations in foreign and local currency, were as follows at year-end:

	As of December 31,	
	2003 %	2004 %
Foreign currency	48.72	69.68
Local currency	51.28	30.32
<b>Total</b>	<b>100.00</b>	<b>100.00</b>

# Nota 12

## 12. BONDS

Arauco had seven series of Yankee Bonds outstanding as of December 31, 2004.

The balances of the bonds were as follows:

	As of December 31,	
	2003 ThU.S.\$	2004 ThU.S.\$
<b>Current</b>		
Yankee Bonds 1st Issue	292	292
Yankee Bonds 2nd Issue	8,381	183,382
Yankee Bonds 3rd Issue	8,749	8,749
Yankee Bonds 4th Issue	8,914	8,914
Yankee Bonds 5th Issue	7,302	7,303
<b>Total current (including accrued interest)</b>	<b>33,638</b>	<b>208,640</b>
<b>Long-term</b>		
Yankee Bonds 1st Issue	100,000	100,000
Yankee Bonds 2nd Issue	400,000	225,000
Yankee Bonds 3rd Issue	270,500	270,500
Yankee Bonds 4th Issue	387,000	387,000
Yankee Bonds 5th Issue	300,000	300,000
<b>Total long-term</b>	<b>1,457,500</b>	<b>1,282,500</b>
Less total accrued interest	33,638	33,640
<b>Total principal outstanding</b>	<b>1,457,500</b>	<b>1,457,500</b>

These bonds have the following characteristics:

	<b>Yankee Bonds 1st Issue</b>	<b>Yankee Bonds 2nd Issue</b>	<b>Yankee Bonds 3rd Issue</b>	<b>Yankee Bonds 4th Issue</b>	<b>Yankee Bonds 5th Issue</b>
Issue date	Dec. 15, 1995	Oct. 3, 1997	Aug. 15, 2000	Sept. 10, 2001	Jul. 9, 2003
Authorized Amount (nominal)	12 years ThU.S.\$ 100,000	8 years ThU.S.\$ 175,000 12 years ThU.S.\$ 100,000 20 years ThU.S.\$ 125,000	10 years ThU.S.\$ 300,000	10 years ThU.S.\$ 400,000	10 years ThU.S.\$ 300,000
Authorized Amount (outstanding)	12 years ThU.S.\$ 100,000	8 years ThU.S.\$ 175,000 12 years ThU.S.\$ 100,000 20 years ThU.S.\$ 125,000	10 years ThU.S.\$ 270,500	10 years ThU.S.\$ 387,000	10 years ThU.S.\$ 300,000
Issue amount	12 years ThU.S.\$ 100,000	8 years ThU.S.\$ 175,000 12 years ThU.S.\$ 100,000 20 years ThU.S.\$ 125,000	10 years ThU.S.\$ 300,000	10 years ThU.S.\$ 400,000	10 years ThU.S.\$ 300,000
Amounts Authorized but not issued	-	-	-	-	-
Principal Repayment	December 2007	8 years September 2005 12 years September 2009 20 years September 2017	August 2010	September 2011	July 2013
Interest rate (excluding effects of any interest rate swap)	7.00%	8 years 6.95% 12 years 7.20% 20 years 7.50%	8.625 %	7.75%	5.125%
Interest Payment	Semi-annually	Semi-annually	Semi-annually	Semi-annually	Semi-annually

As of December 31, 2004, the principal and interest amounts due with respect to these bonds were as follows:

Year	ThU.S.\$
2005 (*)	208,640
2006	-
2007	100,000
2008	-
2009 and thereafter	1,182,500
<b>Total</b>	<b>1,491,140</b>

(\*) This amount includes U.S.\$ 33,640 thousand of accrued interest.

## Nota 13

### 13. ACCRUED LIABILITIES

(a) Accrued liabilities were as follows:

	As of December 31,	
	2003 ThU.S.\$	2004 ThU.S.\$
Accrual for staff vacations	5,022	6,735
Plant maintenance accrual	4,228	4,560
Standby letters of credit	633	385
Accrual for contingencies	306	456
Staff severance indemnities	915	1,164
Selling and other transportation costs provisions	1,520	2,118
Electrical expense provision	925	5,616
Staff salary and benefits	1,983	4,397
Forestry activity expenses	843	344
Pending monthly provisional payments	4,504	6,282
Chlorate Plant provision	1,409	1,437
Other current liabilities	2,989	4,093
<b>Total accrued liabilities</b>	<b>25,277</b>	<b>37,587</b>

(b) Liability for staff severance indemnities

The liability for staff severance indemnity payments is shown at its present value as described in note 1(j). The movement in this account was as follows:

	As of December 31,	
	2003 ThU.S.\$	2004 ThU.S.\$
Balance at beginning of year	8,673	14,613
Charge to income	5,361	2,837
Charge to assets	1,135	498
Payments during the year	(556)	(519)
<b>Balance as of year-end</b>	<b>14,613</b>	<b>17,429</b>

	As of December 31,	
	2003 ThU.S.\$	2004 ThU.S.\$
Shown in the balance sheet as:		
Current	915	1,164
Long-term	13,698	16,265
<b>Total</b>	<b>14,613</b>	<b>17,429</b>

## Nota 14

### 14. LONG-TERM BANK BORROWINGS

(a) Long-term bank borrowings including accrued interest outstanding at each year-end were as follows:

Bank or financial institution	Denomination	As of December 31, 2003		As of December 31, 2004	
		Long-term Portion ThU.S.\$	Short-term Portion ThU.S.\$	Long-term Portion ThU.S.\$	Short-term Portion ThU.S.\$
J.P. Morgan-Chase (Argentine Collateral Trust) (1)	U.S.\$	250,000	416	250,000	191
Tesoro Argentino (2)	U.S.\$	2,020	634	1,606	700
J.P. Morgan-Chase Bank (3)	U.S.\$	150,000	1,310	-	-
Citigroup (Revolving Facility) (4)	U.S.\$	-	-	200,000	1,842
<b>Total long-term bank borrowings</b>		<b>402,020</b>	<b>2,360</b>	<b>451,606</b>	<b>2,733</b>

The weighted average interest rates for long-term foreign currency-denominated debt for the years ended December 31, 2003 and 2004 were 4.15% and 5.64%, respectively. Arauco enters into interest rate swap agreements to swap certain amounts of its non-U.S. dollar denominated payment obligations for U.S. dollar-denominated payment obligations. Six-month LIBOR on December 31, 2003 and 2004 was 1.21% and 2.78%, respectively.

(1) Alto Paraná Loans

a) The Argentine subsidiary Alto Paraná S.A. obtained a U.S.\$ 250 million loan in order to redeem preferred equity shares. The loan is denominated in U.S. dollars, and has a variable interest rate of LIBOR plus a market spread. Interest payments are due semi-annually and principal is payable in five semi-annual payments, which begin December 12, 2006.

(2) Tesoro Argentino

Alto Paraná owed an initial aggregate principal amount of U.S.\$ 13 million and additional accrued interest payable to the Argentine government in respect of certain loans originally made by Banco Nacional de Desarrollo to Alto Paraná. These loans were originally covered by guarantees issued by the governments of other countries that sought reimbursement from the Argentine government for payment made under these guarantees. The Argentine government renegotiated its debt with the "Paris Club" countries and, pursuant to Resolution 40/95 issued by the Ministry of Economy and Public Works and Services, has extended these terms to the Argentine companies that originally incurred this debt, including Alto Paraná. According to their terms, those Governmental Obligations have been restructured to mature in installments between 1995 and 2008 and accrue interest at a contractual rate of LIBOR plus a spread of up to 0.625%.

(3) The Company obtained a U.S.\$ 150 million loan in order to repay outstanding debt. The loan was denominated in U.S. dollars, and had a variable interest rate of LIBOR plus 0.85%. Interest payments were due semi-annually, while the loan principal was repayable in five semi-annual payments, which were to begin on February 7, 2006. The loan was prepaid in August 2004.

(4) On August 3, 2004, the Company obtained a syndicated loan for U.S.\$ 240 million with a group of banks lead by Citigroup, BBVA, Calyon and Dresdner Kleinwort Wasserstein. The credit is structured as a revolving facility, allowing the Company to borrow, prepay and borrow the committed amount again during the life of the credit facility. Funds will be used for debt refinancing and other corporate purposes.

The term of the credit is five years and the interest rate is LIBOR plus 0.275% if the outstanding amount is less than 50% of the facility, and LIBOR plus 0.30% if the outstanding amount is more than 50% of the facility.

**(b) Debt distribution**

As of December 31, 2003 and 2004, long-term bank borrowings, including both the current portion and interest accrued, were denominated almost exclusively in U.S. dollars.

**(c) Maturity of long-term bank borrowings**

As of December 31, 2004, the maturities of long-term bank borrowings payable were as follows:

Year	ThU.S.\$
2005	2,733
2006	50,492
2007	100,557
2008	220,557
2009 and thereafter	80,000
<b>Total</b>	<b>454,339</b>

The principal financial covenant contained in the instruments or agreements with respect to such long-term bank borrowings was as follows:

- The interest coverage ratio must not be less than 2.0.
- The ratio of debt to consolidated tangible net worth must not be higher than 1.2.
- Consolidated net worth must not be less than U.S.\$ 2,500 million.

## Nota 15

### 15. INCOME TAXES

**(a) Taxable income**

In accordance with Chilean law, the Company and each of its subsidiaries determine and pay tax on a separate basis and not on a consolidated basis.

On a consolidated basis, Arauco recorded charges for income taxes amounting to U.S.\$ 57,229 thousand and U.S.\$ 125,665 thousand for the years ended December 31, 2003 and 2004, respectively. Furthermore, Arauco established provisions for U.S.\$ 113 thousand as of December 31, 2003 and U.S.\$ 56 thousand as of December 31, 2004, in accordance with Article 21 of the Income Tax Law. These amounts are shown in "Income tax payable," net of monthly prepayments and training expenses.

The detail of income tax expense is as follows:

	As of December 31,	
	2003 ThU.S.\$	2004 ThU.S.\$
Income tax	(57,229)	(125,665)
Adjustment to prior year's tax expense	(82)	1,094
Provisions estimated in accordance with Article No. 21 of the Income Tax Law in Chile	(113)	(56)
Deferred income tax	(48,564)	(12,187)
Amortization of complementary accounts	(236)	(197)
Changes in valuation provision	22,460	168
Tax benefit for tax losses	633	96
<b>Total Income Tax</b>	<b>(83,131)</b>	<b>(136,747)</b>



**(b) Retained taxable earnings**

Shareholders of Chilean corporations are entitled to a tax credit against tax due on dividend distributions to the extent of their allocable share of tax paid by the corporation on such earnings prior to distribution. The retained taxable earnings generated by the Company, along with the related tax credit, if any, that would be available to shareholders on distribution of such amounts, are presented below. Under Chilean tax law, dividend distributions must be made from earnings in years with available credits on a first-in, first-out basis. Remaining tax credits on undistributed earnings as of December 31, 2004 were as follows:

	Retained Earnings		Shareholders'
	With Credit	Without Credit	Tax Credit
	ThU.S.\$	ThU.S.\$	ThU.S.\$
Balance as of December 31, 2003	215,069	8,607	34,322
Balance as of December 31, 2004	264,271	30,620	44,870
<b>Total</b>	<b>479,340</b>	<b>39,227</b>	<b>79,192</b>

**(c) Deferred taxation**

As explained in note 1(h), as of December 31, 2003 and 2004 Arauco recorded accumulated deferred taxes arising from temporary differences as follows:

	As of December 31, 2003			
	Deferred tax assets		Deferred tax liabilities	
	Current ThU.S.\$	Long term ThU.S.\$	Current ThU.S.\$	Long term ThU.S.\$
Allowance for doubtful accounts	2,067	150	-	-
Deferred revenues	849	-	-	-
Accrual for staff vacations	818	-	-	-
Production costs	-	-	5,562	-
Value difference and property, plant and equipment depreciation	-	-	-	97,027
Capitalized expenses	-	-	2,877	5,771
Obsolescence reserve	1,187	-	-	-
Debt issue and project expenses	-	-	-	3,560
Staff severance indemnities	1,740	615	-	-
Tax loss carry forwards	3,836	1,260	-	-
Property, plant and equipment valuation	-	32,199	-	14,626
Accrual for contingencies	411	-	-	-
Plant maintenance accrual	425	-	-	-
Argentine peso devaluation	2,120	4,239	-	-
Leasing assets	-	-	54	13
Other	2,351	339	336	896
<b>Total</b>	<b>15,804</b>	<b>38,802</b>	<b>8,829</b>	<b>121,893</b>
Complementary accounts, net of accumulated amortization (1)	(2,719)	(13,076)	-	(14,291)
Valuation provision	-	(6,289)	-	-
<b>Total</b>	<b>13,085</b>	<b>19,437</b>	<b>8,829</b>	<b>107,602</b>

	As of December 31, 2004			
	Deferred tax assets		Deferred tax liabilities	
	Current ThU.S.\$	Long term ThU.S.\$	Current ThU.S.\$	Long term ThU.S.\$
Allowance for doubtful accounts	2,147	149	-	-
Deferred revenues	2,073	3	-	-
Accrual for staff vacations	1,101	-	-	-
Production costs	-	-	6,489	-
Capitalized expenses	-	-	4,119	9,348
Value difference and property, plant and equipment depreciation	-	-	-	105,989
Staff severance indemnities	1,971	753	-	-
Debt issue and project expenses	-	-	-	2,623
Obsolescence reserve	636	-	-	-
Accrual for contingencies	405	-	-	-
Tax loss carry-forwards	2,719	2,171	-	-
Property, plant and equipment valuation	-	35,527	-	14,491
Plant maintenance accrual	367	-	-	-
Argentine peso devaluation	2,088	2,088	-	-
Other	2,419	525	1,014	1,458
Leasing assets	-	-	294	594
<b>Total</b>	<b>15,926</b>	<b>41,216</b>	<b>11,916</b>	<b>134,503</b>
Complementary accounts, net of accumulated amortization (1)	(2,719)	(14,380)	-	(15,479)
Valuation provision	-	(6,028)	-	-
<b>Total</b>	<b>13,207</b>	<b>20,808</b>	<b>11,916</b>	<b>119,024</b>

(1) These accounts reverse over the same period as the timing differences that gave rise to them with an average of approximately 15 years.

## Nota 16

### 16. FORESTRY GRANTS

Forestry grants are included in shareholders' equity under the account heading "Forestry and other reserves." These grants are transferred to income at the time of sale of the related finished goods. The Company's forestry subsidiaries received forestry grants of U.S.\$ 866 thousand during the year ending December 31, 2003 and U.S.\$ 1,236 thousand during the year ending December 31, 2004.

## Nota 17

### 17. ASSETS AND LIABILITIES DENOMINATED IN LOCAL AND FOREIGN CURRENCY

As of each period-end, Arauco had assets and liabilities denominated in local and foreign currencies. These assets and liabilities are shown at their U.S. dollar equivalent at each year-end.

	Currency	At December 31,	
		2003 ThU.S.\$	2004 ThU.S.\$
<b>Assets</b>			
Current Assets:			
Cash and banks	U.S.\$	3,175	4,655
Cash and banks	Ch\$	2,132	2,890
Cash and banks	Other currencies	4,297	2,946
Time deposits and marketable securities	U.S.\$	339,333	235,415
Time deposits and marketable securities	Ch\$	3,169	51
Time deposits and marketable securities	Other currencies	192,231	140,455
Trade accounts receivable	U.S.\$	180,827	236,576
Trade accounts receivable	Ch\$	24,529	33,596
Trade accounts receivable	Other currencies	16,577	76,804
Other accounts receivable	U.S.\$	8,936	3,737
Other accounts receivable	Ch\$	17,253	28,508
Other accounts receivable	Other currencies	5,975	5,027
Inventories	U.S.\$	417,927	495,172
Inventories	Ch\$	17,542	11,978
Other current assets	U.S.\$	37,490	58,242
Other current assets	Ch\$	59,092	45,114
Other current assets	Other currencies	23,072	20,336
<b>Total current assets</b>		<b>1,353,557</b>	<b>1,401,502</b>
Property, plant and equipment and other assets:			
Property, plant and equipment	U.S.\$	4,307,790	4,757,662
Property, plant and equipment	Ch\$	18,945	27,690
Other assets	U.S.\$	59,706	67,607
Other assets	Ch\$	23,303	21,438
Other assets	Other currencies	21,158	20,273
<b>Total property, plant and equipment and other assets</b>		<b>4,430,902</b>	<b>4,894,670</b>
<b>Total assets</b>		<b>5,784,459</b>	<b>6,296,172</b>

	Currency	At December 31,	
		2003 ThU.S.\$	2004 ThU.S.\$
<b>Liabilities</b>			
Current liabilities:			
Current bank borrowings	U.S.\$	1,319	-
Current bank borrowings	Other currencies	49	-
Current portion of long-term bank borrowings	U.S.\$	2,360	2,733
Current portion of bonds	U.S.\$	33,638	208,640
Notes and trade accounts payable	U.S.\$	16,572	26,067
Notes and trade accounts payable	Ch\$	68,714	77,682
Notes and trade accounts payable	Other currencies	22,315	17,892
Other current liabilities	U.S.\$	13,562	17,828
Other current liabilities	Ch\$	26,561	50,637
Other current liabilities	Other currencies	4,422	24,476
<b>Total current liabilities</b>		<b>189,512</b>	<b>425,955</b>
Long-term liabilities:			
Long-term bank borrowings	U.S.\$	402,020	451,606
Bonds	U.S.\$	1,457,500	1,282,500
Other long-term liabilities	U.S.\$	14,366	5,035
Other long-term liabilities	Ch\$	93,666	116,638
Other long-term liabilities	Other currencies	499	4,538
<b>Total long-term liabilities</b>		<b>1,968,051</b>	<b>1,860,317</b>
<b>Total liabilities</b>		<b>2,157,563</b>	<b>2,286,272</b>

## Nota 18

### 18. BALANCES AND TRANSACTIONS WITH RELATED PARTIES

Company	Relationship	As of December 31,		Transaction
		2003 ThU.S.\$	2004 ThU.S.\$	
<b>(a) Current assets</b>				
Cía. de Seguros Generales Cruz del Sur S.A.	Affiliate	1,190	2,081	Accounts receivable
Fundación Educacional Arauco	Affiliate	473	-	Accounts receivable
Eka Chile S.A.	Affiliate	-	1,660	Accounts receivable
Compañía Puerto de Coronel S.A.	Affiliate	-	146	Accounts receivable
Abastible S.A.	Affiliate	-	175	Accounts receivable
<b>Total current assets</b>		<b>1,663</b>	<b>4,062</b>	
<b>(b) Current liabilities</b>				
Compañía de Petróleos de Chile Copec S.A.	Affiliate of Shareholder	62	318	Accounts payable
Puerto de Lirquén S.A.	Affiliate	333	331	Accounts payable
Compañía Puerto de Coronel S.A.	Affiliate	275	-	Accounts payable
Abastible S.A.	Affiliate	46	-	Accounts payable
Servicios Corporativos Sercor S.A.	Affiliate	10	14	Accounts payable
Compañía de Turismo de Chile Ltda.	Affiliate	3	3	Accounts payable
Sigma Servicios Informáticos S.A.	Affiliate	1	2	Accounts payable
Eka Chile S.A.	Affiliate	599	-	Accounts payable
Fundación Educacional Arauco	Affiliate	-	154	Accounts payable
<b>Total current liabilities</b>		<b>1,329</b>	<b>822</b>	

During the years ended December 31, 2003 and 2004, Arauco had the following related party transactions that affected net income:

	<b>Purchases (sales)</b>	
	<b>Year ended December 31,</b>	
	<b>2003</b>	<b>2004</b>
	<b>ThU.S.\$</b>	<b>ThU.S.\$</b>
(a) Compañía de Petróleos de Chile Copec S.A.:		
Purchases of fuel	14,590	18,847
Other sales	(2)	(2)
(b) Puerto de Lirquén S.A.:		
Port services	2,924	3,180
(c) Abastible S.A.:		
Purchases of fuel	369	528
(d) Compañía de Seguros Generales Cruz del Sur S.A.:		
Direct insurance premiums	10,966	10,939
(e) Cía. Puerto de Coronel S.A.:		
Stockpiling services	1,856	5,976
(f) Portaluppi, Guzmán y Bezanilla Abogados		
Legal advice	237	670
(g) Eka Chile S.A.		
Purchase of sodium chlorate	10,233	16,684
Engineering services	(4,712)	-
Electricity sale	-	(12,862)
Other sales	-	(31)
Other purchases	-	573
Capital contribution	25,000	-
(h) ABC Comercial Ltda.		
Other purchases	4	7

## Nota 19

### 19. CONTINGENCIES AND COMMITMENTS

#### Warranties

Full, unconditional and irrevocable warranty of the Company on behalf of its subsidiary Alto Paraná S.A., in relation to bonds (Títulos de Deuda) issued under the Financial Trust "Argentine Collateral Trust I" dated June 13, 2001 under the laws of the Republic of Argentina, for the amount of U.S.\$ 250 million due on December 2008.

Binding bail of the Company on behalf of its subsidiary Arauco Generación S.A. in relation to the construction of a sodium chloride plant of Eka Chile S.A.

Trials or other legal proceedings

**A)** The Company is involved in the following proceedings and legal actions regarding the operation of the Valdivia Plant: 1) Through Exempt Resolution No. 250 dated April 1, 2004, the Regional Environmental Commission ("COREMA") opened an investigation in connection with the alleged violation by the Valdivia Plant of environmental regulations set forth by the Resolution of Environmental Description No. 279-1998.

The Company answered the charges before the Commission. Nevertheless, through Exempt Resolution No. 387 dated May 24, 2004, the Commission resolved, among other things, to (a) fine the Company 900 Unidades Tributarias Mensuales ("UTM") for failure to comply with the terms and conditions set forth in Sections 2, 11, 12 and 13 of the Resolution of Environmental Description; (b) accept the measures proposed by the Company to mitigate the odor problem, establishing a schedule for the execution of such measures and (c) point out that the Riles discharge system of the emergency system must comply with the Evaluating System of Environmental Impact (Law 19.300). The aforementioned Resolution

No. 387 was judicially appealed in the Civil Court of Puerto Montt on June 4, 2004, in connection with part of the fine mentioned in clause (a) above, because of a previous payment of 10% of the total claimed. The case is currently in progress.

2) Based on the Records of Inspection dated July 8, 2004 and finalized on July 15, 2004, Valdivia's Department of Health Services began a Sanitary Indictment for the alleged emission of odors at the Valdivia Plant. On July 19, 2004, the Valdivia Plant filed its reply. Through Resolution 1775 dated December 17, 2004, Valdivia's Department of Health Services resolved to fine Arauco 1,000 UTM and established some requirements to be fulfilled by the Company.

On December 27, 2004, Arauco judicially appealed the aforementioned Resolution in the First Civil Court of Valdivia. The matter is currently pending resolution.

3) Through a Resolution dated September 13, 2004 (of which the Company received notice on October 14, 2004), the Court of the Local Police of San José de la Mariquina fined the Company for starting construction of ten buildings without construction permits and without having registered the works, and for another building that did not have the required municipal approval, \$31,847,593 and \$133,553,287, respectively (equivalent to 20% of the applicable budgets).

The Company filed an appeal on October 20, 2004 with the Court of Appeals of Valdivia, and the Court decided on December 1, 2004 to reduce the fines from 20% to 0.5% of the budget of each of the works, \$796,190 to \$3,338,832, respectively.

4) Through Ordinance No. 61 dated March 31, 2004, the Director of Municipal Works of San José de la Mariquina informed the Court of the Local Police that the Company did not have appropriate work approvals for certain buildings, leading to a proceeding, case No. 288-04.

Through a Resolution dated April 5, 2004, the Court fined the company \$502,699,000. However, on August 6, 2004, the Court of Appeals of Valdivia overturned that sentence and disqualified the judge from the case.

Through a Resolution dated December 23, 2004, the Court of the Local Police of San José de la Mariquina fined the Company 13% of the total budget of the works, or \$326,754,632, for municipal benefit.

On January 14, 2005, the Company appealed, and the matter is currently in progress.

5) Through Resolution No. 610 dated April 15, 2004 (of which the Company received notice on April 19, 2004), Valdivia's Department of Health Services fined Arauco the pesos equivalent of 1,000 UTM, due to noise at the Valdivia Plant. The Company appealed the fine in the appropriate Civil Court of Valdivia, case No. 1151-04, and the matter is currently in progress.

6) Through Exempt Resolution No. 818 dated December 9, 2004, COREMA fined Arauco 200 UTM for the delay in the delivery of certain documents in relation to the measurements of AOX in fluid industrial waste at the Valdivia Plant.

7) Through Resolution No. 860 dated December 21, 2004, COREMA began sanction proceedings against the Company due to the release of refrigeration water at the Valdivia Plant, the disposal of solid waste, the accumulation of spills and the spilling of non-authorized fluids. On January 11, 2005, Arauco filed its response, and the matter is currently pending resolution.

8) On January 17, 2005, the Court of Appeals of Valdivia allowed a Protection Appeal filed by Mr. Vladimir Riesco, jointly with other parties, against the Company, which is currently in progress.

9) Through Resolution No. 17 dated January 18, 2005, COREMA began sanction proceedings against the Company due to an alleged increase in the capacity of the plant, an increase of additional waters to the River Cruces, a lack of compliance with the quality and emission guidelines for fluid waste, a lack of compliance with the required measurement

of TRS gas and a lack of compliance with other measurement parameters. The Company filed its appeal last January 31, 2005 and the case is in progress.

10) Through Resolution No. 18 dated January 18, 2005, COREMA ordered a stoppage measure on the production process at the Valdivia pulp mill, which was reversed through Resolution No. 119 dated February 17, 2005. Arauco had filed an appeal on January 26, 2005, which is currently pending, in which the Company expressed its belief that the stoppage measure was unjustified and disproportionate.

11) Through Resolutions 3300 and 3301 dated December 20, 2004, the Superintendent of Sanitary Services began sanction proceedings against the Company due to the Company exceeding the guidelines of the Resolution on Environmental Description, approved by the Study of Environmental Impact regarding the total emission of phosphate and temperature.

Through Resolution 290 dated January 26, 2005, the Superintendent of Sanitary Services fined Arauco 200 Unidades Tributarias Anuales ("UTA"). This Resolution was judicially appealed on February 9, 2005 in the appropriate Civil Court of Santiago, and the matter is currently in progress.

**B)** Arauco is subject to the following legal sanctions and proceedings affecting its Arauco Plant:

1) A Protection Appeal dated August 25, 2004, filed by Deputy Alejandro Navarro Brain, jointly with other parties, before the Court of Appeals of Concepción, case No. 2743-2004, based on the nuisance caused by a turpentine spill at the Arauco Plant on August 23, 2004. On September 13, 2004, the Company appealed. On December 13, 2004, the distinguished Court of Appeals of Concepción denied the Company's appeal.

2) A Protection Appeal, dated August 24, 2004, filed by Mr. Alcalde de Lota, before the First Court of Appeals of Concepción, case No. 2714-2004, based on the nuisance cited in (1) above. On September 29, the Company appealed, and the appeal is currently pending resolution.

3) Arauco's Department of Health Services began a sanitation investigation on August 23, 2004, related to the turpentine spill described in (1) above.

Through a Resolution dated November 8, 2004, Arauco's Department of Health Services resolved to fine the Company 1,000 UTM.

This resolution was judicially appealed on November 17, 2004 before the Court of Lebu, and is currently pending resolution.

4) Through a Fiscal Decision dated January 3, 2005, the Maritime Administrative Authority of Talcahuano decided that, due to the riles discharge on October 13, 2004, the Company should be fined an amount equivalent to 5,000 gold pesos, but the final decision from the Maritime Governor is still pending.

**C)** Arauco is subject to the following legal sanctions and proceedings affecting its Nueva Aldea Forestry Industrial Complex:

1) Through Resolution No. 19 dated January 12, 2005, COREMA for the Eighth Region of Chile ordered the Company (as a precautionary measure) to suspend works on the construction of the pulp plant in the Nueva Aldea Forestry Industrial Complex. The Resolution was lifted on March 2, 2005.

On January 21, 2005, the Company filed an appeal with the Executive Director of the National Environmental Commission requesting that the Resolution be reversed for being unjustified and disproportionate.

2) Through Resolution No. 17 dated January 12, 2005, COREMA filed proceedings against the Company applying sanctions against the Nueva Aldea Forestry Industrial Complex. The Company filed an appeal on February 16, 2005, which is currently pending resolution.

3) Since January 25, 2005, the Court of Appeals of Chillán has been reviewing an appeal filed by Mr. Deputy Alejandro Navarro, jointly with other parties, regarding the increase in the production capacity of Nueva Aldea's CFI and the spilling of water in the Velenunque Estuary. The Company filed its response, and the matter is currently pending resolution.

4) Regarding the Company's subsidiary Paneles Arauco S.A., through Resolution No 18 dated January 12, 2005, COREMA for the Eighth Region of Chile filed sanction proceedings against the Company regarding its panel plant located next to Nueva Aldea's Forestry Industrial Complex. The Company has filed an appeal, which is currently pending resolution.

The Company is not currently involved in any other court proceedings or any other legal actions that could significantly affect its financial, economic or operational conditions.

#### **Other contingencies**

The Electricity and Fuel Superintendent imposed sanctions on Arauco's subsidiary Arauco Generación S.A. for alleged deficiencies in the Central Interconnected System. Arauco Generación S.A. is appealing these sanctions in the Court of Justice and with the Superintendent, and the matter is currently pending resolution. The amounts of the fines in question reach \$269,438 thousand, and have been recorded in the consolidated financial statements.

As of December 31, 2004, the Company was not involved in any other court proceedings or any other legal actions that could significantly affect its financial, economic or operational conditions.

#### **Restrictions**

Due to the liabilities presented in the categories of Obligations with Banks and Financial Institutions and Obligations with the Public, there are certain financial restrictions with which Arauco must comply. Non-compliance could result in these debts becoming fully payable upon demand.

The minimum financial restrictions are:

- (i) the ratio of debt to consolidated tangible net worth must not be greater than 1.2;
- (ii) consolidated net worth must not be less than U.S.\$ 2,500 million; and
- (iii) the interest coverage ratio must not be less than 2.0.

Arauco's Argentine subsidiary Alto Paraná S.A., due to its obligations with JPMorgan Chase (Argentine Collateral Trust), must comply with the following ratios:

- (i) the total financial liabilities (excluding JPMorgan Chase's debt) must not be greater than 65% of its assets plus the debt with JPMorgan Chase; and
- (ii) the ratio between EBITDA and excluded interests generated by the debt with JPMorgan Chase cannot be less than 1.75.

Both Arauco and its subsidiary Alto Paraná S.A. have complied with these restrictions as of December 31, 2004.



## Nota 20

### 20 SHAREHOLDERS' EQUITY

The movements in the capital and reserve accounts for each of the years ended December 31, 2003 and 2004 are as follows:

	Paid-in capital ThU.S.\$	Share premium ThU.S.\$	Forestry and other reserves	Retained earnings from prior years ThU.S.\$	Interim dividends ThU.S.\$	Net Income for the year ThU.S.\$	Total ThU.S.\$
<b>December 31, 2003</b>							
Balance as of December 31, 2002	347,551	5,625	1,356,030	1,259,743	(38,682)	277,189	3,207,456
Prior year income allocation	-	-	-	277,189	-	(277,189)	-
Dividends paid	-	-	-	(103,471)	38,682	-	(64,789)
Forestry reserve	-	-	117,649	-	-	-	117,649
Forestry reserve adjustment related Subsidiaries	-	-	(1,604)	-	-	-	(1,604)
Conversion adjustment related to subsidiaries	-	-	11,001	-	-	-	11,001
Interim dividends	-	-	-	-	(65,221)	-	(65,221)
Net income for the year	-	-	-	-	-	409,192	409,192
<b>Balance as of December 31, 2003</b>	<b>347,551</b>	<b>5,625</b>	<b>1,483,076</b>	<b>1,433,461</b>	<b>(65,221)</b>	<b>409,192</b>	<b>3,613,684</b>

	Paid-in capital ThU.S.\$	Share premium ThU.S.\$	Forestry and other reserves	Retained earnings from prior years ThU.S.\$	Interim dividends ThU.S.\$	Net Income for the year ThU.S.\$	Total ThU.S.\$
<b>December 31, 2004</b>							
Balance as of December 31, 2003	347,551	5,625	1,483,076	1,433,461	(65,221)	409,192	3,613,684
Prior year income allocation	-	-	-	409,192	-	(409,192)	-
Dividends paid	-	-	-	(156,133)	65,221	-	(90,912)
Forestry reserve	-	-	(26,314)	-	-	-	(26,314)
Forestry reserve adjustment related to subsidiaries	-	-	(2,775)	-	-	-	(2,775)
Conversion adjustment related to subsidiaries	-	-	5,759	-	-	-	5,759
Interim dividends	-	-	-	-	(86,833)	-	(86,833)
Net income for the year	-	-	-	-	-	590,444	590,444
<b>Balance as of December 31, 2004</b>	<b>347,551</b>	<b>5,625</b>	<b>1,459,746</b>	<b>1,686,520</b>	<b>(86,833)</b>	<b>590,444</b>	<b>4,003,053</b>

The number of shares authorized, issued and outstanding as of December 31, 2003 and 2004 was 113,152,446. The Company's shares are of a single series without a fixed nominal value.

## Nota 21

### 21. OTHER NON-OPERATING INCOME

Other non-operating income was as follows:

	As of December 31,	
	2003 ThU.S.\$	2004 ThU.S.\$
Reimbursement of customs duties	3,096	4,701
Rental income	402	429
Insurance recoveries	2,436	305
Gain on sale of energy	136	156
Sale of materials and others	721	482
Reversal of prior year on sale expense provision	321	768
Inventory adjustment	-	96
Other income	2,913	1,861
<b>Total other non-operating income</b>	<b>10,025</b>	<b>8,798</b>

## Nota 22

### 22. OTHER NON-OPERATING EXPENSES

Other non-operating expenses were as follows:

	As of December 31,	
	2003 ThU.S.\$	2004 ThU.S.\$
Other services and fees	1,658	1,433
Other depreciation and amortization	712	550
Write-off of damaged forest	313	612
Donations	166	215
Severance payments	519	-
Project expenses	289	385
Write-off of obsolete material	2,564	1,038
Provision for uncollectible accounts receivable	3,618	382
Legal expenses	96	130
Taxes	3,907	3,645
Loss on sale of fixed assets	258	2,206
Inventory adjustment	360	-
Indirect project expenses	-	2,717
Other expenses	3,686	1,748
<b>Total other non-operating expenses</b>	<b>18,146</b>	<b>15,061</b>

## Nota 23

### 23. MINORITY INTEREST

The equity value corresponding to the minority shareholders' interest in the Company's subsidiaries was as follows:

	As of December 31,	
	2003 ThU.S.\$	2004 ThU.S.\$
Alto Paraná S.A.	189	204
Forestal Arauco S.A.	1,686	1,706
Forestal Cholguán S.A.	4,474	4,740
Forestal Celsur S.A.	6,661	-
Controladora de Plagas Forestales S.A.	202	197
<b>Total</b>	<b>13,212</b>	<b>6,847</b>

Income corresponding to the minority shareholders' interest in the Company's subsidiaries was as follow:

	As of December 31,	
	2003 ThU.S.\$	2004 ThU.S.\$
Alto Paraná S.A.	(15)	(21)
Forestal Arauco S.A.	(97)	(101)
Forestal Cholguán S.A.	(121)	(224)
Controladora de Plagas Forestales S.A.	34	25
<b>Total</b>	<b>(199)</b>	<b>(321)</b>

## Nota 24

### 24. SANCTIONS

#### From the Chilean Securities Commission

Through Exempt Resolution No. 196 dated April 22, 2004, the Chilean Securities Commission levied a sanction of 15 U.F. against the Company for not submitting a list of shareholders as of March 31, 2004.

#### From other administrative authorities

##### A) Parent Company

- 1) Through Resolution 554 dated April 6, 2004, Valdivia's Department of Health Services fined the Company 100 UTM for excessive noise levels at Valdivia Plant. The Company paid the fine within the stipulated legal period.
- 2) Through a Resolution dated September 13, 2004 (of which the Company received notice on October 14, 2004), the Court of the Local Police of San José de la Mariquina fined the Company for starting construction of ten buildings without construction permits and without having registered the works, and for another building that did not have the required municipal approval, \$31,847,593 and \$133,553,287, respectively (equivalent to 20% of the applicable budgets). The Company filed an appeal on October 20, 2004 with the Court of Appeals of Valdivia, and the Court decided on December 1, 2004 to reduce the fines from 20% to 0.5% of the budget of each of the works, \$796,190 to \$3,338,832, respectively.
- 3) Through Resolution No. 610 dated April 15, 2004 (of which the Company received notice on April 19, 2004), Valdivia's Department of Health Services fined Arauco the pesos equivalent of 1,000 UTM, due to noise at the Valdivia Plant. The Company appealed the fine in the appropriate Civil Court of Valdivia, case No. 1151-04, and the matter is currently in progress.
- 4) Through Ordinance No. 61 dated March 31, 2004, the Director of Municipal Works of San José de la Mariquina informed the Court of the Local Police that the Company did not have appropriate work approvals for certain buildings, leading to a proceeding, case No. 288-04.

Through a Resolution dated April 5, 2004, the Court fined the Company \$502,699,000. However, on August 6, 2004, the Court of Appeals of Valdivia overturned that sentence and disqualified the judge from the case.

Through a Resolution dated December 23, 2004, the Court of the Local Police of San José de la Mariquina fined the Company 13% of the total budget of the works, or \$326,754,632, for municipal benefit.

On January 14, 2005, the Company appealed, and the matter is currently in progress.

5) Through Resolution No. 387 dated May 24, 2004, the Regional Environmental Commission resolved to fine the Company 900 UTM for failure to comply with the terms and conditions established by the Evaluating System of Environmental Impact. The Resolution was judicially appealed in the Civil Court of Puerto Montt on June 4, 2004 because of a previous payment of 10% of the total claimed. The case is currently in progress.

6) Through a Resolution dated September 14, 2004, case No. 298-04, the Police Tribunal of San José de la Mariquina charged the Company a fine of \$14,203,119 for functioning without a municipal license.

7) Through Exempt Resolution No. 169 dated August 13, 2004, regarding the Nueva Aldea Forestry Industrial Complex, the National Environmental Commission, through its Regional Commission of Bío Bío, sanctioned the Company for lack of compliance with the standards required by the Resolution of Environmental Qualification of CFI Nueva Aldea Project. The sanction (of which the Company was notified on August 30, 2004) includes one warning and six fines, totaling 1,600 UTM. The company did not file an appeal.

8) Through Exempt Resolution No. 818 dated December 9, 2004, COREMA fined the Company 200 UTM for the delay in the delivery of certain documents in relation to the measurements of AOX in the fluid industrial waste at the Valdivia Plant.

9) Through Resolution No. 860 dated December 21, 2004, COREMA began sanction proceedings against the Company due to the release of refrigeration water at the Valdivia Plant, the disposal of solid waste, the accumulation of spills and the spilling of non-authorized fluids.

On January 11, 2005, Arauco filed its response, and the matter is currently pending resolution.

10) Through Resolution No. 17 dated January 18, 2005, COREMA began sanction proceedings against the Company due to an alleged increase in the capacity of the Valdivia Plant, an increase of additional waters to the River Cruces, a lack of compliance with the quality and emission guidelines for fluid waste, a lack of compliance with the required measurement of TRS gas and a lack of compliance with other measurement parameters. The Company filed its appeal last January 31, 2005 and the case is in progress.

11) Through Resolutions 3300 and 3301 dated December 20, 2004, the Superintendent of Sanitary Services began sanction proceedings against the Company due to the Company exceeding the guidelines of the Resolution on Environmental Description, approved by the Study of Environmental Impact regarding the total emission of phosphate and temperature.

12) Arauco's Department of Health Services began a sanitation investigation on August 23, 2004, related to a turpentine spill.

Through a Resolution dated November 8, 2004, Arauco's Department of Health Services resolved to fine the Company 1,000 UTM.

This resolution was judicially appealed on November 17, 2004 before the Court of Lebu, and is currently pending resolution.

13) Through Resolution 1775 dated December 17, 2004, Valdivia's Department of Health Services resolved to fine Arauco 1,000 UTM and established some requirements to be fulfilled by the Company.

On December 27, 2004, Arauco judicially appealed the aforementioned Resolution in the First Civil Court of Valdivia. The matter is currently pending resolution.

#### **b) Subsidiary Arauco Generación S.A.**

Through Exempt Resolution No. 809 dated April 27, 2004, the Superintendent of Electricity and Fuels imposed a fine of 70 UTA on Arauco Generación S.A. in its capacity as a member company of the CDEC-SIC, for not coordinating to preserve the safety of the electric system, as found in the investigation of the SIC into the general failure that occurred on January 13, 2003, and which constituted a violation of Article 81, No. 1, of D.F.L. No. 1, dated 1982, of the Mining Ministry (this rule is complementary to and further develops Article 165 of D.S. No. 327, 97, of the Mining Ministry, in connection with Article 172(h)).

Resolution No. 809 also fines Arauco S.A. (i) for the lack of coordination in the disconnection of consumption charges, as well as other necessary measures to be applied by the members of the electric system subject to coordination to preserve the safety of the global service of the electric system, in accordance with Article 183, (ii) for lack of coordination in the operation of their joint system and each one of the generating units and transporting lines in real time and (iii) in accordance with Article 185, for lack of coordination of the operation of the generating units, transporting lines and interconnecting transformers in the event of unforeseen circumstances, all of which constituted a very serious violation each time that it referred to a generalized failure in the functioning of the electric system, by the terms indicated in Article 15 of Law No. 18.410.

## Nota 25

### 25. BOND ISSUE COSTS

Arauco amortizes costs related to the issuance of bonds on a straight-line basis over the term of the bonds. The charges to income related to such amortizations for the years ended December 31, 2003 and 2004 were U.S.\$ 2,881 thousand and U.S.\$ 2,797 thousand, respectively, which amounts are reflected in the statement of income under the heading "Interest Expense." The costs recorded for each year are shown below.

	As of December 31,	
	2003 ThU.S.\$	2004 ThU.S.\$
Stamp tax	6,464	5,425
Underwriters commission	5,791	4,697
Rate insurance commission	186	124
Risk evaluation	71	60
Accounting advice	21	16
Printing costs	101	86
Legal advice	573	498
Repayment of bonds	3,652	3,179
Other	113	90
<b>Total bond issue costs</b>	<b>16,972</b>	<b>14,175</b>

## Nota 26

### 26. CASH FLOW

According to regulations established in Circular No. 1312 by the Chilean Securities Commission, the following describes financing or investing activities that will require future cash flows.

Investment Flows	Currency	Amount	Affected Flow
Purchase of fixed assets	US\$	4.9 million	2005
Plywood Mill construction project	US\$	13.3 million	2005
Nueva Aldea Mill construction project	US\$	423.2 million	2005
		169.2 million	2006

## Nota 27

### 27 ENVIRONMENTAL

The following current and future expenditures related to the improvement of or investment in product processes designed to protect the environment were made during the year ended December 31, 2004.

- Project to reduce any gases and steam that are a byproduct of the mill production process. Spent: U.S.\$ 651 thousand. Estimated future cost: U.S.\$ 317 thousand.
- Payment related to environmental protection as a consequence of the Valdivia Mill project. Spent in 2004 U.S.\$ 1,696 thousand. Total accumulated amount as of December 31, 2004: U.S.\$ 17,233 thousand. Estimated future cost: U.S.\$ 253 thousand.
- Payment related to environmental protection as a consequence of the Nueva Aldea Mill project. Spent: U.S.\$ 3,747 thousand. Estimated future cost: U.S.\$ 4,732 thousand.
- Payment related to the Nueva Aldea Thermic Mill Project. Spent: U.S.\$ 2,028 thousand. Estimated future cost: U.S.\$ 58 thousand.
- Project to improve the evacuation of water and effluent treatment of the Paneles Mill. Spent: U.S.\$ 281 thousand. Estimated future cost: U.S.\$ 52 thousand.

The Company's subsidiaries Forestal Celco S.A., Forestal Cholguán S.A., Bosques Arauco S.A. and Forestal Valdivia S.A. are implementing an environmental system regulated under a certification process under rule ISO 14.001. Between January 1 and December 31, 2004 these subsidiaries paid U.S.\$ 159 thousand in relation to the system and anticipate that an additional U.S.\$ 105 thousand will be spent.

## Nota 28

### 28. SUBSEQUENT EVENTS

1) In a Board meeting held on January 4, 2005, the voluntary resignation of Mr. José Tomás Guzmán Dumas as President was accepted, though he retained his position as a Director. Mr. Alberto Etchegaray Aubry, a Director, was appointed as the new President.

During the same meeting, the voluntary resignation of Mr. Roberto Angelini Rossi as Vice-President was accepted, though he retained his position as a Director. Mr. José Tomás Guzmán Dumas was appointed as the new Vice President.

2) Through Resolution No. 18 dated January 18, 2005, COREMA ordered a stoppage measure on the production process at the Valdivia pulp mill, which was reversed through Resolution No. 119 dated February 17, 2005. Arauco had filed an appeal on January 26, 2005, which is currently pending, in which the Company expressed its belief that the stoppage measure was unjustified and disproportionate.

3) Through Resolution No. 19 dated January 12, 2005, COREMA for the Eighth Region of Chile ordered the Company (as a precautionary measure) to suspend works on the construction of the pulp plant in the Nueva Aldea Forestry Industrial Complex. The Resolution was lifted on March 2, 2005.

On January 21, 2005, the Company filed an appeal with the Executive Director of the National Environmental Commission requesting that the Resolution be reversed for being unjustified and disproportionate.

4) Through Resolution No. 17 dated January 12, 2005, COREMA filed proceedings against the Company applying sanctions against the Nueva Aldea Forestry Industrial Complex. The Company filed an appeal on February 16, 2005, which is currently pending resolution.

5) Since January 25, 2005, the Court of Appeals of Chillán has been reviewing an appeal filed by Mr. Deputy Alejandro Navarro, jointly with other parties, regarding the increase in the production capacity of Nueva Aldea's CFI and the spilling of water in the Velenunque Estuary. The Company filed its response, and the matter is currently pending resolution.

6) Regarding the Company's subsidiary Paneles Arauco S.A., through Resolution No 18 dated January 12, 2005, COREMA for the Eighth Region of Chile filed sanction proceedings against the Company regarding its panel plant located next to Nueva Aldea's Forestry Industrial Complex. The Company has filed an appeal, which is currently pending resolution.

7) In an Extraordinary Stockholders Session of the Company held on January 27, 2005, the stockholders approved the creation of the new executive positions of First and Second Vice Presidents of the Company. The stockholders appointed Mr. José Tomás Guzmán Dumas and Mr. Roberto Angelini Rossi, respectively, for the new positions.

No other events have occurred since December 31, 2004 and up to the filing of these financial statements that may affect significantly the financial situation of Arauco.

**Robinson Tajmich V.**  
Controller

**Alejandro Pérez R.**  
Chief Executive Officer

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## REPORT OF INDEPENDENT ACCOUNTANTS

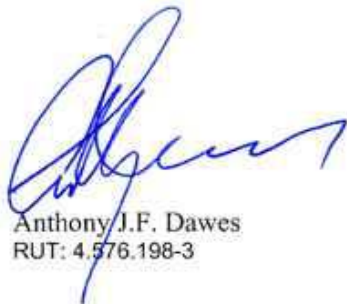
Santiago, March 2, 2005

To the Shareholders and Directors  
 Celulosa Arauco y Constitución S.A.

We have audited the consolidated balance sheets of Celulosa Arauco y Constitución S.A. and subsidiaries as of December 31, 2004 and 2003, and the related consolidated statements of income and cash flows for the years then ended. These financial statements (including the notes thereto) are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of the consolidated subsidiaries Forestal Celco S.A., Arauco Distribución S.A. and Forestal Cholguán S.A., which statements reflect total assets of ThUS\$ 1,320,369 and ThUS\$ 1,134,543 as of December 31, 2004 and 2003, respectively, and net sales of ThUS\$ 350,478 and ThUS\$287,973 for the years then ended, respectively. Those statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for the referred companies, is based solely on the reports of the other auditors.

We conducted our audits in accordance with auditing standards generally accepted in Chile. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, based on our audits and the reports of other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Celulosa Arauco y Constitución S.A. and subsidiaries as of December 31, 2004 and 2003, and the results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in Chile.



Anthony J.F. Dawes  
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Sch Overseas Bank Inc.  
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<b>Concepción Visual y Diseño Gráfico</b>	<b>Concept and Graphic Design</b>
-----------------------------------------------	---------------------------------------

**Naranjo Sadler Design**

<b>Fotografía</b>	<b>Photography</b>
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**Thomas Wedderwille - Numa**

<b>Impresión</b>	<b>Printed by</b>
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