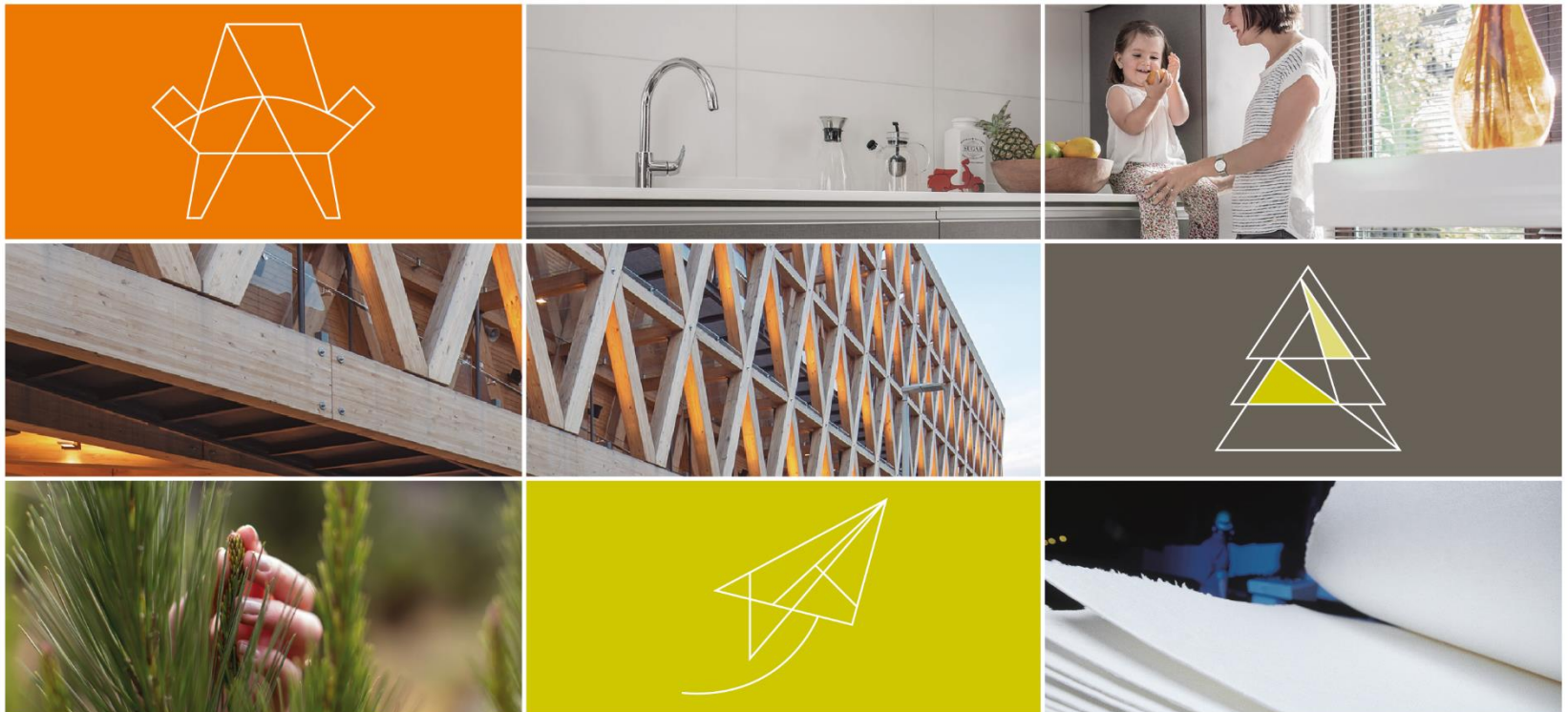


## 4<sup>th</sup> Quarter 2017

Financial Results Conference Call  
Presentation  
March 20, 2018

Gianfranco Truffello  
CHIEF FINANCIAL OFFICER



# DISCLAIMER

This presentation contains forward-looking statements that are based on the beliefs, assumptions and expectations of the management of the Company based on currently available information. They involve risks and uncertainties because they relate to future events or expectations and therefore depend on circumstances that may or may not occur in the future. Investors should understand that general economic conditions, industry conditions and other operating factors could also affect the future results of Arauco and could cause results to differ materially from those expressed in such forward-looking statements. For further discussion of these risks and uncertainties, investors should refer to quarterly and annual Arauco filings with the Chilean SVS and US SEC. The Company undertakes no obligation to publicly update or revise any forward-looking statements due to new information or future developments.

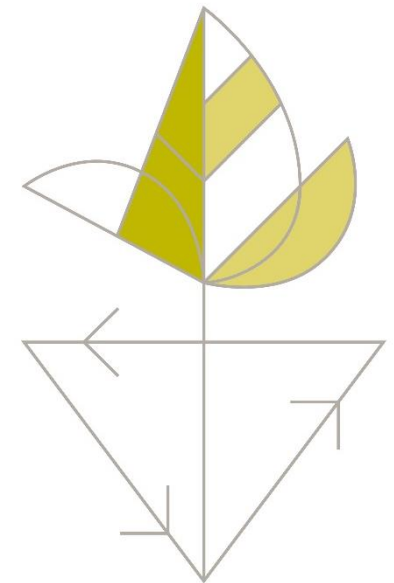
This presentation contains certain performance measures that do not represent IFRS definitions, as “EBITDA” and “Net financial debt”. These measures cannot be compared with the same previously used by Arauco and the same used by other companies.

Financial Review

Review by Business Segment & Outlook

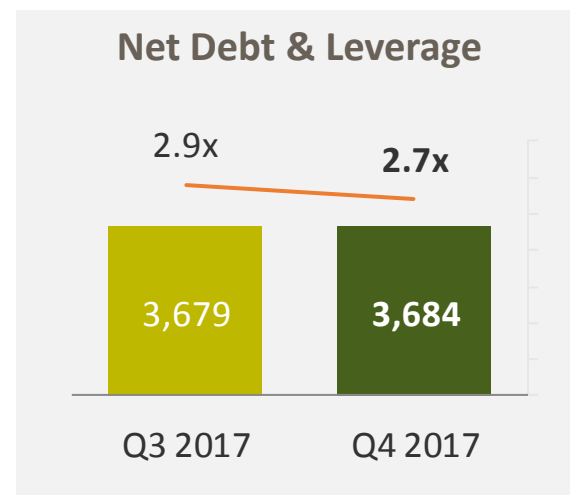
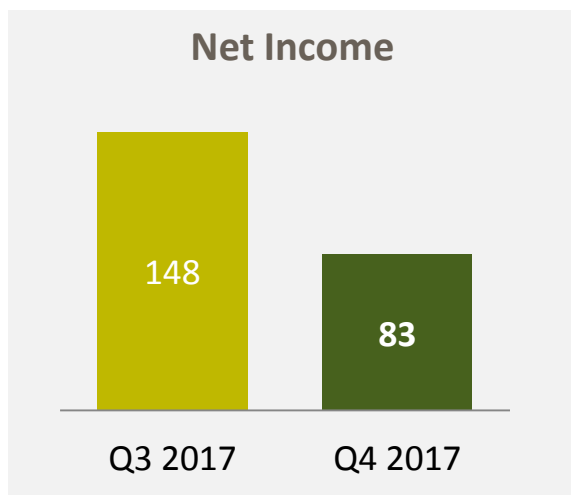
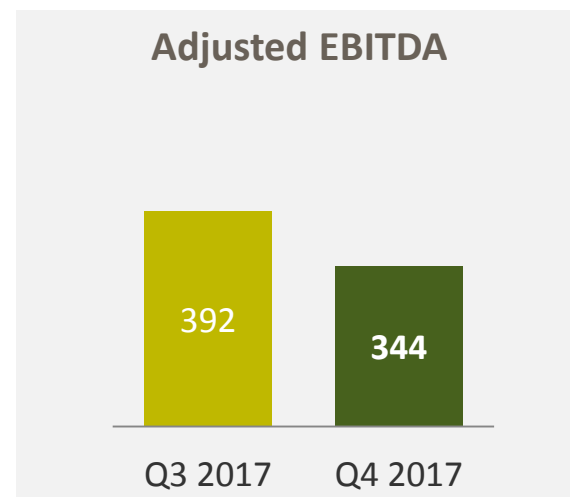
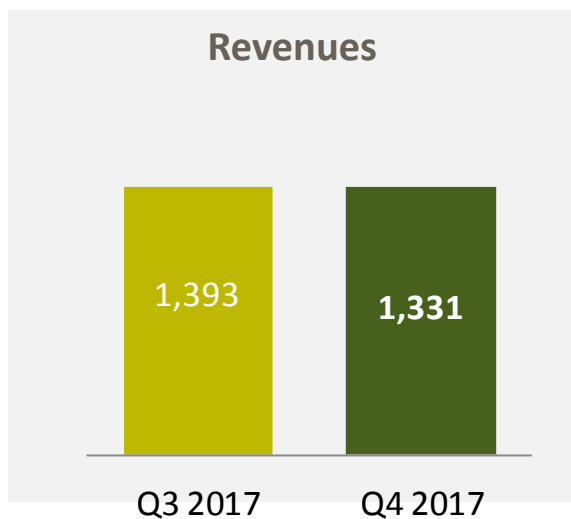
Material Facts and News

Q&A



# QUARTER MAIN FIGURES

*In U.S.\$ million*



# REVENUES, COSTS AND NON-OPERATIONAL RESULTS

*In U.S.\$ million*

**Revenues** decreased U.S.\$ 62.1 million or 4.5%:

- Pulp business revenues were 4,0% or U.S.\$ 26.3 million lower, driven by lower sales volume, compensated by higher average prices.
- Wood products revenues were 6,0% or U.S.\$ 41.5 million below the previous quarter due to lower sales volumes.

**Cost of sales** decreased U.S.\$ 55.4 million or 5,9%:

- Lower sales volumen from both Pulp and Wood products segment
- Forestry costs were lower due to a decrease in the costs of roads (spring-summer effect), a decrease in freights (lower average distance) and a decrease in harvesting costs due to a higher proportion of mechanized tasks.

Unitary costs QoQ:

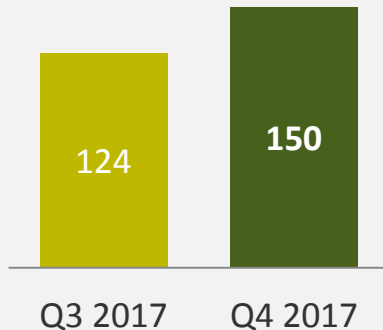
- ▶ Softwood bleached pulp: ↑ 3.7%
- ▶ Hardwood bleached pulp: ↑ 4.3%
- ▶ Unbleached softwood pulp: ↑ 4.5%



# REVENUES, COSTS AND NON-OPERATIONAL RESULTS

*In U.S.\$ million*

## Administrative expenses



**Administrative expenses** increased by 21.4% or U.S.\$ 26.5 million:

- Other administration expenses increased by a 41.1% partly due to an increase in third party services in Uruguay
- increase in donations in Chile

## Distribution costs



**Distribution costs** decreased by 3.9% or U.S.\$5.4 million:

- Mainly because of freights that decreased by 6.5% or U.S.\$ 6.6 million due to lower sales volume in the pulp division

# REVENUES, COSTS AND NON-OPERATIONAL RESULTS

*In U.S.\$ million*

**Other income** decreased by 127,6% or U.S.\$53.9 million:

- Gain from changes in fair value of biological assets decreased compared to last quarter due to an adjustment of inventory in our forest



**Other expenses** increased by 678.5% or U.S.\$ 55.3 million:

- In the third quarter of 2017, an income of U.S.\$ 35 million was accounted in anticipation of the insurance claim related to the forest fires, thus reducing other expenses.
- Increase by U.S.\$ 27.5 million in the impairment provision of PP&E related to an obsolescence provision in fixed assets, spare parts and materials



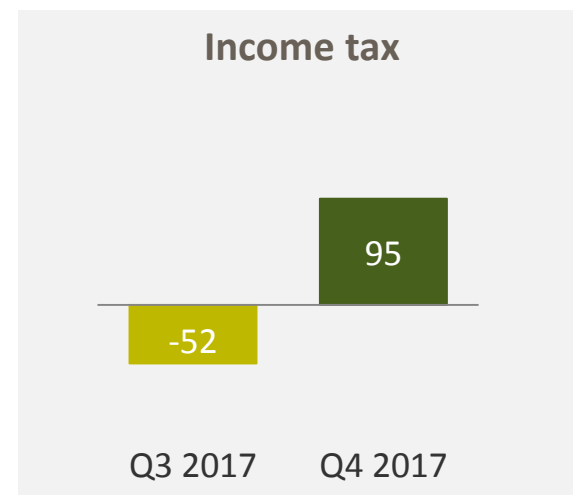
# REVENUES, COSTS AND NON-OPERATIONAL RESULTS

*In U.S.\$ million*

**Financial Cost** increased by 114.6% or U.S.\$ 62.0 million due to the accounting of the repurchase of three outstanding bonds that was done in November 2017

**Income tax expense** decreased by 282.0% or U.S.\$ 147.2 million:

- Lower Income before Tax
- Effect in deferred tax in the reduction of the tax rate in United States and Argentina
- Tax effect of the adjustment in the forestry valuation in Chile



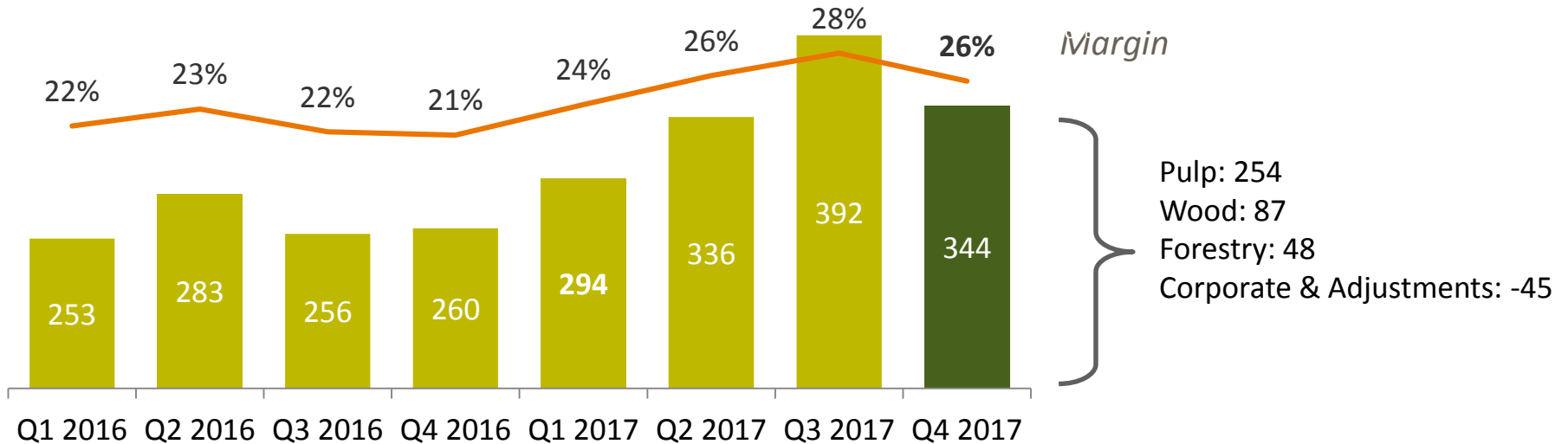


## NET INCOME

In U.S.\$ Million	Q4 2017	Q3 2017	FY 2017	FY 2016
Revenue	1,331.3	1,393.4	5,238.3	4,761.4
Cost of sales	(884.9)	(940.3)	(3,574.5)	(3,498.9)
Distribution costs	(132.9)	(138.3)	(523.3)	(496.5)
Administrative expenses	(150.1)	(123.7)	(521.3)	(474.5)
Other income	(11.7)	42.2	111.5	257.9
Other expenses	(47.1)	8.2	(240.2)	(77.4)
Financial income	4.0	3.3	19.6	29.7
Financial costs	(116.2)	(54.1)	(288.0)	(258.5)
(Loss) profit in associates	(1.6)	7.0	17.0	23.9
Exchange rate differences	(2.6)	2.9	0.1	(3.9)
<b>Income before income tax</b>	<b>(11.8)</b>	<b>200.6</b>	<b>239.4</b>	<b>263.2</b>
Income tax	95.0	(52.2)	31.0	(45.6)
<b>Net income</b>	<b>83.2</b>	<b>148.4</b>	<b>270.4</b>	<b>217.6</b>

# ADJUSTED EBITDA

In U.S.\$ million



- ▶ Adjusted EBITDA fell 12.0% compared to the previous quarter and increased 32.6% compared to the fourth quarter of 2016
- ▶ Pulp division EBITDA continued its positive trend, increasing slightly by 1.3% Q-o-Q. Pulp EBITDA margin reached 39.9%
- ▶ Wood division EBITDA decreased 24.6% compared to last quarter after a decrease in sales volume in panels, sawn timber, and plywood

Financial Review

Review by Business Segment & Outlook

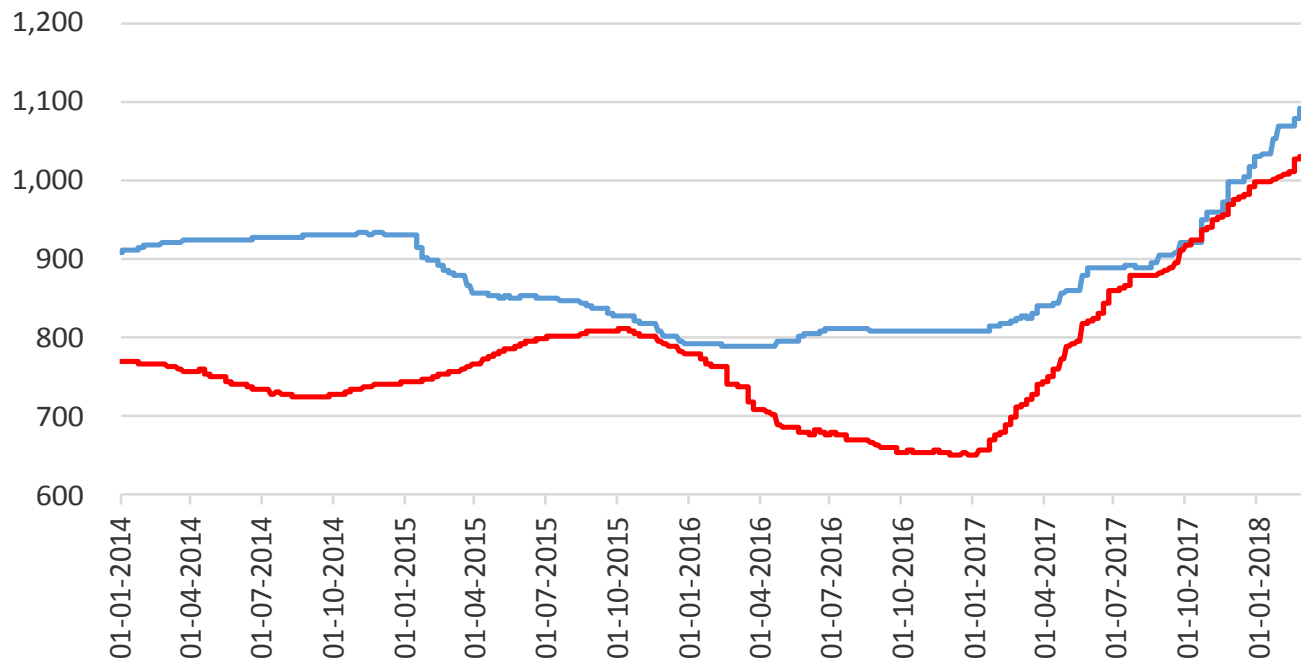
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Q&A



# PULP BUSINESS

## BHKP and NBSK Indexes



March 19

NBSK

Δ:61

BHKP

Spread at previous call was U.S.\$ 19/ ton

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

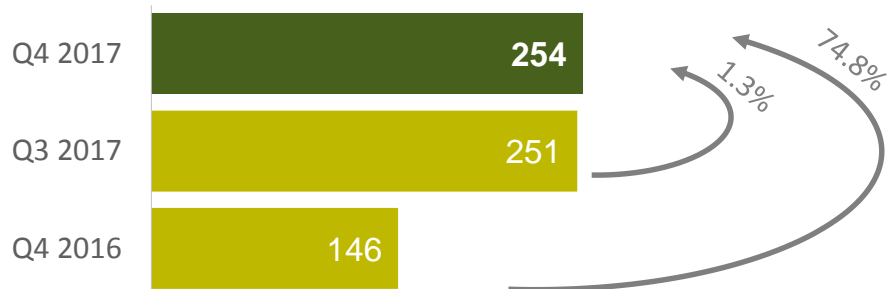
In thousand tonnes

Destination	December 2016	December 2017	Δ	%
North America	7,505	7,695	190	2.5%
West Europe	14,005	13,910	-95	-0.7%
China	13,525	14,375	850	6.3%
Other	12,355	12,985	630	5.1%
<b>W-20 Total BCP</b>	<b>47,390</b>	<b>48,965</b>	<b>1,575</b>	<b>3.3%</b>

Source: Hawkins Wright

# PULP BUSINESS

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



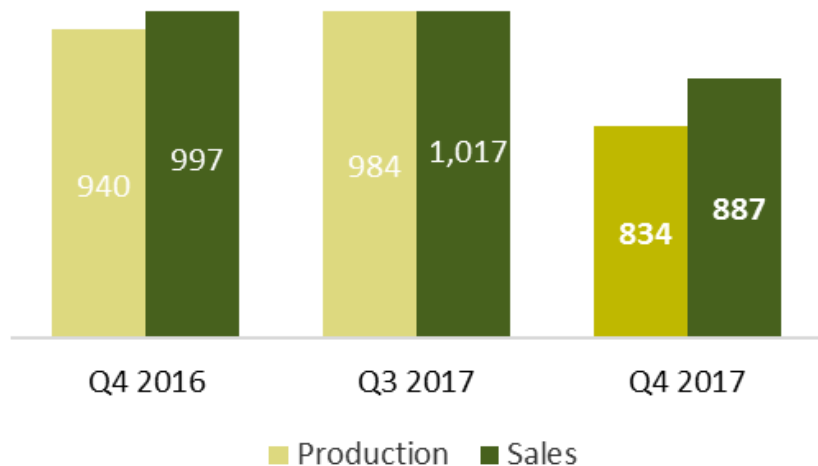
	Price	Volume	Sales
QoQ	11,2%	-12,8%	-4,0%
YoY	30,1%	-11,1%	14,3%

### Q4 2017:

- ▶ During the quarter pulp prices increased, all markets were very active in demand because of healthy economies that could absorb the increase in supply
- ▶ Asian markets continued with high demand, although prices in China began to stabilize. Most Asian paper producers managed to pass the increases in pulp prices to their products
- ▶ European markets were active during the quarter and prices continued rising, in general paper producers worked at full capacity
- ▶ Blockade of the Constitución Mill in Nov-Dic lasted 38 days, with an impact in production of 35,000 tons approximately
- ▶ Production volumes were also affected by annual maintenance stoppages of our Arauco Line 2, Nueva Aldea and Argentina mill

# PULP BUSINESS

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



**Q1 – Q4 2017 Scheduled Pulp Mill Maintenance Stoppages**

Date	Pulp Mill	Annual Capacity (thousand Adt)	Days of Stoppage
Jan	Constitución	355	15 ✓
Apr	Arauco Line 1	290	12 ✓
May	Montes del Plata	1,300	11 ✓
Jul	Licancel	155	10 ✓
Oct	Arauco Line 2	510	18 ✓
Nov	Nueva Aldea	1,027	16 ✓
Nov	Argentina	350	30 ✓

**Global Producers Inventory Levels**

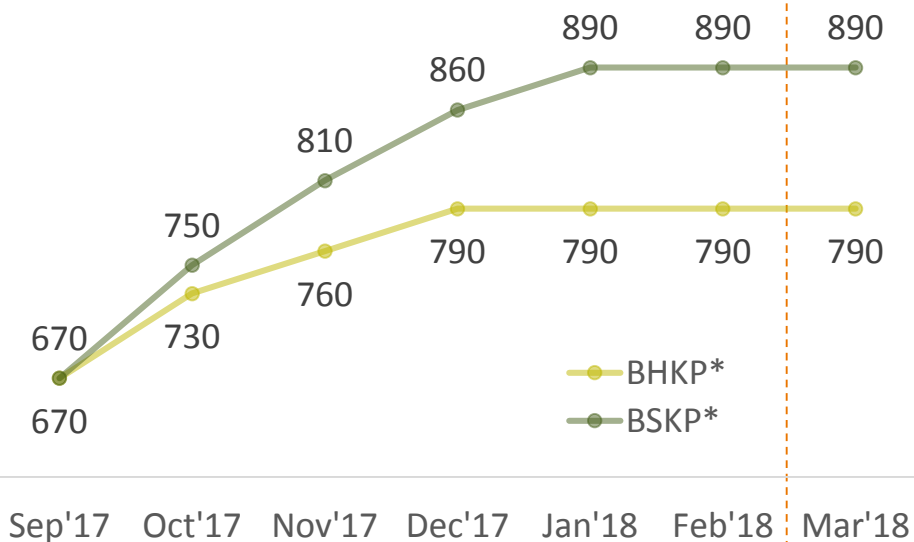
<i>In days</i>	Mar	Jun	Sep	Dec	Mar	Jun	Sep	Dic
	2016	2016	2016	2016	2017	2017	2017	2017
BSKP	30	28	30	32	29	31	30	29
BHKP	46	41	47	37	38	37	43	38

# PULP BUSINESS

## OUTLOOK

- ▶ Good demand for pulp as world economies continue growing
- ▶ Paper producers have been able to pass price increases
- ▶ Unsorted waste paper restriction in China continues to influence demand
- ▶ Prices in Europe catching up with China
- ▶ Next 3-4 years look very tight as no new green-field mills under construction

Price unchanged for March

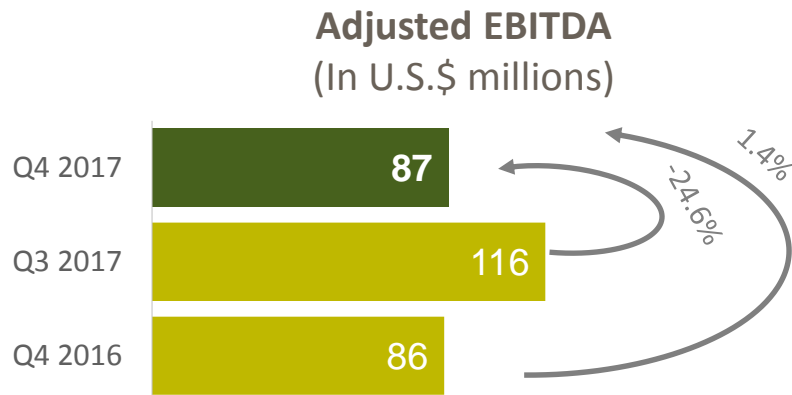


## Q1 2018 – Q2 2018 Scheduled Pulp Mill Maintenance Stoppages

Date	Pulp Mill	Annual Capacity (thousand Adt)	Days of Stoppage
Feb	Licancel	155	7 days
Feb	Constitución	355	10 days
Mar	Valdivia	550	10 days
Apr	Arauco Line 1	290	10 days

\* Net prices in China

# WOOD PRODUCTS BUSINESS



	Price	Volume	
QoQ	0.0%	-3.6%	Panels*
YoY	1.4%	7.4%	

	Price	Volume	
QoQ	0.3%	-8.0%	Sawn Timber**
YoY	7.5%	-9.7%	

## Q4 2017:

- ▶ Composite panels decreased sales volume and average prices remained steady. MDF and PBO had lower sales, mainly because of competition in North American markets
- ▶ Latin America had stable sales thanks to our diversified product mix. In the Melamine market we are still growing specially in Chile and Perú
- ▶ Sawn timber sales volume decreased, with a slightly increase in average prices.
- ▶ In plywood, production and sales volumen decreased, however average prices increased. Sales in North America improved as demand grew

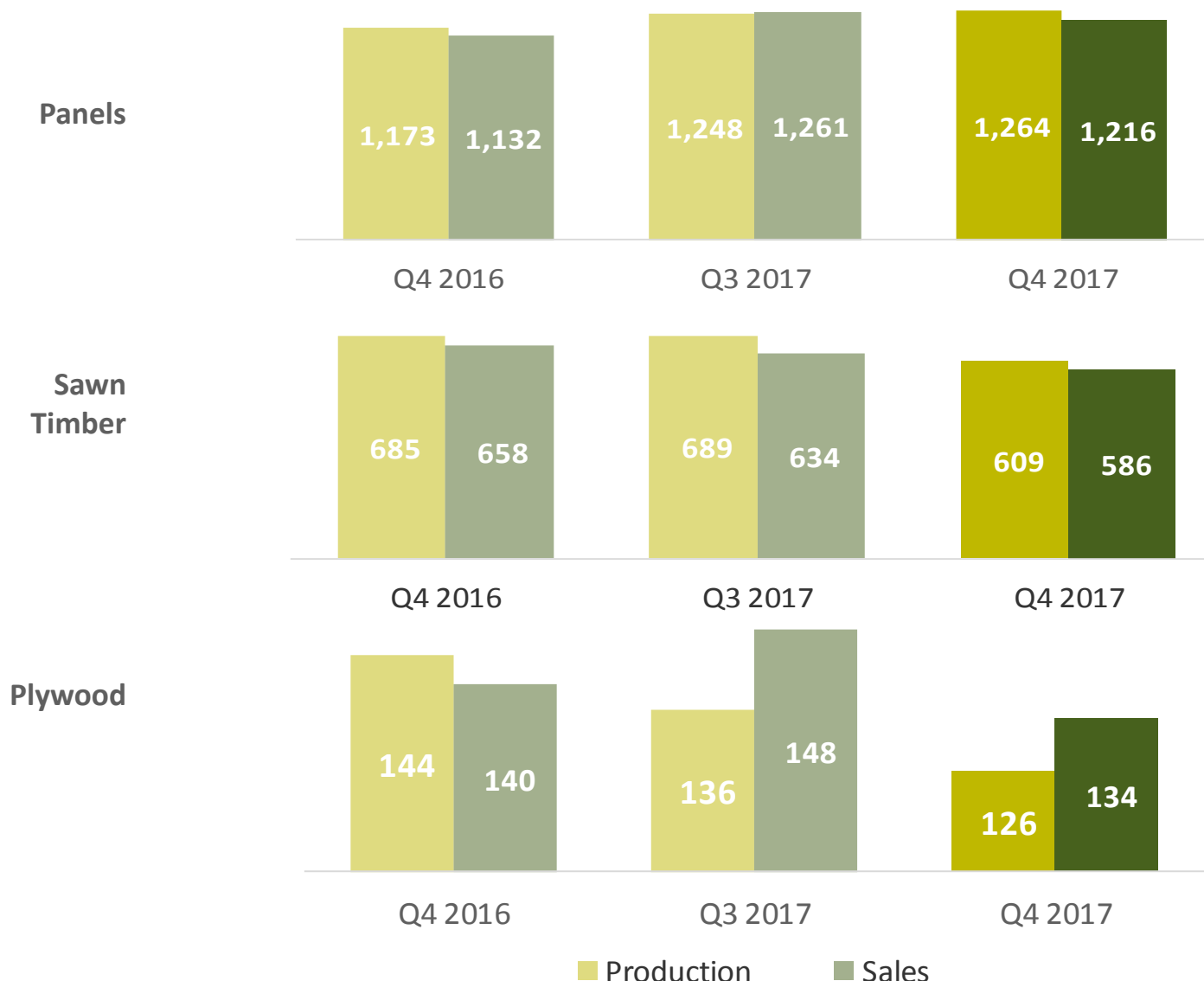
\*MDF, PBO, HB

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



# WOOD PRODUCTS BUSINESS

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



## OUTLOOK

Housing Starts Index at 1.3 million units per year in January 2018, the maximum of the last twelve months.

**MDF:** demand remains stable and no major changes are expected

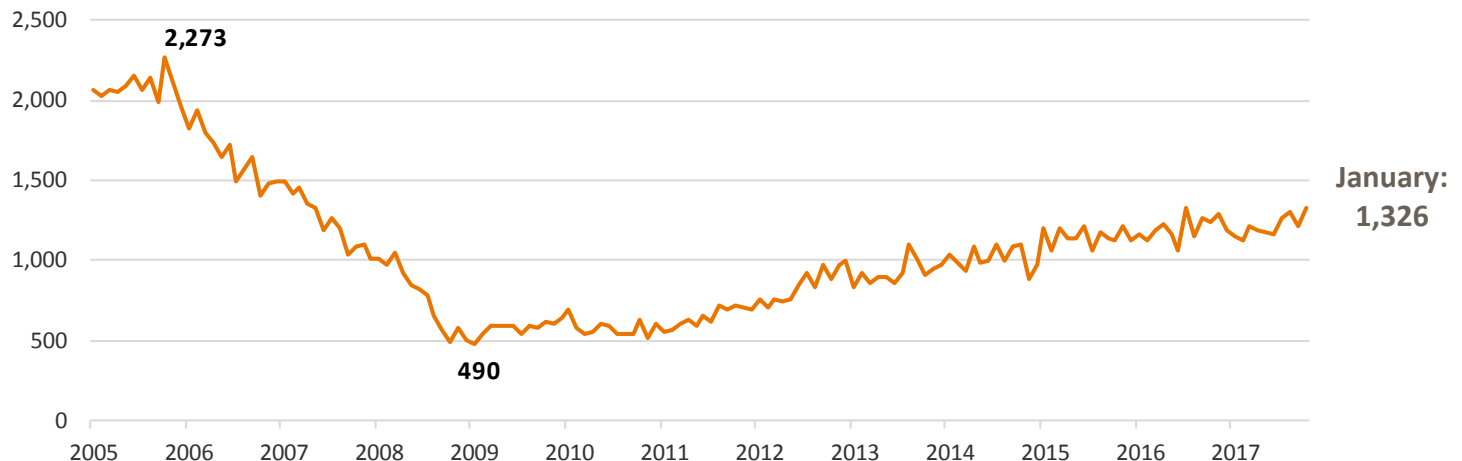
**MDF moldings:** inventories have increased in certain regions, however sales remain stable

**Remanufactured products:** competition from China and Brazil remains strong, placing some pressure over prices. We are expecting improvements by seasonality

**Plywood:** demand remains strong with continued conversion from Chinese Hardwood due to duties imposed.

North  
America  
46%

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



## OUTLOOK

Central and  
South  
America  
34%

**Brazil:** some improvements in local consumption have led to higher sales volume and prices. In the MDF and PB markets no new mills will be entering during the first semester, but during the second we could see more supply.

**Argentina:** market remains stable showing good results in most product categories. Construction is improving which will lead better results

**Chile:** slight improvements in demand have given room for higher prices. The market is expected to continue improving during 2018

Asia and  
Oceania  
13%

**Asia:** sales in Japan, Korea and China remain steady with some opportunities for price increases

Europe and  
Middle East  
6%

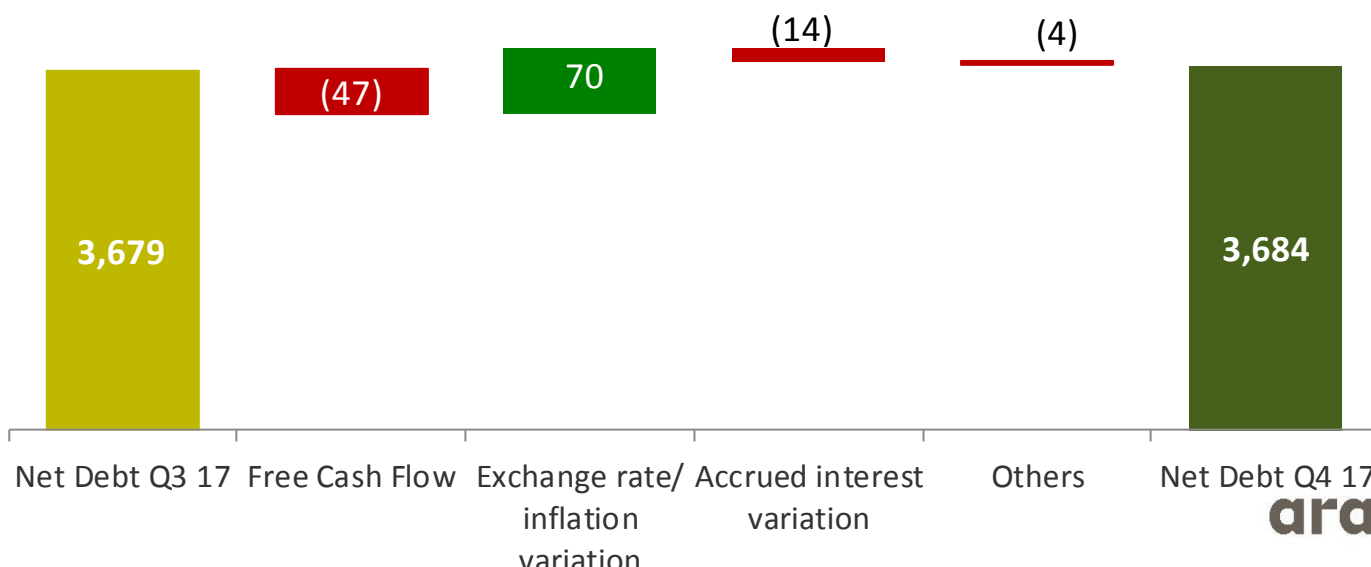
**Europe:** demand remains strong giving room for price increases and continue conversion to higher value products

**Middle East:** demand in the construction segment has somewhat decreased, however this is being offset by a strong demand in the pallets segment. Overall sales remain stable.

# FREE CASH FLOW

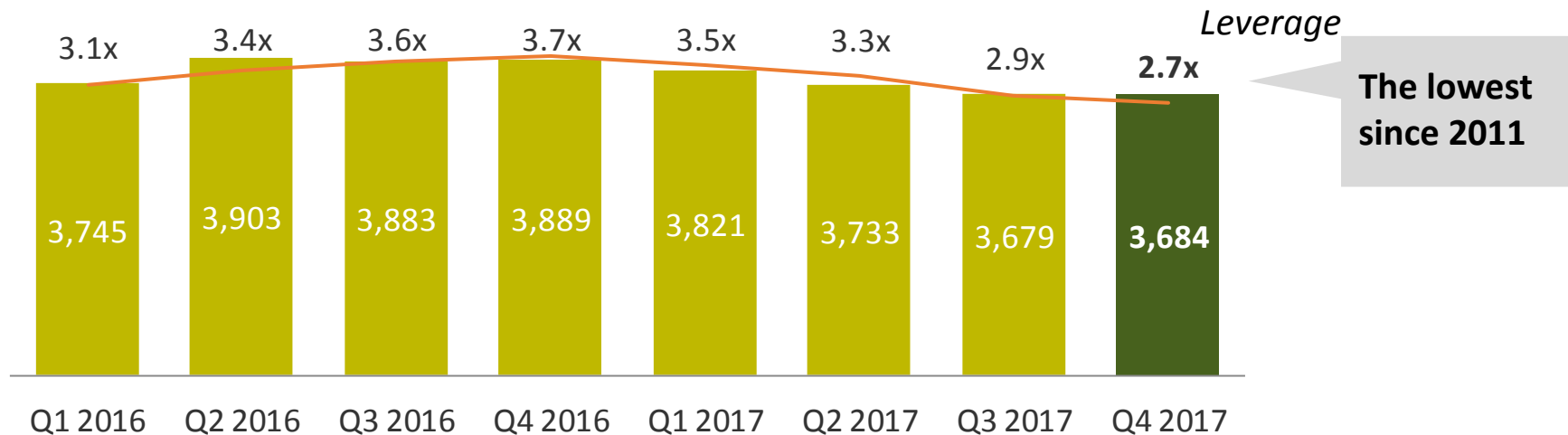
In U.S.\$ million

	Q4 2017	Q3 2017
<i>Adjusted EBITDA</i>	345	392
<i>Working Capital Variation</i>	97	(14)
<i>Interest paid and received</i>	(87)	(65)
<i>Income tax paid</i>	(12)	(12)
<i>Others</i>	(1)	(57)
<b>Cash from Operations</b>	<b>340</b>	<b>243</b>
<i>Capex</i>	(233)	(169)
<i>Others</i>	5	8
<b>Cash from Investment Activities</b>	<b>(228)</b>	<b>(161)</b>
<b>Cash from Financing activities (net of debt)</b>	<b>(64)</b>	<b>1</b>
<b>Effect of exchange rate changes</b>	<b>(1)</b>	<b>1</b>
<b>Free Cash Flow</b>	<b>47</b>	<b>84</b>



# NET FINANCIAL DEBT

In U.S.\$ million



The lowest since 2011

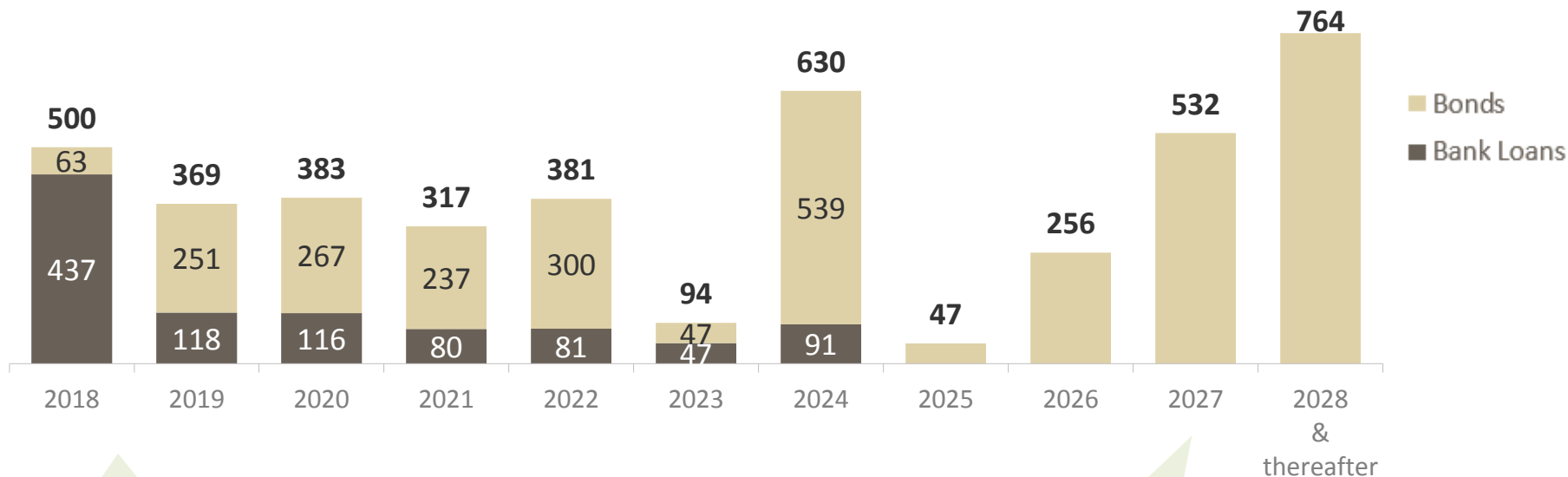
- ▶ **Cash and cash equivalents** increased 21.5% QoQ. Cash flow from operating activities increased 40%, as receipts from sales increased U.S.\$ 124.4 million
- ▶ **LTM Adjusted EBITDA** increased 6.6% QoQ, mainly due to higher pulp prices
- ▶ **QoQ Net Leverage** decreased from 2.9x to 2.7x, the lowest since 2011, due to higher LTM adjusted EBITDA

Short term financial debt	500
Long term financial debt	3,773
<b>TOTAL FINANCIAL DEBT</b>	<b>4,274</b>
Cash and cash equivalents	590
<b>NET FINANCIAL DEBT</b>	<b>3,684</b>

# DEBT

In U.S.\$ million

As of December 2017



## Bank obligations for the year 2018 include:

- ▶ U.S.\$ 185.1 million in Montes del Plata
- ▶ U.S.\$ 199.6 million of one credit loan (Chile)
- ▶ U.S.\$ 44.3 million of guaranteed leaseings
- ▶ U.S.\$ 7.5 million in Brazilian subsidiaries

## Bond obligations for the year 2018 include:

- ▶ U.S.\$ 21.8 million in amortization of local bonds
- ▶ U.S.\$ 41.2 million in interests of local and USD bonds

## On November 2, 2017: New issue of USD bond

- ▶ U.S.\$ 500 million
- ▶ Tenor: 10 years
- ▶ Coupon rate: 3.875%

## On November 2, 2017: New issue of USD bond

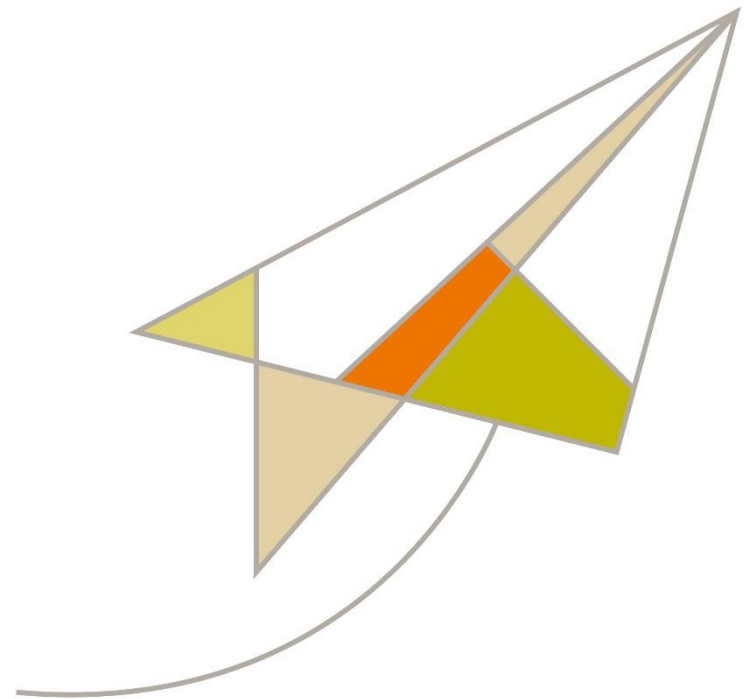
- ▶ U.S.\$ 400 million
- ▶ Tenor: 30 years
- ▶ Coupon rate: 5.5%

Financial Review

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# Arauco acquired Masisa's subsidiary in Brazil

- ▶ In September 2017, Arauco's subsidiary Arauco do Brasil agreed to acquire Masisa do Brasil Ltda.
- ▶ Transaction price of U.S.\$ 102.8 million, with final disbursement of U.S.\$ 58.1 million
- ▶ Main assets consists of two industrial complexes located in Ponta Grossa (Paraná) and Montenegro (Rio Grande do Sul) in Brazil
- ▶ Total installed capacity of 300,000 m3 of MDF, 500,000 m3 of MDP and 660,000 m3 of melamine capacity
- ▶ The transaction was finally closed at the end of the year, at December 31<sup>st</sup>, 2017 Arauco do Brasil S.A has consolidated the assets acquired.





# Arauco to acquire Masisa's subsidiary in Mexico

- ▶ In December 2017, Arauco agreed the total buyout of Masisa's subsidiaries in México
- ▶ Transaction price of U.S.\$ 245 million
- ▶ Main assets consist of three industrial complexes located in Chihuahua, Durango and Zitácuaro
- ▶ Total installed capacity of 220,000 m<sup>3</sup> of MDF; 519,000 m<sup>3</sup> of PB; 426,000 m<sup>3</sup> of melamine; 66,000 tons of resins; 60,600 tons of formaldehyde and 22.8 million m<sup>2</sup> of impregnation lines
- ▶ The transaction is subject to a series of conditions precedent, with the most relevant one being the approval by the Mexican antitrust authority



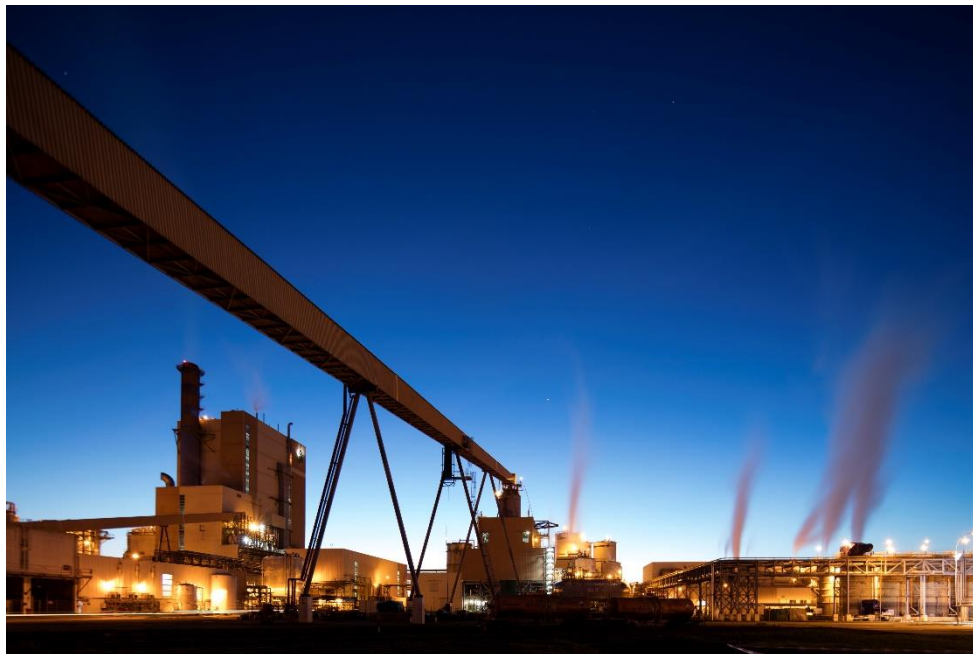
# Grayling Project on Schedule

- ▶ Project at 70% completion
- ▶ The particleboard mill is located in Grayling, Michigan, U.S.A.
- ▶ The cost of the project is approximately U.S.\$ 400.0 million
- ▶ The capacity would be 800,000 m<sup>3</sup> per year
- ▶ Rollout of the first panel is estimated to occur during latter part of 2018



# Dissolving Pulp Project

- ▶ Project at 11% completion
- ▶ Total estimated CAPEX is U.S.\$ 185 million, and the start-up is expected during latter of 2019
- ▶ Valdivia Mill will be able to switch from paper grade to dissolving pulp



# Significant decrease in forestry fires

- ▶ From early January until mid-March 2018 the plantations affected by fires had been 450 hectares, a decrease of 99.4% compared to the 72,500 hectares burned during the wildfires on 2017
- ▶ Higher investment in fire combat and detection
- ▶ Coordinated efforts with communities, other companies and government
- ▶ Better weather conditions

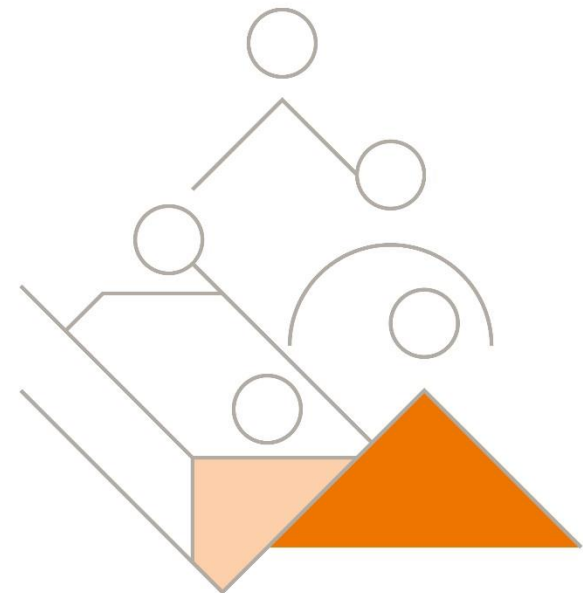


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# arauco

## INVESTOR RELATIONS

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

Replay for USA	+1-877-344-7529
Replay for other countries	+1-412-317-0088
Conference ID	10117950

## FOR FURTHER INFORMATION, PLEASE CONTACT:

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