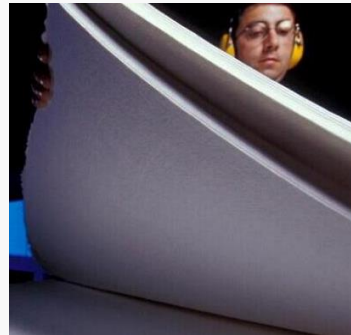




**ARAUCO**  
Growing the Future

Conference Call Presentation

# 3<sup>rd</sup> Quarter 2015 Financial Results



**Gianfranco Truffello, C.F.O**

Santiago, November 20<sup>th</sup>, 2015

# Disclaimer

Forward-looking statements are based on the beliefs and assumptions of Arauco's management and on information currently available to the Company. They involve risks, uncertainties and assumptions because they relate to future events and therefore depend on circumstances that may or may not occur in the future. Investors should understand that general economic conditions, industry conditions and other operating factors could also affect the future results of Arauco and could cause results to differ materially from those expressed in such forward-looking statements.

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

# Agenda

- **Financial Review 3<sup>rd</sup> Quarter 2015**

- **Review by Business Segment & Outlook**

- **3<sup>rd</sup> Quarter and Subsequent Events**

- **Q&A**

# Financial Review > 3Q 2015 Highlights

## Highlights

<u>US\$ Million</u>	<u>3Q 2015</u>	<u>QoQ</u>
Revenue	1,281.4	-6.6%
Adjusted EBITDA	324.6	-5.5%
Net income	87.0	-17.9%
Net Financial Debt	3,798.9	-5.7%
Net financial debt / LTM Adj. Ebitda	2.9x	-6.5%

# Financial Review > Income Statement

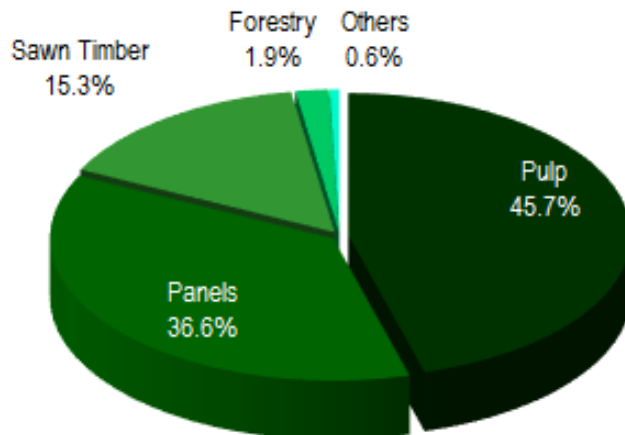
## Income Statement

US\$ Million	Q3 2015	Q2 2015	QoQ
Revenue	1,281.4	1,372.7	-6.6%
Cost of sales	(890.9)	(918.7)	-3.0%
<b>Gross Profit</b>	<b>390.6</b>	<b>454.0</b>	<b>-14.0%</b>
Other income	72.3	54.6	32.4%
Distribution costs and Administrative expenses	(264.4)	(284.3)	-7.0%
Other operating gains (expenses)	(15.8)	(30.4)	-48.1%
Financial costs (Net)	(46.8)	(54.2)	-13.5%
Exchange rate differences	(22.6)	2.6	-968.1%
<b>Income before income tax</b>	<b>113.3</b>	<b>142.3</b>	<b>-20.4%</b>
Income tax	(26.3)	(36.4)	-27.6%
<b>Net Income</b>	<b>87.0</b>	<b>105.9</b>	<b>-17.9%</b>

## Comments

- **Revenue:** A decrease of 6.6% due to lower sales volume from pulp and panels. Sawn timber increased sales by 1.2%. Energy sales declined due to lower spot prices.
- **Cost of Sales:** A reduction of 3.0% mainly due to lower sales volume in pulp and panels business.
- **Distribution costs and administrative expenses:** A decline of 7.0%, for the most part explained by exchange rates affecting wages and salaries and other expenses.
- **Exchange rate differences:** For the most part explained by the Brazilian real, which depreciated by 28% during this quarter, affecting the value of a US dollar debt in our Brazilian subsidiaries.

## Sales by Business Segment 3Q 2015



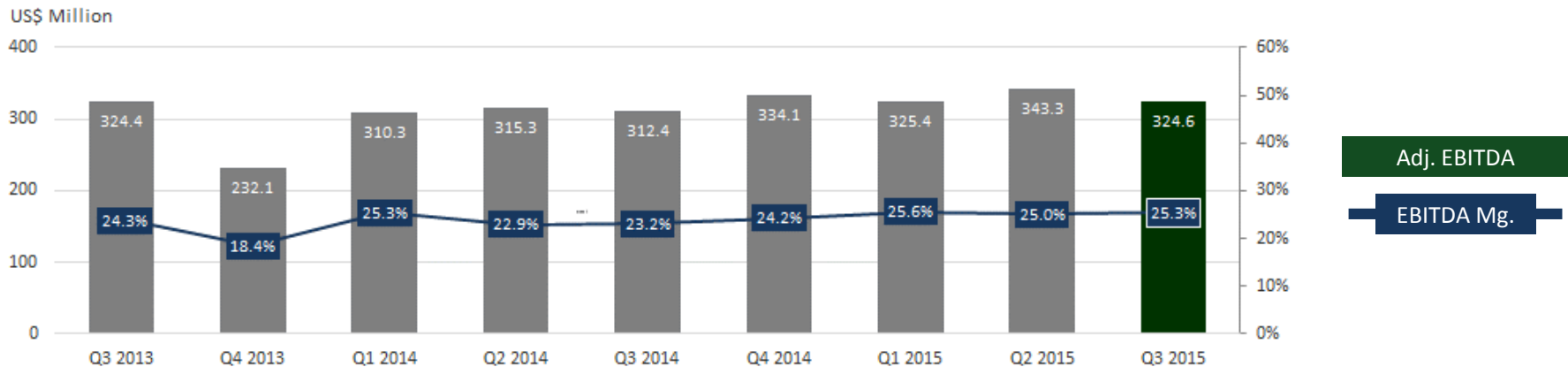
# Financial Review > Adjusted EBITDA

## Comments

Adjusted EBITDA				
In U.S. Million	Q3 2015	Q2 2015	QoQ	
<b>Net Income</b>	87.0	105.9	-17.9%	
Financial costs	62.6	63.0	-0.5%	
Financial income	-15.8	-8.8	79.6%	
Income tax	26.3	36.4	-27.6%	
<b>EBIT</b>	<b>160.1</b>	<b>196.4</b>	<b>-18.5%</b>	
Depreciation & amortization	102.1	102.1	0.0%	
<b>EBITDA</b>	<b>262.2</b>	<b>298.5</b>	<b>-12.1%</b>	
Fair value cost of timber harvested	81.3	76.3	6.7%	
Gain from changes in fair value of biological assets	-46.6	-47.3	-1.4%	
Exchange rate differences	22.6	-2.6	-968.1%	
Others (*)	5.1	18.5	-72.3%	
<b>Adjusted EBITDA</b>	<b>324.6</b>	<b>343.3</b>	<b>-5.5%</b>	

- Decrease of the adjusted EBITDA by 5.5% due to a decline in sales volume.
- EBITDA Y-o-Y increased 3.9%.
- EBITDA margins have stood stable for the past three quarters.
- Lower EBITDA from pulp and panels businesses, partially offset by improvements in SG&A and sales in Brazil.

(\*) Includes provision for forest fire losses



Note: Numbers may not add up due to rounding

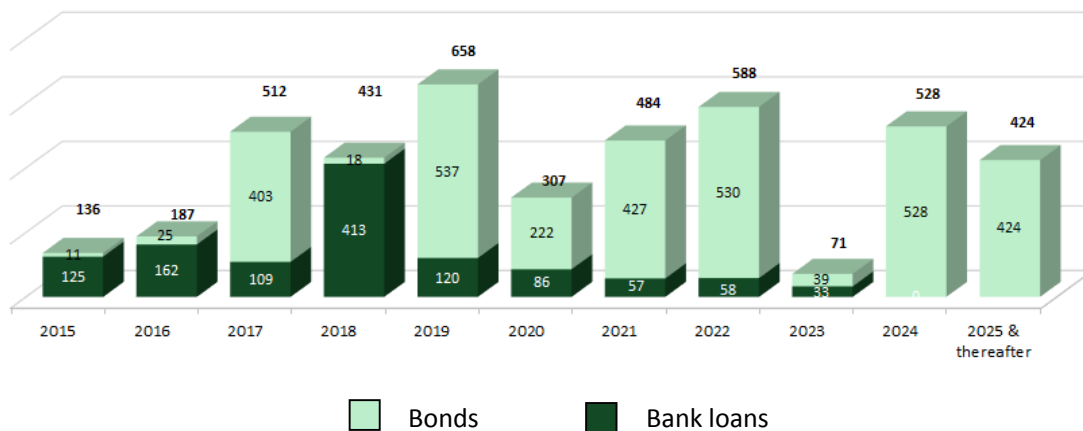
# Financial Review > Debt

## Financial Debt

US\$ million	September 2015	June 2015	September 2014
Short term financial debt	319.7	689.2	796.1
Long term financial debt	4,008.1	3,849.6	4,358.5
<b>TOTAL FINANCIAL DEBT</b>	<b>4,327.7</b>	<b>4,538.8</b>	<b>5,154.6</b>
Cash and cash equivalents	528.9	511.9	972.2
<b>NET FINANCIAL DEBT</b>	<b>3,798.9</b>	<b>4,026.9</b>	<b>4,182.4</b>

## Financial Debt Profile as of September 30, 2015

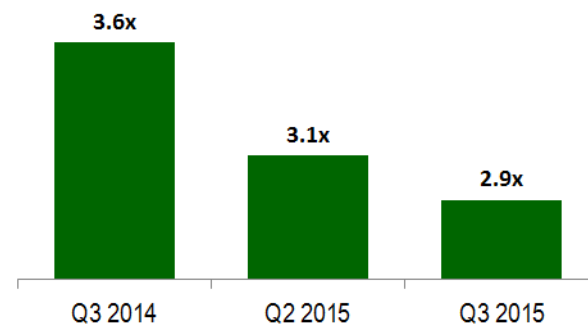
In US\$ Million



## Comments

- Total financial debt dropped US\$ 211 million QoQ. Net Debt decreased US\$ 228 million QoQ.
- In one year our net leverage has improved from 3.6 x to 2.9x.
- Arauco N.A. prepaid a loan for US\$ 28 million in August. Remaining US\$ 4 million prepaid in November.
- A pre export loan for US\$80 million paid in September. New pre export loan for US\$ 40 million due at end of November of this year.

## Net Debt/LTM Adj. EBITDA



# Financial Review > Cash Flow

## Cash Flow

US\$ Million	Q3 2015	Q2 2015	QoQ
Collection of accounts receivables	1,492.3	1,480.6	0.8%
Collection from insurance claims	1.7	0.0	-
Other cash receipts (payments)	35.6	101.0	-64.7%
Payments of suppliers and personnel (less)	(1,210.0)	(1,264.0)	-4.3%
Interest paid and received	(69.2)	(41.4)	67.0%
Income tax paid	(15.1)	(35.3)	-57.1%
Other (outflows) inflows of cash, net	4.2	(3.5)	-
<b>Net Cash Provided by (Used in) Operating Activities</b>	<b>239.4</b>	<b>237.5</b>	<b>0.8%</b>
Capital Expenditures	(103.5)	(186.9)	-44.6%
Other investment cash flows	7.7	(18.4)	-
<b>Net Cash Provided by (Used in) Investing Activities</b>	<b>(95.8)</b>	<b>(205.3)</b>	<b>-53.3%</b>
Proceeds from borrowings	47.8	174.8	-72.6%
Repayments of borrowings	(153.9)	(640.8)	-76.0%
Dividends paid	(0.4)	(98.6)	-99.6%
Other inflows of cash, net	(0.1)	(0.4)	-74.6%
<b>Net Cash Provided by (Used in) Financing Activities</b>	<b>(106.6)</b>	<b>(565.1)</b>	<b>-81.1%</b>
<b>Total Cash Inflow (Outflow) of the Period</b>	<b>37.0</b>	<b>-532.9</b>	<b>-106.9%</b>
Effect of exchange rate changes on cash and cash equivalents	(20.0)	3.9	-610.7%
Cash and Cash equivalents. at beginning of the period	511.9	1,040.9	-50.8%
<b>Cash and Cash Equivalents at end of the Period</b>	<b>528.9</b>	<b>511.9</b>	<b>3.3%</b>

## Comments

- CAPEX declined this quarter; the previous quarter included payments related to the closing of Mdp's mill construction stage.
- Previous quarter includes 2014's dividends. Fourth quarter will include a provisory dividend for 2015.
- Repayment of borrowings include the prepayment of part of Arauco N.A. loan, and a pre export loan for US\$ 80 million, offset by a new pre export loan for US\$ 40 million.
- Exchange rates had an impact on cash and cash equivalents, due to the overall depreciation of part of our cash in local currencies.



# Agenda

- Financial Review 3<sup>rd</sup> Quarter 2015

- Review by Business Segment & Outlook

- 3<sup>rd</sup> Quarter and Subsequent Events

- Q&A

# Review by Business Segment > Pulp

## Pulp Revenues (in US\$ million)



Note: pulp sales include energy

	Net Sales	Price	Volume
QoQ	-7.2%	3.0%	-6.6%
YoY	3.5%	-1.1%	7.0%

## Pulp Production (in 000' ADt)

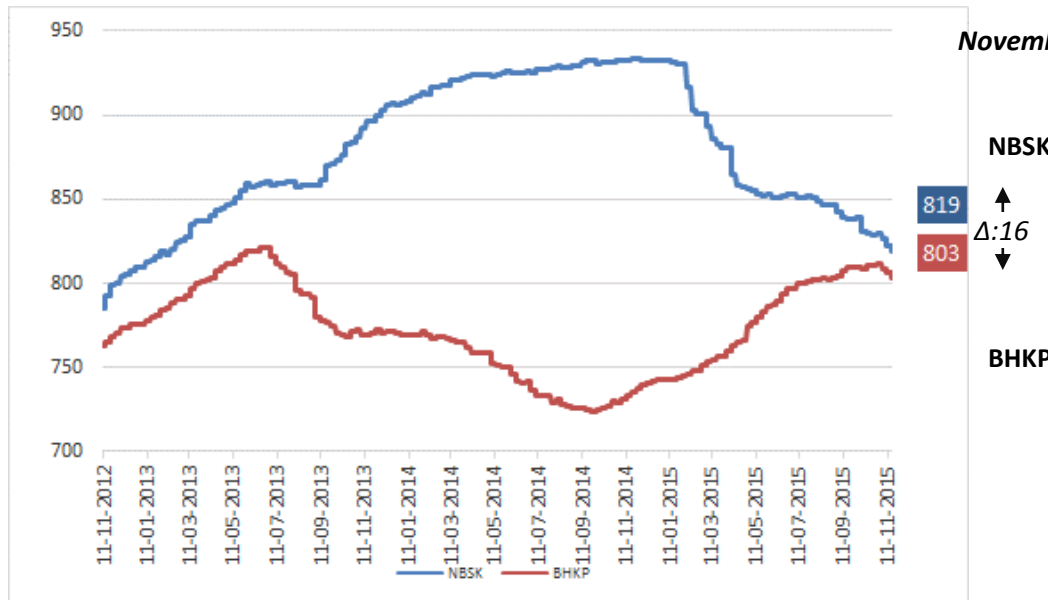
000' Adt	Q3 2014	Q4 2014	Q1 2015	Q2 2015	Q3 2015
Pulp production	867	851	890	937	878



- Long and short fiber prices declined throughout markets. Short fiber prices remained above long fiber prices, an atypical situation contrary to historic price differential.
- Asian markets received more supply from Russian and Canadian producers, who were aggressive in pricing thanks to the depreciation of their currency.
- Europe saw an increase in demand, a sign that markets within this region of the world are recovering.
- Programmed maintenance in Licancel Mill and Arauco Mill Line 2 impacted third quarter production levels.
- Nueva Aldea Mill, Valdivia Mill, and Esperanza Mill programmed during fourth quarter of this year.

# Review by Business Segment > Pulp > Outlook

## BHKP and NBSK Indexes



## Comments

- Increased supply, prices continue to go down in Asia.
- In Europe paper mills running at good capacity. Prices constant in hardwood. Marginal decreases in Pine.
- More production of SBSK in the United States (fluff producers).
- Inventories going down with respect to last month (August) in both fibers.
- Temporary decrease in hardwood pulp capacity in Brazil because of technical and water issues.
- Spread between NBSK and BHKP at US\$ 16/ton (*previous call was at US\$ 43/ton*).

## Global Producers Inventory Levels

In days	Dec 2013	Mar 2014	Jun 2014	Sep 2014	Dec 2014	Mar 2015	Jun 2015	Sep 2015
BSPK	27	28	25	27	31	33	29	30
BHKP	38	47	40	38	36	39	38	39

Source: Bloomberg; Hawkins Wright

# Review by Business Segment > Panels

## Panels Revenues (in US\$ million)



	Net Sales	Price	Volume
QoQ	-6.0%	-0.7%	-3.6%
YoY	-8.6%	-5.3%	-3.0%

*Note: Panels sales include energy*

## Panels Production (in 000´m3)

000´ Adt	Q3 2014	Q4 2014	Q1 2015	Q2 2015	Q3 2015
Panels production	1,372	1,302	1,277	1,372	1,337



- Panels revenues decreased by 6.0% mainly because of more competition from countries with depreciated currencies.
- Plywood sales still on the rise thanks to production in Nueva Aldea Mill.
- Particleboards in North America have maintained a steady demand.
- MDF market has slowed down in North America, due to lower demand and more competition from Canadian and Brazilian producers.

# Review by Business Segment > Panels > Outlook



Melamine and particleboard sales are stable. However, MDF moldings are facing increased competition.



Chile, as well as the rest of Latin America in general, has had some adjustments in volume, but with stable sales overall.



In line with the previous quarter, the domestic market is challenged by a down cycle in the economy. many competitors have been exporting, which has helped against a slower demand.



MDF and particleboard sales have been stable, with melamine delivering good results.



MDF sales on a good level in the last month. In general sales have been according to our plans, despite some competition from Brazilian suppliers.

# Review by Business Segment > Sawn Timber

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



	Net Sales	Price	Volume
QoQ	-1.2%	-2.5%	1.2%
YoY	-15.0%	-6.5%	-9.3%

*Note: Sawn Timber sales include energy*

## Sawn Timber Production (in 000' m3)

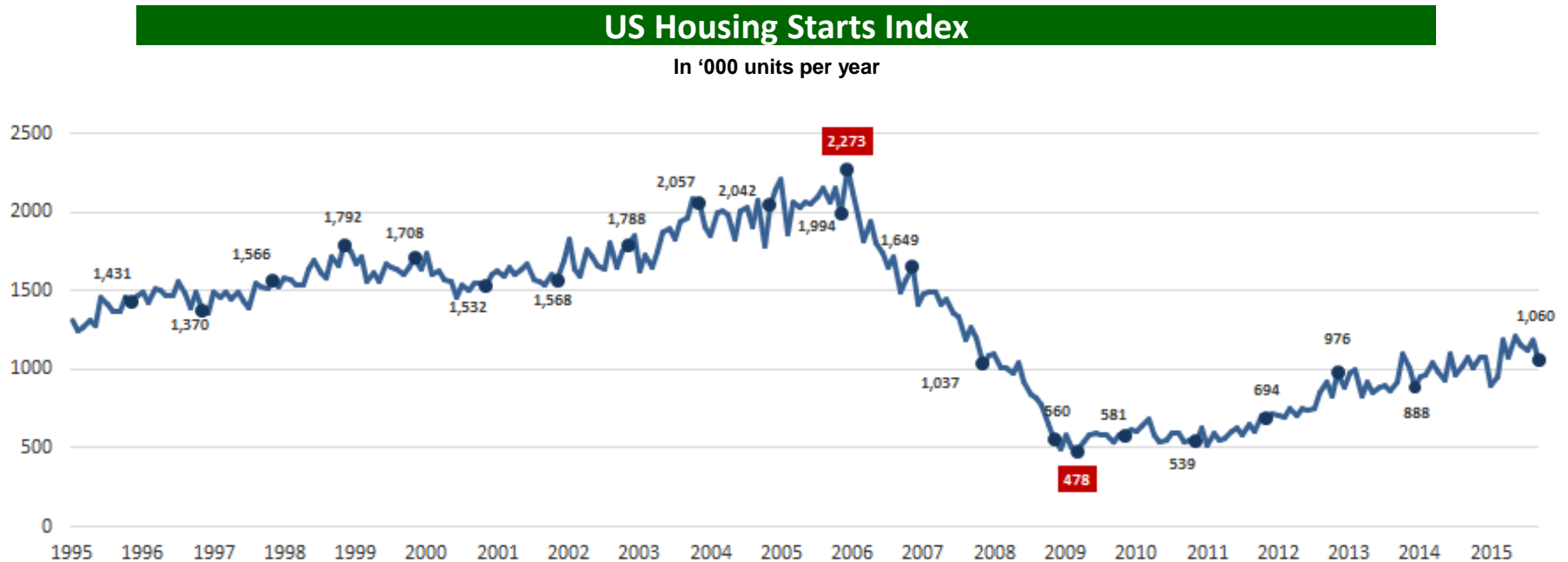
000' Adt	Q3 2014	Q4 2014	Q1 2015	Q2 2015	Q3 2015
Sawn Timber production	727	729	694	705	700



- Decrease in revenues by 1.2% explained by the decrease in prices. This is due to more competition from countries with depreciated currencies.
- Production of sawn timber was stable compared to last quarter.
- The North-American market has maintained momentum of new constructions and renovations, translating into a stable market for our moldings. However, Brazilian exporters have put pressure on prices.
- The rest of Latin America continues to show a stable demand, which has enabled us to increase our market share during the last six months and commercialize the desired product mix.

# Review by Business Segment > Sawn Timber > Outlook

- October's Housing Starts index had a drop compared to September, reaching 1.06 million units per year. Nonetheless, the index has averaged 1.13 million units the last four months.
- Within the United States, the real estate, construction and home remodeling sector continue to show signs of improvement. We have been facing more competition of imports from countries with devaluated currencies.
- China, South Korea, Taiwan, Japan and Middle East showed signs of softening during third quarter, both in volumes and prices. Remanufactured product demand improving.
- Chile and the rest of Latin America should remain stable for the rest of the year.



Source: Bloomberg

# Agenda

- Financial Review 3<sup>rd</sup> Quarter 2015

- Review by Business Segment & Outlook

- 3<sup>rd</sup> Quarter and Subsequent Events

- Q&A



## 3<sup>rd</sup> Quarter and Subsequent Events

**Arauco announces the intention for a US\$ 325 million investment in a new Particleboard Mill in N.A.**



- New mill located in Grayling, Michigan.
- Annual estimated production of 750,000 m<sup>3</sup> of MDP.
- Ground-breaking is estimated for late 2016, with the rollout of the first panel during latter part of 2018.
- Project is subject to approval of incentives and permits, and Arauco's board.

# 3<sup>rd</sup> Quarter and Subsequent Events

## **Bank loan for US\$ 300 million extended to September 2018**

- US\$ 300 million loan with initial maturity in June 2016.
- Price renewed at lower spread.
- Extension enables debt schedule to remain stable through following years.

# 3<sup>rd</sup> Quarter and Subsequent Events

## **Arauco in process of obtaining new local bond credit lines**

- Documents have been submitted to the SVS (Superintendencia de Valores) and are under review.
- 10 and 30 year terms, for UF 20 million each (approximately US\$ 716 million).
- Total amount placed in market must not surpass UF 20 million.
- Will provide more financing alternatives to Arauco.
- Use of lines will depend on financial needs and market conditions.

# Agenda

- Financial Review 3<sup>rd</sup> Quarter 2015

- Review by Business Segment & Outlook

- 3<sup>rd</sup> Quarter and Subsequent Events

- Q&A

# Arauco - Investor Relations contact info

**José Luis Rosso**

**Corporate Finance Director**

jose.rosso@arauco.cl

Phone: (56-2) 2461 72 21

**Fernanda Paz Vásquez**

**Investor Relations**

fernanda.vasquez@arauco.cl

Phone: (56-2) 2461 74 94

investor\_relations@arauco.cl

www.arauco.cl



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

# 3<sup>rd</sup> Quarter 2015 Financial Results



**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**

10076202

Visit [www.arauco.cl](http://www.arauco.cl) for more information

---