



Celulosa Arauco y Constitución S.A.

Second Quarter 2017 Results

August 24, 2017

## HIGHLIGHTS

### REVENUES U.S.\$ 1,279.9 MILLION

Arauco's revenues reached U.S.\$ 1,279.9 million during the second quarter of 2017, a 3.7% increase compared to the U.S.\$ 1,233.7 million obtained in the first quarter of 2017.

### NET INCOME U.S.\$ 84.1 MILLION

Net income reached U.S.\$ 84.1 million, an increase of U.S.\$ 129.3 million compared to the loss of U.S.\$ 45.3 million obtained in the first quarter of 2017.

### ADJUSTED EBITDA U.S.\$ 334.6 MILLION

Adjusted EBITDA reached U.S.\$ 334.6 million, an increase of 14.7% or U.S.\$ 42.9 million compared to the U.S.\$ 291.7 million obtained during the first quarter of 2017.

### NET FINANCIAL DEBT/ LTM ADJUSTED EBITDA

Net Financial Debt / LTM<sup>(1)</sup> Adjusted EBITDA ratio reached 3.3x in this quarter, a decrease compared to the 3.5x obtained in the first quarter of 2017.

(1) LTM = Last Twelve Months

### CAPEX

CAPEX reached U.S.\$ 132.2 million, an increase of 10.4% or U.S.\$ 12.4 million compared to the U.S.\$ 119.8 million during the first quarter of 2017.

**Conference Call**  
**Monday, August 28<sup>th</sup>, 2017**  
**12:00 Santiago Time**  
**11:00 Eastern Time (New York)**  
Please Dial:  
+1 (844) 839 2184 from USA  
+1 (412) 317 2505 from other countries  
Password: Arauco



**For further information, please contact:**

**Marcelo Bennett**  
marcelo.bennett@arauco.cl  
Phone: (562) 2461 7309

**Fernanda Paz Vásquez**  
fernanda.vasquez@arauco.cl  
Phone: (562) 2461 7494

**investor\_relations@arauco.cl**

For more details on Arauco's financial statements please refer to [www.svs.cl](http://www.svs.cl) or [www.arauco.cl](http://www.arauco.cl)

Readers are referred to the documents filed by Arauco with the United States Securities and Exchange Commission, specifically the most recent filing on Form 20-F that identifies important risk factors that could cause actual results to differ from those contained in the forward-looking statements. All forward-looking statements are based on information available to Arauco on the date hereof and Arauco does not assume any obligation to update such statements. References herein to "U.S.\$" are to United States dollars. Discrepancies in any table between totals and sums of the amounts listed are due to rounding. This report is unaudited.

## OVERVIEW

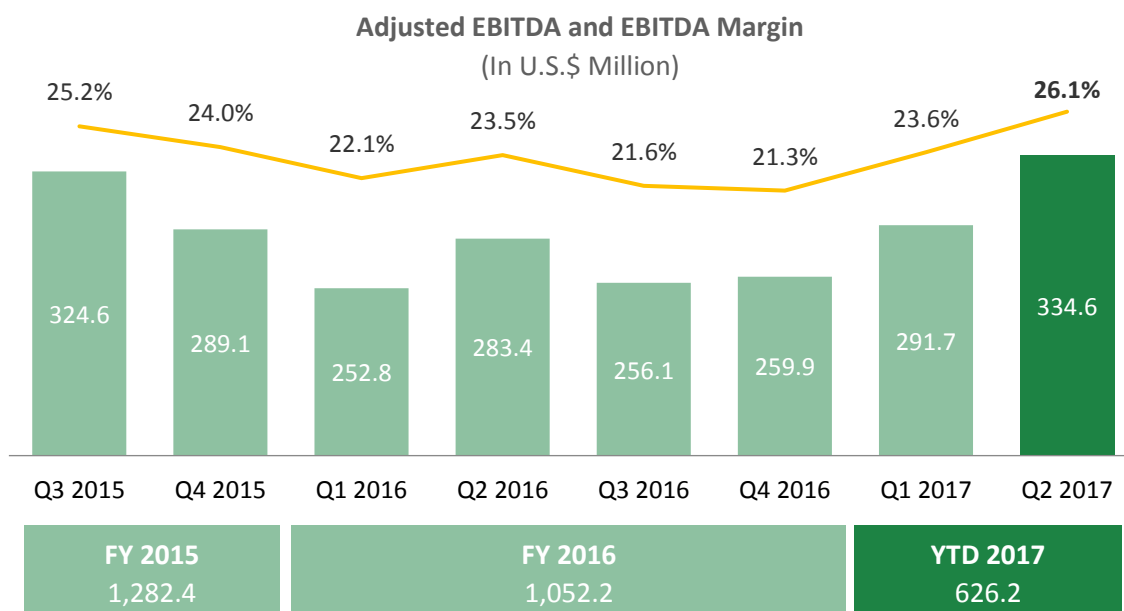
During this quarter, Arauco attained an outstanding Adjusted EBITDA margin, reaching 26.1%. Just like last quarter, the main driver of the increase was the upswing in pulp prices which started in November of last year and continued throughout the first semester of 2017. Our wood products segment also increased sales during the quarter, although the Adjusted EBITDA remained quite stable when compared to last quarter.

Pulp demand remained seasonally strong despite the beginning of the summer months in the Northern hemisphere. In Asia, even though some correction in prices were seen during the last month of the quarter, the market seems optimistic that prices will continue to rise despite this dip in price levels. From the supply side, disruptions in production alleviated pulp price pressures. Europe advanced in catching up to prices in Asia, but pulp margins still remain weak in comparison and therefore producers continue shipping their volumes to the Asian market.

Our wood products segment regained traction in terms of pricing as well as sales volume, apart from sawn timber products and plywood which overall had a slight decline in sales volume. North America continues to be a solid market despite the ongoing competition coming from Latin American markets. The Brazilian market persists strained as uncertainty continues in local economics and politics.

Higher cash from operations, which increased U.S.\$ 124.4 million compared to last quarter, enabled Arauco to reach a Free Cash Flow of U.S.\$ 116.3 million during this quarter.

In U.S. Million	Q2 2017	Q1 2017	Q2 2016	QoQ	YoY	YTD 2017	YTD 2016	YoY Acum
Revenue	1,279.9	1,233.7	1,207.3	3.7%	6.0%	2,513.7	2,353.3	6.8%
Net income	84.1	-45.3	57.5	285.7%	46.3%	38.8	110.4	-64.9%
Adjusted EBITDA	334.6	291.7	283.4	14.7%	18.1%	626.2	536.2	16.8%
Adjusted EBITDA Margin	26.1%	23.6%	23.5%	10.6%	11.4%	24.9%	22.8%	9.3%
LTM Adj. EBITDA	1,142.2	1,091.0	1,149.9	4.7%	-0.7%	1,142.2	1,149.9	-0.7%
CAPEX	132.2	119.8	255.4	10.4%	-48.2%	252.1	372.3	-32.3%
Net Financial Debt	3,735.8	3,821.0	3,902.9	-2.2%	-4.3%	3,735.8	3,902.9	-4.3%
Net Financial Debt / LTM Adj. EBITDA	3.3x	3.5x	3.4x	-6.6%	-3.6%	3.3x	3.4x	0.0%



## INCOME STATEMENT

Net income for the second quarter of 2017 was U.S.\$ 84.1 million, an increase of U.S.\$ 129.3 million compared to the U.S.\$ -45.3 million obtained in the first quarter of this year.

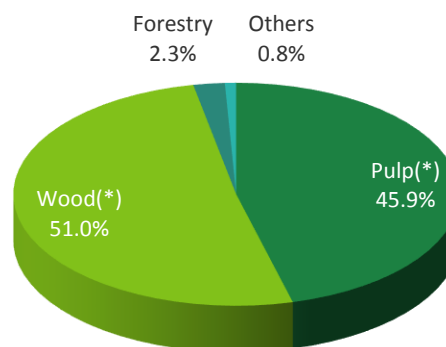
In U.S.\$ Million	Q2 2017	Q1 2017	QoQ
Revenues	1,279.9	1,233.7	3.7%
Cost of sales	(877.7)	(871.6)	0.7%
Distribution costs	(128.1)	(124.0)	3.3%
Administrative expenses	(127.2)	(120.4)	5.7%
Other income	32.6	48.3	-32.5%
Other expenses	(8.1)	(193.1)	-95.8%
Financial income	5.9	6.4	-7.9%
Financial costs	(57.7)	(59.9)	-3.6%
Participation in (loss) profit in associates and joint ventures accounted through equity method	3.4	8.1	-57.7%
Exchange rate differences	(1.6)	1.5	-212.0%
<b>Income before income tax</b>	<b>121.5</b>	<b>(70.9)</b>	<b>271.4%</b>
Income tax	(37.4)	25.6	-246.1%
<b>Net income</b>	<b>84.1</b>	<b>(45.3)</b>	<b>285.7%</b>

**Revenues** reached U.S.\$ 1,279.9 million during the second quarter of 2017 compared with the U.S.\$ 1,233.7 million in the previous quarter, as a result of an increase in sales from our pulp, wood products and forestry sector. Forestry revenues increased with higher sales volume from our wood products segment. Revenues from our pulp segment increased as average prices surged 11.0% compared to last quarter, partially offset by a 7.0% less sales volume. Energy sales increased by 7.4% compared to last quarter, thanks to higher sales volume coming from our plants. The following table shows a breakdown of our revenue sales distributed by business segment:

In U.S.\$ Million	Q2 2017	Q1 2017	QoQ
Pulp(*)	587.7	563.6	4.3%
Wood Products(*)	652.7	640.0	2.0%
Forestry	29.1	19.6	48.4%
Others	10.4	10.5	-0.7%
<b>Total</b>	<b>1,279.9</b>	<b>1,233.7</b>	<b>3.7%</b>

(\*) Pulp and Wood division sales include energy

Sales by Business Segment 2Q 2017



**Cost of sales** for the second quarter of the year reached U.S.\$ 877.7 million, U.S.\$ 6.1 million or 0.7% higher than the U.S.\$ 871.6 million obtained in the first quarter of 2017. In absolute terms, cost of electricity increased by U.S.\$ 4.7 million this quarter since there was a higher output of energy during the quarter. The largest decrease in absolute terms during the quarter was depreciation and amortization, which declined by U.S.\$ 5.8 million, due to lower pulp sales volume.

In U.S.\$ Million	Q2 2017	Q1 2017	QoQ
Timber	189.9	186.8	1.7%
Forestry costs	151.5	149.6	1.2%
Depreciation and amortization	89.9	95.6	-6.0%
Maintenance costs	65.5	64.0	2.4%
Chemical costs	128.2	125.3	2.3%
Sawmill services	25.4	28.7	-11.5%
Other raw materials and indirect costs	88.5	86.7	2.0%
Energy and fuel	43.4	44.6	-2.6%
Cost of electricity	13.9	9.2	51.7%
Wage, salaries and severance indemnities	81.6	81.1	0.5%
<b>Cost of Sales</b>	<b>877.7</b>	<b>871.6</b>	<b>0.7%</b>

**Administrative expenses** overall increased by 5.7% or U.S.\$ 6.8 million. In general, all items remained fairly stable, with wage, salaries and severance indemnities increasing slightly by U.S.\$ 3.2 million due to a small reversal of a provision in the first quarter in Chile after bonus payments, and changes in actuarial losses.

In U.S.\$ Million	Q2 2017	Q1 2017	QoQ
Wage, salaries and severance indemnities	53.3	50.1	6.4%
Marketing, advertising, promotion and publications expenses	2.7	2.4	12.7%
Insurance	5.0	4.2	17.5%
Depreciation and amortization	6.7	7.6	-11.7%
Computer services	8.2	6.7	21.6%
Lease rentals (offices, warehouses and machinery)	4.1	3.9	6.2%
Donations, contributions, scholarships	1.5	2.4	-39.0%
Fees (legal and technical advisories)	8.1	9.2	-12.4%
Property taxes, patents and municipality rights	5.1	4.3	18.3%
Other administration expenses	32.6	29.6	10.3%
<b>Administrative Expenses</b>	<b>127.2</b>	<b>120.4</b>	<b>5.7%</b>

**Distribution costs** increased 3.3% or U.S.\$ 4.1 million, due to higher freights and other shipping and freight costs which altogether increased U.S.\$ 3.8 million. This increase is in line with the increase in sales volume from our wood segment. All other items fluctuated less the U.S.\$ 1.0 million.

In U.S.\$ Million	Q2 2017	Q1 2017	QoQ
Commissions	3.0	3.5	-15.2%
Insurance	0.8	0.8	2.5%
Other selling costs	5.5	4.9	11.2%
Port services	7.5	7.3	3.4%
Freights	95.3	93.2	2.3%
Other shipping and freight costs	16.1	14.4	11.8%
<b>Distribution Costs</b>	<b>128.1</b>	<b>124.0</b>	<b>3.3%</b>

As a percentage, administrative expenses and distribution costs combined were 19.9% of sales, remaining stable compared to the 19.8% in the previous quarter, and a downward trend compared to 20.2% in the quarter before that.

**Other income** fell 32.5% or U.S.\$ 15.7 million this quarter. Gain from changes in fair value of biological assets decreased U.S.\$ 19.2 million this quarter, due to adjustments to the calculation of this item for this year. The rest of the items did not suffer any major fluctuations.

In U.S.\$ Million	Q2 2017	Q1 2017	QoQ
Gain from changes in fair value of biological assets	24.0	43.3	-44.5%
Net income from insurance compensation	0.2	0.1	253.7%
Leases received	1.2	1.0	18.8%
Gains on sales of assets	2.8	2.0	43.6%
Access easement	0.4	0.0	960.5%
Other operating results	3.9	2.0	98.0%
<b>Other Income</b>	<b>32.6</b>	<b>48.3</b>	<b>-32.5%</b>

**Other expenses** fell overall 95.8% or U.S.\$ 185.1 million. After the forest fires at the beginning of the year, a provision for forestry fire losses was made for U.S.\$ 178.4 million during the first quarter, taking into account an estimation of how much of the forests could be recovered in the process. During the second quarter, the expense for forestry fire losses was corrected by U.S.\$ 4.5 million, dependent on the damage that was really found as our teams scoured the sites.

In U.S.\$ Million	Q2 2017	Q1 2017	QoQ
Depreciation	0.4	0.9	-50.2%
Legal payments	1.1	0.9	32.6%
Impairment provision property, plant and equipment and others	1.8	1.0	80.1%
Plants stoppage operating expenses	1.1	1.0	9.6%
Project expenses	(0.0)	0.7	-102.0%
Gain (loss) from asset sales	2.0	0.6	260.6%
Loss of assets	0.0	3.7	-
Provision for forestry fire losses	(4.5)	178.4	-102.5%
Other taxes	1.9	1.9	1.7%
Research and development expenses	0.8	0.7	11.3%
Fines, readjustments and interest	0.2	0.3	-43.0%
Other expenses (donations, repayments insurance)	3.2	3.2	0.1%
<b>Other expenses</b>	<b>8.1</b>	<b>193.1</b>	<b>-95.8%</b>

**Foreign exchange differences** showed a loss of U.S.\$ 1.6 million, a U.S.\$ 3.1 million difference when compared to the previous quarter that ended at a gain of U.S.\$ 1.5 million. The average of the Chilean peso against the U.S. dollar during the second quarter depreciated 1.4% when compared to the first quarter. The average of the Argentine peso also depreciated by 0.6% against the U.S. dollar when compared to last quarter, and 7.8% when levels at the end of March were compared to the end of June. These depreciations decrease our cash and cash equivalents when converted to U.S. dollar.

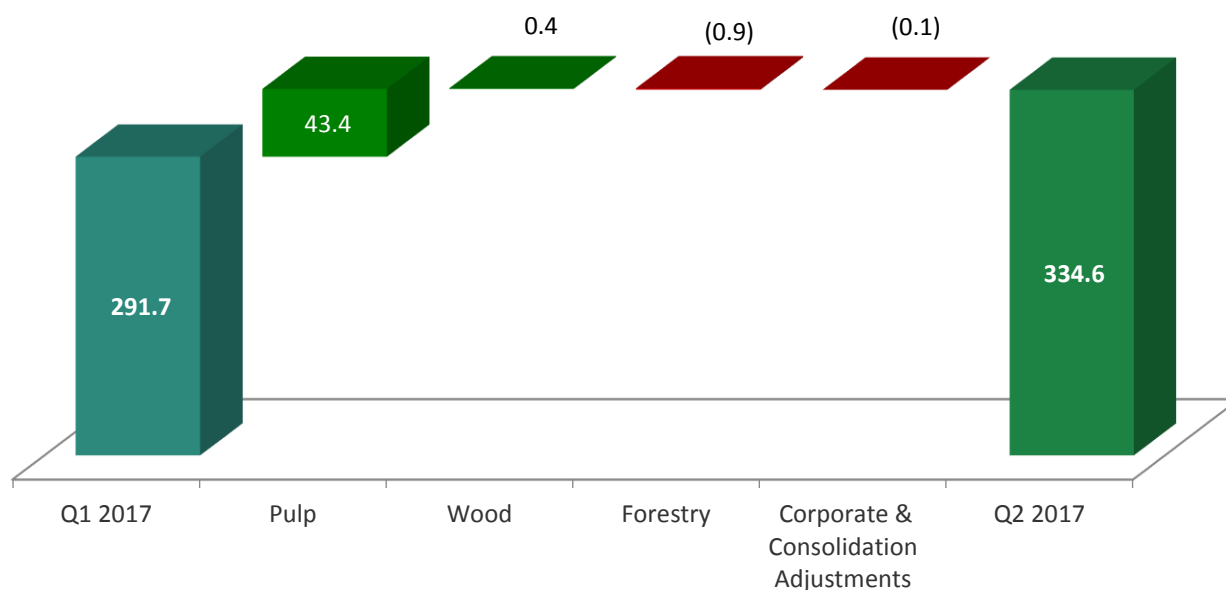
## ADJUSTED EBITDA

Adjusted EBITDA for the second quarter of 2017 was U.S.\$ 334.6 million, 14.7% or U.S.\$ 42.9 million higher than the US\$ 291.7 million reached during the previous quarter. In terms of Adjusted EBITDA by business, during the second quarter of the year we had an increase in our pulp and wood divisions of 26.9% and 0.4% respectively, partially offset by a 1.4% decline in our forestry division. Pulp prices overall continued their positive trend during the second quarter, reaching a higher average compared to last quarter. Wood products increased prices in both panels and sawn timber, and increased sales volume except for sawn timber which had a slight decrease of approximately 0.6% during the quarter due to lower plywood sales. Our forestry EBITDA remained fairly stable despite an increase in sales volume and higher margins, as administrative expenses within this segment increased.

In U.S.\$ Million	Q2 2017	Q1 2017	Q2 2016	QoQ	YoY
Net Income	84.1	(45.3)	57.5	-285.7%	46.3%
Financial costs	57.7	59.9	65.5	-3.6%	-11.8%
Financial income	(5.9)	(6.4)	(6.6)	-7.9%	-10.3%
Income tax	37.4	(25.6)	12.2	-246.1%	207.3%
<b>EBIT</b>	<b>173.4</b>	<b>(17.4)</b>	<b>128.6</b>	<b>-1,094.3%</b>	<b>34.8%</b>
Depreciation & amortization	96.8	105.0	104.5	-7.8%	-7.3%
<b>EBITDA</b>	<b>270.2</b>	<b>87.5</b>	<b>233.0</b>	<b>208.7%</b>	<b>15.9%</b>
Fair value cost of timber harvested	91.3	70.5	96.5	29.5%	-5.4%
Gain from changes in fair value of biological assets	(24.0)	(43.3)	(48.4)	-44.5%	-50.4%
Exchange rate differences	1.6	(1.5)	0.2	-212.0%	756.5%
Others (*)	(4.5)	178.4	2.1	-102.5%	-317.7%
<b>Adjusted EBITDA</b>	<b>334.6</b>	<b>291.7</b>	<b>283.4</b>	<b>14.7%</b>	<b>18.1%</b>

(\*) Includes provision from forestry fire losses.

**Adjusted EBITDA Variation by Business Segment Q1 2017 – Q2 2017**  
(In U.S.\$ Million)

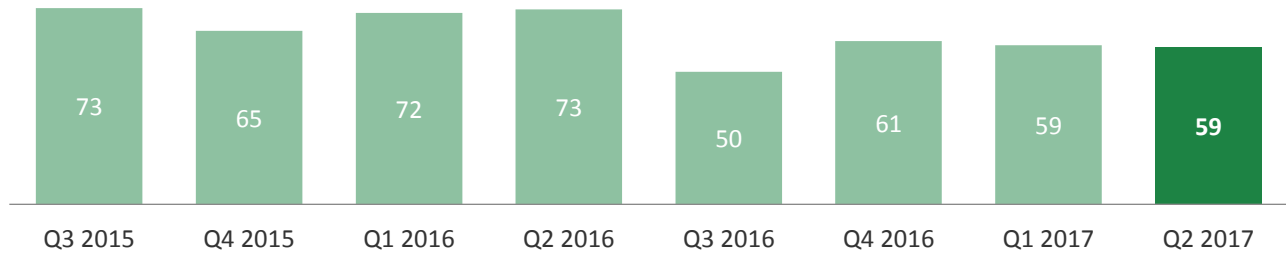




## FORESTRY BUSINESS

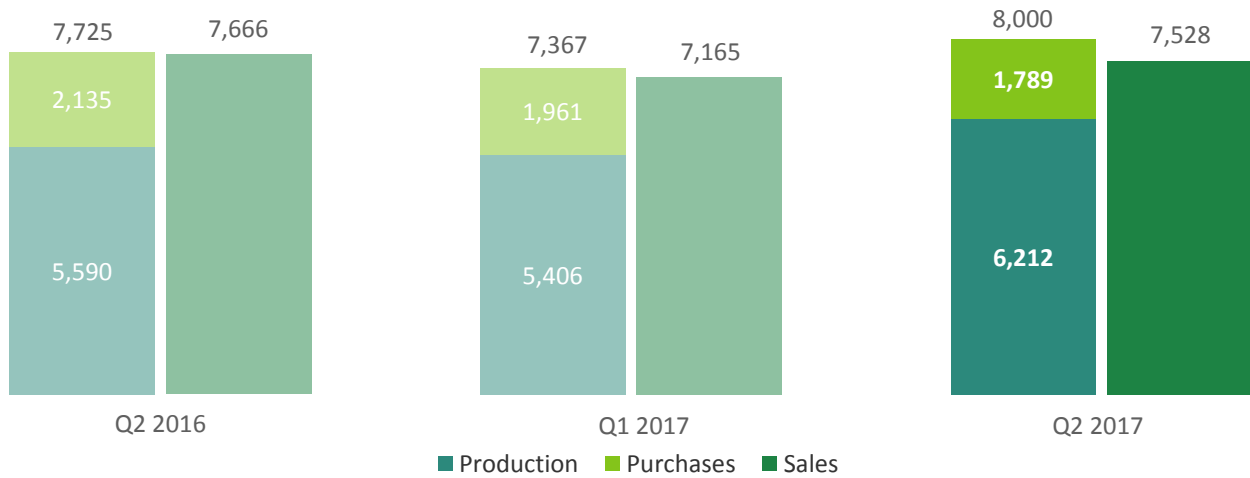
The Adjusted EBITDA for our forestry business reached U.S.\$ 58.6 million during this quarter, which translates to a 1.4% or U.S.\$ 0.9 million decrease compared to the previous quarter.

**Adjusted EBITDA for Forestry Business**  
(In U.S.\$ Million)



During the second quarter, our forestry production was 6.2 million m<sup>3</sup>, a 13.0% increase compared to the 5.4 million m<sup>3</sup> produced in the previous quarter. Sales volume increased by 4.8% from 7.2 million m<sup>3</sup> to 7.5 million m<sup>3</sup>.

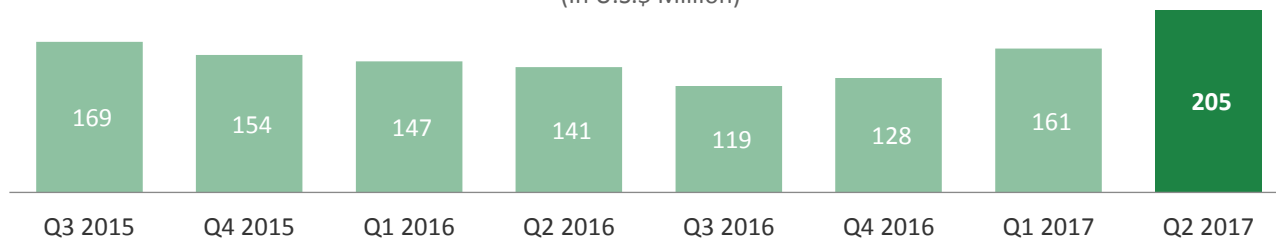
**Production, Purchases and Sales Volume**  
(In Thousand m<sup>3</sup>)



## PULP BUSINESS

The Adjusted EBITDA for our pulp business reached U.S.\$ 204.7 million during this quarter, which translates to a 26.9% increase or U.S.\$ 43.4 million compared to the previous quarter.

**Adjusted EBITDA for Pulp Business**  
(In U.S.\$ Million)



**Global Pulp Demand Change**  
Q1 2017 – Q2 2017

North America	▲	5.8%
West Europe	■	0.0%
East Europe	■	-1.5%
Latin America	▲	5.1%
Japan	■	-1.1%
China	▼	-9.1%
Others	▲	8.6%

Source: Hawkins Wright

Even though the first months of summer usually bring slower global pulp demand, pulp prices continued their positive rally during the second quarter. The second line at the OKI Mill ramped up during April, but with little to no impact in prices. This was supported by a lower production in the CMPC Guaiba Mill, which encountered operational issues back in February and operated at only 80% during the quarter. World inventories remained balanced, with long fiber inventories increasing two days compared to the last quarter to 31 days, and short fiber decreasing by one day to 37 days. Arauco sold less sales volume Q-o-Q as many storm surges hit the Chilean coast, delaying some ships to embark and consequently lagging sales invoiced.

In Asia, paper prices continued increasing thanks to a dynamic paper market, supported by sporadic production downtimes of some paper producers. Short fiber prices increased between 6% and 7%, or U.S.\$ 40 per ton, during the quarter. On the other hand, long fiber prices showed an upward trend during the first two months of the quarter, with a 3% or U.S.\$ 20 per ton gain. However, long fiber prices corrected by 1% during the month of June, mainly due to seasonally weaker demand. Other Asian countries such as Korea have followed suit in terms of price movements; prices for both fibers have increased, with a slight correction in long fiber prices in June.

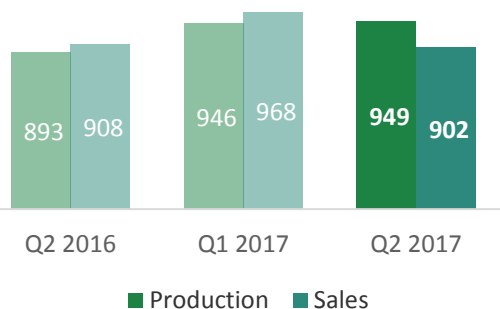
European markets showed the highest increase in pulp prices this quarter, with a gain in short fiber prices of approximately 16%. Many paper producers decided to take the risk of buying pulp spot thinking that the market would be more favorable to them. Nevertheless, unexpected downtimes in pulp mills have given way to higher pulp prices each month. Now many paper producers are looking to extend their contracts up to the end of next year in order to close their exposure to short-term pulp prices. When compared to Asian markets, margins continue subdued despite the price recovery. Pulp producers therefore continue to export volume to Asia, which in turn clears the way for larger price hikes in Europe.

Markets in Latin America remained stable throughout the quarter, following international price trends. Venezuela continued subdued, where Arauco has not sold any pulp volume during the first part of the year.

The ramp-up of the Klabin mill continues to affect prices in Brazil, and we have decided to increase exports of fluff to other markets such as the Middle East, where countries like Turkey have shown better margins than selling locally in Argentina.

Pulp production remained fairly stable in comparison to last quarter, and increased by 6.4% compared to the same quarter of last year. Despite the forest fires during the first quarter of the year, wood supply has not been obstructed. Mills must take the added precaution of monitoring closely incoming wood so as to not contaminate the pulp with bits of charcoal. We had maintenance stoppages in Line 1 of our Arauco Mill during the end of March and beginning of April, and Montes del Plata during the month of May.

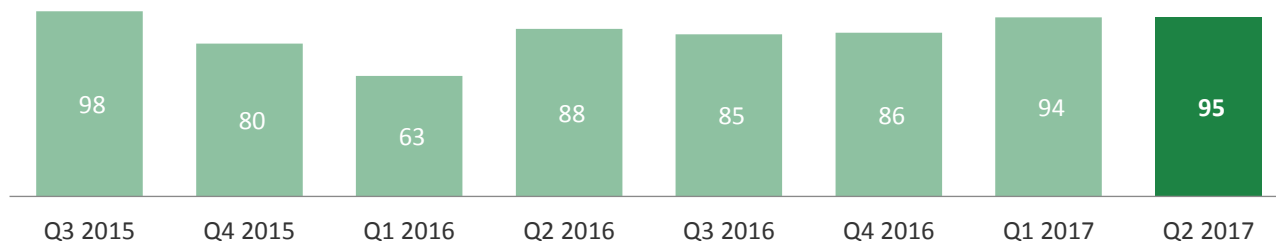
**Production and Sales Volume**  
(In Thousand AdT)



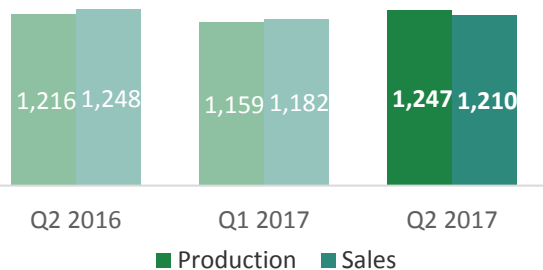
## WOOD PRODUCTS BUSINESS

The Adjusted EBITDA for our wood products business reached U.S.\$ 94.6 million during this quarter, which translates to a 0.4% increase or U.S.\$ 0.4 million compared to the previous quarter.

Adjusted EBITDA for Wood Product Business  
(In U.S.\$ Million)



Production and Sales Volume: Panels<sup>(1)</sup>  
(In Thousand m<sup>3</sup>)

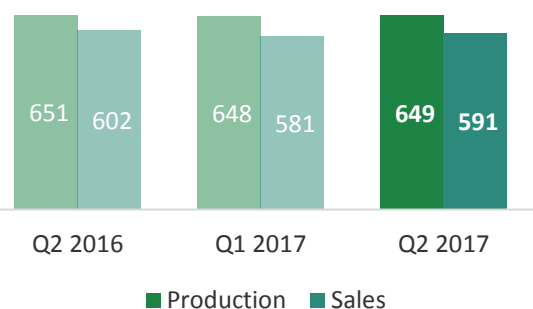


**Composite panel** sales slightly increased this quarter when compared to last quarter. MDF increased its sales volume by 0.7% and prices by 1.1% when compared to the first quarter of 2017, while PB increased its sales volume by 6.4% and prices by 3.0%.

In North America, demand was stable. Disruptions in market production volumes after an MDF mill exploded in North Carolina enabled Brazilian imports to permeate the market with renewed strength, without detriment to price levels. In Mexico, MDF sales remained subdued as supply from new MDF plants as well as higher imports intensified competition. On the other hand, PB prices rose throughout the quarter, reflecting a healthy demand in our design lines.

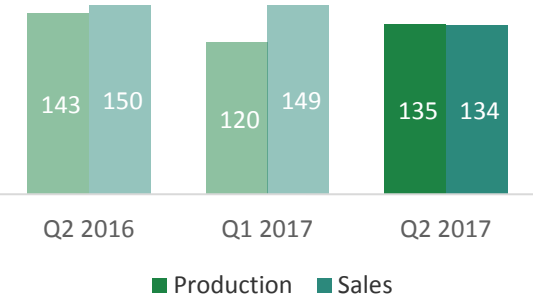
Latin American sales were mixed. The Brazilian market continued constrained after a tumultuous economic and political crisis. Although demand for panels seemed to be in good condition, prices in some local markets continued pressured. Despite all these setbacks, Arauco was able to slightly increase prices and sales volume within this country. The Argentine market has shown promise, boosted by increased sales of our valued added products. In Chile, lower economic activity principally affected melamine sales. Prices and sales volume in Colombia were pressured as more supply came from local and international producers. In contrast, the market in Peru has shown sustaining levels of growth.

Production and Sales Volume: Sawn Timber<sup>(2)</sup>  
(In Thousand m<sup>3</sup>)



**Sawn timber** markets showed recovery in total sales, mainly boosted by higher prices compared to the first quarter, and higher sales volume of 1.9% when plywood is not taken into account. Compared to last year, however, prices remain at higher levels. Asian and Middle Eastern markets particularly have shown improvement. In Korea, we were able to push through price hikes, while the Chinese market was stimulated by an increase in demand for furniture in the United States. In the Middle East, the appreciation of the euro decreased incoming competition from Europe, therefore increasing margins. Remanufactured product sales volume likewise remained stable compared to last quarter. The North American market was also active, enabling price hikes in various products. Supply and demand seemed to be in balance, giving way to a stable outlook for the rest of the year.

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



**Plywood** prices continued the positive trend seen during the first quarter, increasing by 3.3%, although in detriment of sales volume which decreased 10.2%. A healthy level of demand in the North American market endured, and preliminary tests to launch new products were successful thus far. In Europe, we have also been able to increase prices, thanks to the strengthening of the construction sector.

(1) Includes HB, MDF, OSB, PB

(2) Includes sawn timber, kilned sawn timber, remanufactured wood products, pallets

Note: Sales include trading

## CAPITAL EXPENDITURES

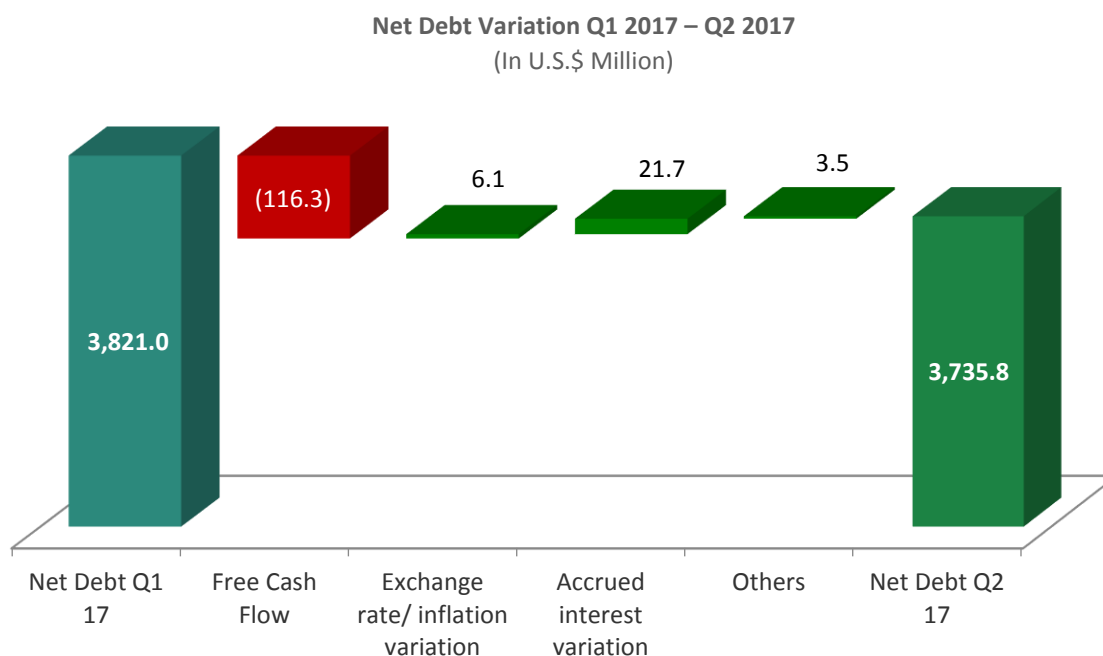
U.S.\$ Million	Q2 2017	Q1 2017	Q2 2016	YTD 2017	YTD 2016
Cash flows used to purchase in associates	-	-	153.1	-	153.1
Purchase and sales of property, plant and equipment	88.2	69.0	65.8	157.3	145.4
Purchase and sales of intangible assets	3.1	4.6	1.1	7.7	1.6
Purchase of other long-term assets	40.9	46.1	35.4	87.1	72.1
<b>Total CAPEX</b>	<b>132.2</b>	<b>119.8</b>	<b>255.4</b>	<b>252.1</b>	<b>372.3</b>

During this quarter, capital expenditures increased by U.S.\$ 12.4 million or 10.4% compared to the first quarter of 2017. There were two programmed maintenance stoppages during the second quarter: Line 1 of our Arauco Mill, which disbursed approximately U.S.\$ 9.9 million; and the Montes del Plata Mill, which disbursed approximately U.S.\$ 6.0 million. The water treatment plant continues its construction phase, with expenditures of U.S.\$23.6 million during the quarter. This project has still to disburse approximately U.S.\$ 43.5 million additionally until completion. The Grayling Project is also advancing and disbursed about U.S.\$ 32.5 million during the quarter, accumulating of U.S.\$43.3 million for this year and U.S.\$ 60.0 million since the beginning of the project. Plantation CAPEX across all countries amounted to U.S.\$ 40.9 million. The remaining CAPEX pertains to sustaining business investments.

## FREE CASH FLOW

We had a favorable free cash flow during this quarter, increasing U.S.\$ 53.5 million compared to last quarter. The increase in EBITDA kept driving cash from operations upwards, surpassing last quarter as well as the second quarter of last year. Therefore, cash from operations almost doubled compared to last quarter, increasing U.S.\$ 124.4 million. Cash used by investment activities rose due to higher CAPEX as the Grayling Project gains full traction and continues its construction phase. In addition, cash used by financing activities during this quarter was U.S.\$ 59.6 million, as compared to U.S.\$ 0.8 million from last quarter. This difference is primarily due to the seasonal payment of dividends to our shareholders.

U.S.\$ Million	Q2 2017	Q1 2017	Q2 2016
Adjusted EBITDA	334.6	291.7	283.4
Working Capital Variation	5.2	(20.6)	39.2
Interest paid and received	(34.0)	(70.4)	(22.4)
Income tax paid	(0.8)	(12.8)	(21.4)
Other cash inflows (outflows)	0.3	(7.2)	(52.2)
<b>Cash from Operations</b>	<b>305.2</b>	<b>180.8</b>	<b>226.6</b>
Capex	(132.2)	(119.8)	(255.4)
Proceeds from investment activities	2.9	0.7	5.7
Other inflows of cash, net	4.3	(0.0)	5.5
<b>Cash from (used in) Investment Activities</b>	<b>(125.1)</b>	<b>(119.1)</b>	<b>(244.1)</b>
Dividends paid	(59.7)	(0.8)	(100.3)
Other inflows of cash, net	0.1	0.0	0.4
<b>Cash from (used in) Financing Activities - Net of Proceeds and Repayments</b>	<b>(59.6)</b>	<b>(0.8)</b>	<b>(99.8)</b>
Effect of exchange rate changes on cash and cash equivalents	(4.2)	2.0	6.6
<b>Free Cash Flow</b>	<b>116.3</b>	<b>62.9</b>	<b>(110.8)</b>

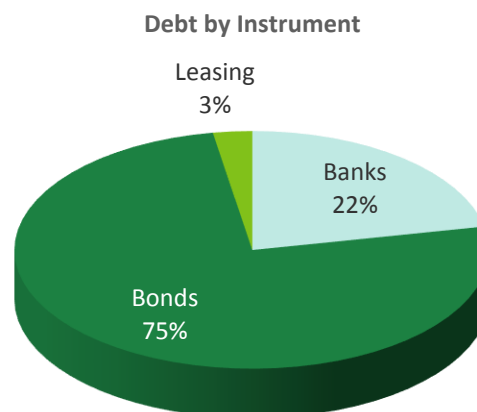
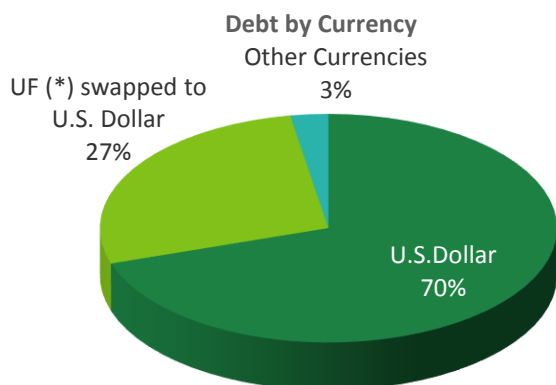
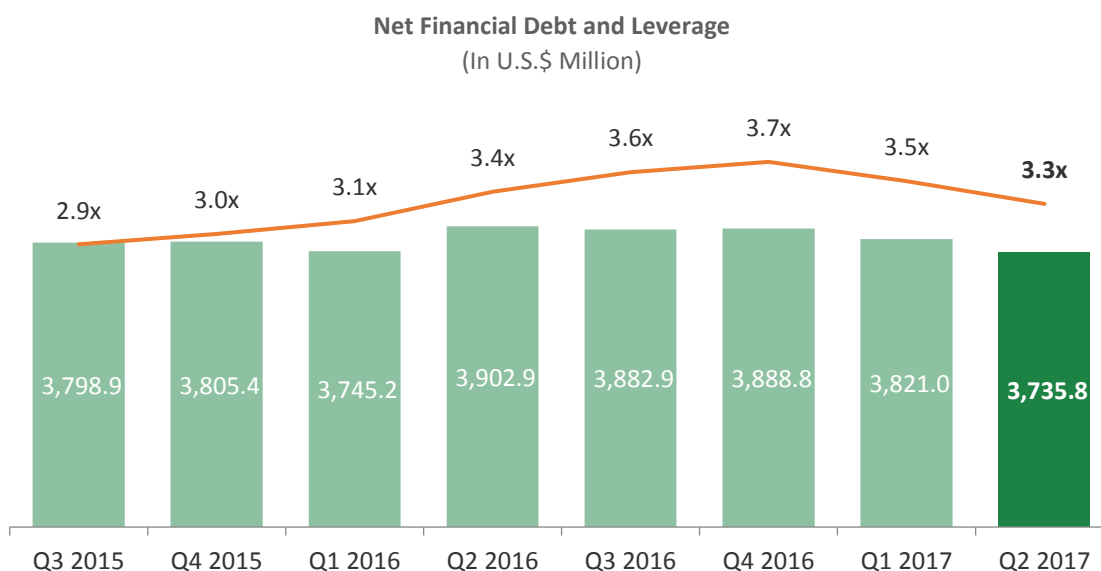


## FINANCIAL DEBT AND CASH

Arauco's financial debt as of June 30, 2017 reached U.S.\$ 4,248.6 million, a decrease of 4.1% or U.S.\$ 180.9 million when compared to March 31, 2017. This decrease is mainly due to the payment of a Yankee bullet bond in Arauco Argentina for U.S.\$ 270.0 million. Our consolidated net financial debt decreased 2.2% or U.S.\$ 85.1 million when compared with March 2017, while cash and cash equivalents decreased by U.S.\$ 95.8 million.

Our leverage, measured as Net Financial Debt/LTM Adjusted EBITDA, decreased compared to last quarter from 3.5 times to 3.3 times.

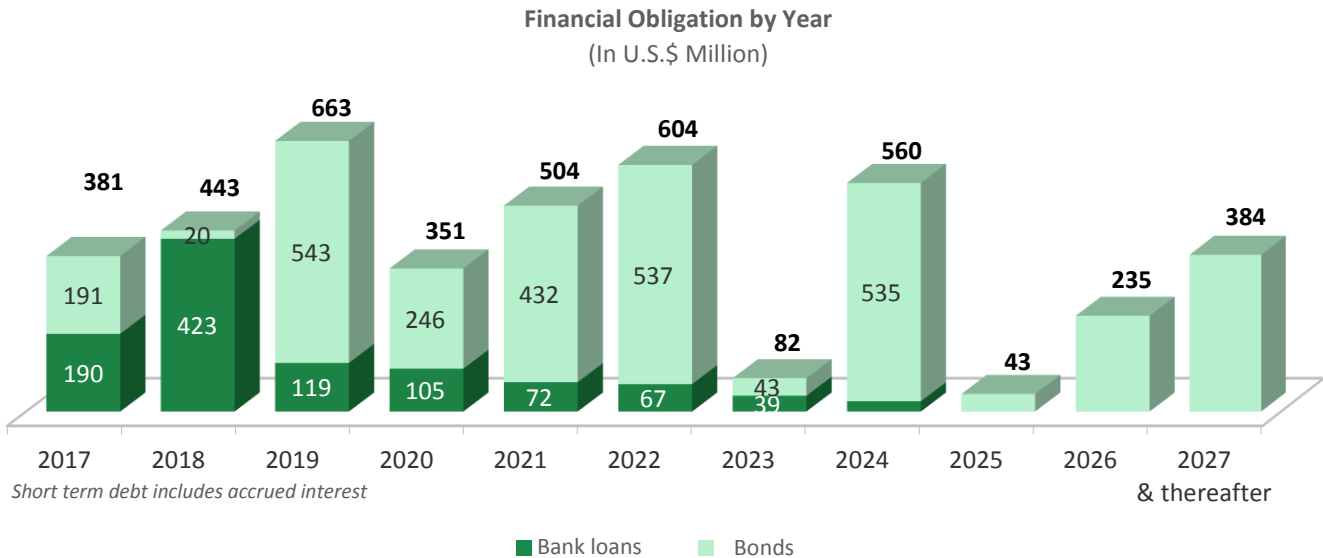
In U.S.\$ Million	June 2017	March 2017	June 2016
Short term financial debt	453.8	673.7	647.8
Long term financial debt	3,794.7	3,755.8	3,782.5
<b>TOTAL FINANCIAL DEBT</b>	<b>4,248.6</b>	<b>4,429.5</b>	<b>4,430.3</b>
Cash and cash equivalents	512.7	608.5	527.4
<b>NET FINANCIAL DEBT</b>	<b>3,735.8</b>	<b>3,821.0</b>	<b>3,902.9</b>
<b>LTM Adjusted EBITDA</b>	<b>1,142.2</b>	<b>1,091.0</b>	<b>1,149.9</b>



(\*) UF is a Chilean monetary unit indexed to inflation.

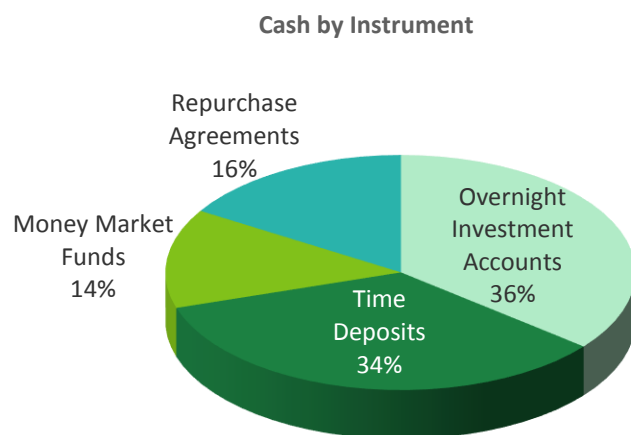
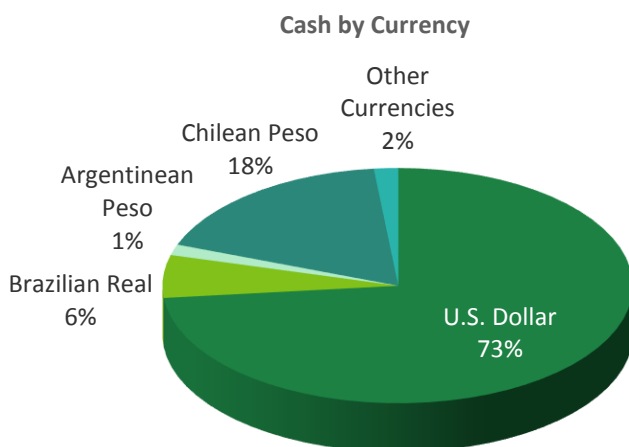
## Financial Debt Profile

For the remainder of the year, Arauco has U.S.\$ 381.0 million in financial obligations (including accrued interest). Bank obligations for the year sum up a total of U.S.\$ 190.5 million, which include the following maturities: U.S.\$ 149.0 million of loans in Montes del Plata, U.S.\$ 17.1 million in leasing in Chile, U.S.\$ 20.1 million from our Argentine subsidiaries, and U.S.\$ 4.1 million from our Brazilian subsidiaries. Bond amortizations include U.S.\$ 125.0 million in a Yankee bond due in September, and the first amortization equivalent to U.S.\$ 10.0 million for our local bond BARAU-Q in October. The remaining years have not undergone any major changes in financial obligations as compared to the previous quarter.



## Cash

Our cash position was U.S.\$ 512.7 million at the end of the second quarter, which is a U.S.\$ 95.8 million or 15.7% decrease compared to the end of the first quarter of 2017. Cash provided by operating activities increased U.S.\$ 124.4 million, as receipts from sales of goods and rendering of services increased by U.S.\$ 45.7 million, and seasonally lower interests paid which increased cash by U.S.\$ 36.3 million. This increase in cash was offset by higher CAPEX which augmented U.S.\$ 12.4 million, and seasonal payment of dividends of U.S.\$ 59.7 million. Additionally, during the quarter, we paid off our Alto Paraná Bond, which amounted to U.S.\$ 270.0 million, in June.



## SECOND QUARTER AND SUBSEQUENT EVENTS AND NEWS

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### MAPA and Dissolving Pulp Projects Receive Favorable Rulings in Court

In February 2014, the environmental study for the MAPA Project, located in our Arauco Mill, was approved by the Environmental Assessment Service (SEA). However, in March of that same year, a group of communities filed a constitutional act (*recurso de protección*) against the SEA, claiming they had not been duly consulted during the approval process of this project. After various proceedings, in May 2017 the Supreme Court ruled in favor of the project.

In the case of the dissolving pulp project located at the Valdivia Mill, in March 2015, the SEA approved the environmental impact statement submitted by Arauco. However, in November 2015 and similar to the MAPA project, a group of communities filed a constitutional act (*recurso de protección*) against the SEA, among others, claiming they had not been duly consulted during the process of approval. After various proceedings, in July 2017 we reached a settlement with the communities, and the Supreme Court accepted the withdrawal of the communities' claim.

Both projects are subject to technical and feasibility studies as well as the approval of the Board of Directors before going forward.

### Grayling Project on Schedule

The Grayling Project continues its course on schedule and within budget. As of June 2017, the progress was at a 15% completion. Currently, the various civil works contracts are being executed, while the construction of the principal building is ongoing. This building must be finished before the crude winter hits the area, where temperatures can reach 20°C below zero. During the winter months, the assembly of the internal equipment will take place. The external equipment will be set up during August and September of this year. The particleboard mill located in Grayling, Michigan, U.S.A., will cost approximately U.S.\$ 400.0 million to construct and will have a capacity of 800,000 m3 per year. Rollout of the first panel is estimated to occur during late 2018.



## FINANCIAL STATEMENTS

### Income Statement

In U.S.\$ Million	Q2 2017	Q1 2017	Q2 2016	YTD 2017	YTD 2016
Revenues	1,279.9	1,233.7	1,207.3	2,513.7	2,353.3
Cost of sales	(877.7)	(871.6)	(879.9)	(1,749.3)	(1,711.8)
<b>Gross profit</b>	<b>402.3</b>	<b>362.1</b>	<b>327.3</b>	<b>764.4</b>	<b>641.5</b>
Other income	32.6	48.3	61.7	80.9	119.8
Distribution costs	(128.1)	(124.0)	(121.9)	(252.1)	(234.4)
Administrative expenses	(127.2)	(120.4)	(131.5)	(247.5)	(236.6)
Other expenses	(8.1)	(193.1)	(12.9)	(201.2)	(33.4)
Financial income	5.9	6.4	6.6	12.3	17.9
Financial costs	(57.7)	(59.9)	(65.5)	(117.6)	(135.8)
Participation in (loss) profit in associates and joint ventures accounted through equity method	3.4	8.1	6.0	11.6	10.0
Exchange rate differences	(1.6)	1.5	(0.2)	(0.2)	0.9
<b>Income before income tax</b>	<b>121.5</b>	<b>(70.9)</b>	<b>69.7</b>	<b>50.6</b>	<b>149.9</b>
Income tax	(37.4)	25.6	(12.2)	(11.8)	(39.6)
<b>Net income</b>	<b>84.1</b>	<b>(45.3)</b>	<b>57.5</b>	<b>38.8</b>	<b>110.4</b>
Profit attributable to parent company	84.0	(45.6)	56.9	38.4	109.1
Profit attributable to non-parent company	0.1	0.3	0.6	0.4	1.3

## Balance Sheet

In U.S.\$ Million	Q2 2017	Q1 2017	Q2 2016
Cash and cash equivalents	512.7	608.5	527.4
Other financial current assets	4.4	4.2	10.7
Other current non-financial assets	181.3	170.6	158.4
Trade and other receivables-net	704.6	724.0	667.8
Related party receivables	6.2	10.0	3.7
Inventories	847.0	825.6	908.5
Biological assets, current	303.6	299.9	324.9
Tax assets	67.3	103.3	80.2
Non-Current Assets classified as held for sale	2.5	2.9	2.8
<b>Total Current Assets</b>	<b>2,629.6</b>	<b>2,749.0</b>	<b>2,684.4</b>
Other non-current financial assets	11.7	15.9	3.4
Other non-current and non-financial assets	111.0	109.1	129.2
Non-current receivables	14.9	17.3	17.8
Investments accounted through equity method	347.9	461.2	437.3
Intangible assets	91.0	90.8	84.8
Goodwill	74.5	75.8	75.5
Property, plant and equipment	6,867.1	6,898.1	6,945.1
Biological assets, non-current	3,519.0	3,446.6	3,578.3
Deferred tax assets	7.1	6.7	3.9
<b>Total Non-Current Assets</b>	<b>11,044.2</b>	<b>11,121.4</b>	<b>11,275.5</b>
<b>TOTAL ASSETS</b>	<b>13,673.8</b>	<b>13,870.4</b>	<b>13,959.9</b>
Other financial liabilities, current	454.0	674.3	649.5
Trade and other payables	508.8	506.5	583.4
Related party payables	8.5	7.4	7.3
Other provisions, current	0.4	0.4	0.8
Tax liabilities	4.8	2.7	9.7
Current provision for employee benefits	5.4	5.3	5.3
Other non-financial liabilities, current	84.4	109.4	79.5
<b>Total Current Liabilities</b>	<b>1,066.3</b>	<b>1,306.1</b>	<b>1,335.5</b>
Other non-current financial liabilities	3,866.7	3,821.4	3,927.3
Other provisions, non-current	37.5	38.8	36.1
Deferred tax liabilities	1,604.0	1,591.0	1,636.8
Non-current provision for employee benefits	61.8	61.1	60.3
Other non-financial liabilities, non-current	60.5	62.8	59.9
<b>Total Non-Current Liabilities</b>	<b>5,630.6</b>	<b>5,575.1</b>	<b>5,720.5</b>
Non-parent participation	43.7	45.2	43.7
<b>Net equity attributable to parent company</b>	<b>6,933.3</b>	<b>6,944.0</b>	<b>6,860.1</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>13,673.8</b>	<b>13,870.4</b>	<b>13,959.9</b>

## Cash Flow Statement

U.S.\$ Million	Q2 2017	Q1 2017	Q2 2016	YTD 2017	YTD 2016
Receipts from sales of goods and rendering of services	1,367.3	1,321.7	1,263.6	2,689.0	2,572.0
Other cash receipts (payments)	56.5	63.9	68.4	120.4	132.7
Payments of suppliers and personnel (less)	(1,081.4)	(1,119.8)	(1,064.6)	(2,201.3)	(2,125.6)
Interest paid and received	(34.0)	(70.4)	(22.4)	(104.4)	(90.8)
Income tax paid	(0.8)	(12.8)	(21.4)	(13.6)	(34.7)
Other (outflows) inflows of cash, net	(2.3)	(1.8)	3.0	(4.2)	0.0
<b>Net Cash Provided by (Used in) Operating Activities</b>	<b>305.2</b>	<b>180.8</b>	<b>226.6</b>	<b>486.0</b>	<b>453.7</b>
Capital Expenditures	(132.2)	(119.8)	(255.4)	(252.1)	(372.3)
Other investment cash flows	7.2	0.7	11.2	7.9	14.8
<b>Net Cash Provided by (Used in) Investing Activities</b>	<b>(125.1)</b>	<b>(119.1)</b>	<b>(244.1)</b>	<b>(244.2)</b>	<b>(357.5)</b>
Proceeds from borrowings	72.6	5.0	158.5	77.6	367.0
Repayments of borrowings	(284.8)	(51.6)	(163.0)	(336.4)	(335.6)
Dividends paid	(59.7)	(0.8)	(100.3)	(60.5)	(100.3)
Other inflows of cash, net	0.1	0.0	0.4	0.1	0.0
<b>Net Cash Provided by (Used in) Financing Activities</b>	<b>(271.8)</b>	<b>(47.4)</b>	<b>(104.4)</b>	<b>(319.2)</b>	<b>(68.9)</b>
<b>Total Cash Inflow (Outflow) of the Period</b>	<b>(91.6)</b>	<b>14.3</b>	<b>(121.9)</b>	<b>(77.4)</b>	<b>27.3</b>
Effect of exchange rate changes on cash and cash equivalents	(4.2)	2.0	6.6	(2.2)	0.0
Cash and Cash equivalents at beginning of the period	608.5	592.3	642.7	592.3	500.0
<b>Cash and Cash Equivalents at end of the Period</b>	<b>512.7</b>	<b>608.5</b>	<b>527.4</b>	<b>512.7</b>	<b>527.4</b>