



# ARAUCO®

Growing the Future

## 1<sup>st</sup> Quarter 2016

Financial Results

Conference Call Presentation

Santiago, May 24, 2016

**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

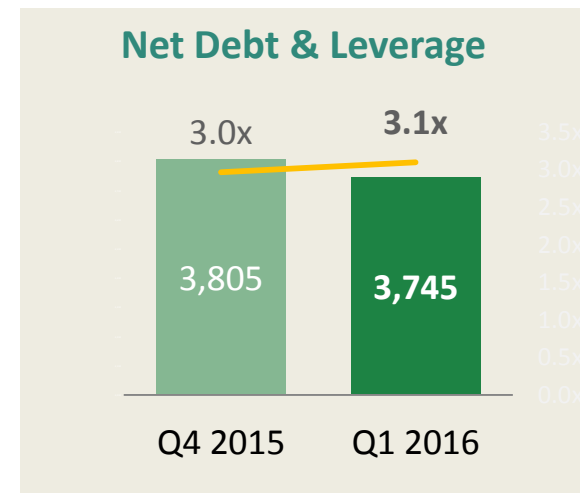
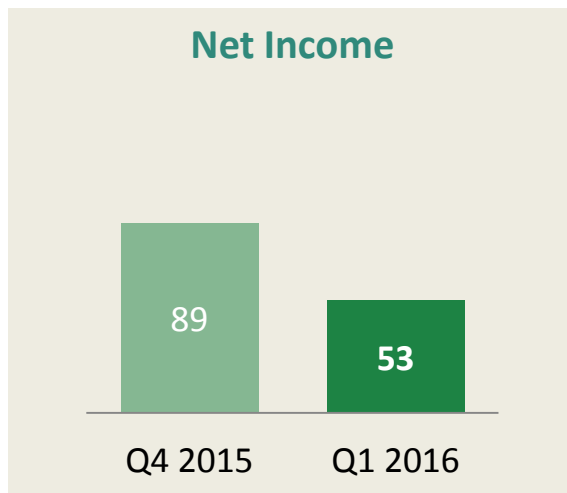
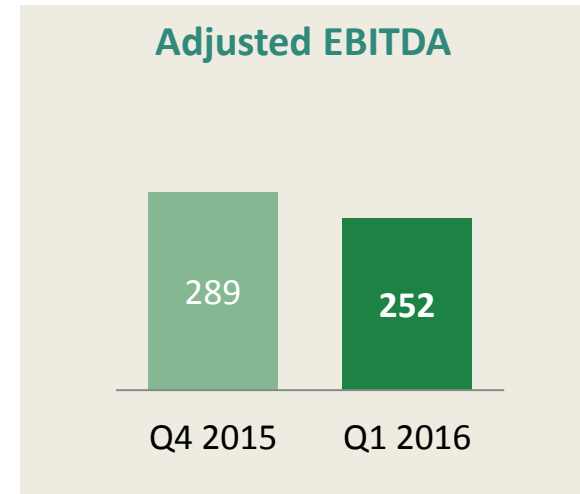
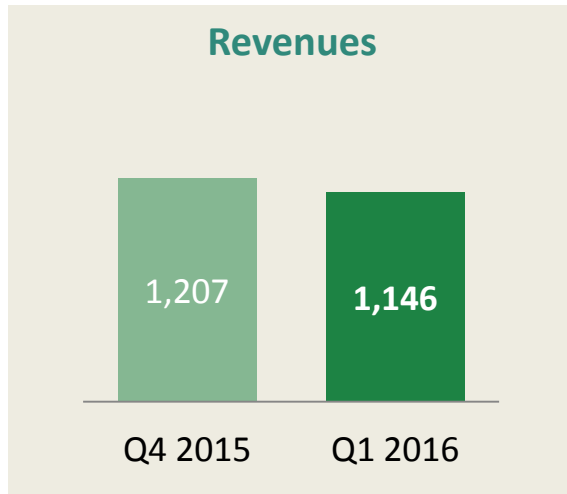
Review by Business Segment & Outlook

Material Facts and News

Q&A

# QUARTER MAIN FIGURES

*In million U.S.\$*



# REVENUES, COSTS AND NON-OPERATIONAL RESULTS

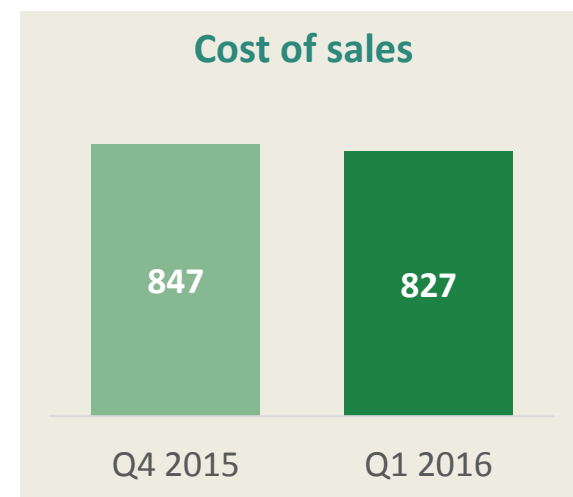
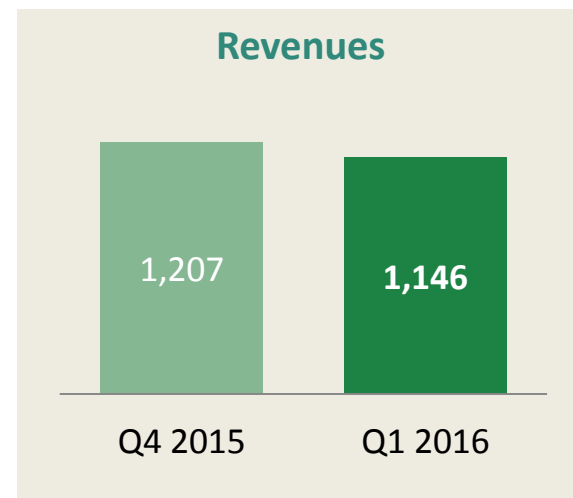
**Revenues** were U.S.\$ 60.8 million or 5.0% lower:

- Pulp business' revenues were U.S.\$ 44.1 million lower, driven by both lower prices and sales volume
- Wood business was U.S.\$ 9.7 million below the previous quarter

**Cost of sales** were U.S.\$ 20.4 million or 2.4% lower:

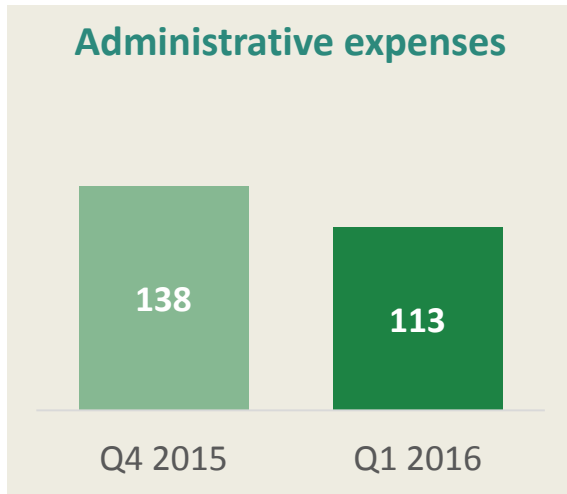
- Forestry works declined due to less sales volume
- Lower maintenance costs due to 4Q15 programmed maintenance stoppages at Nueva Aldea and Valdivia Mills

*In million U.S.\$*



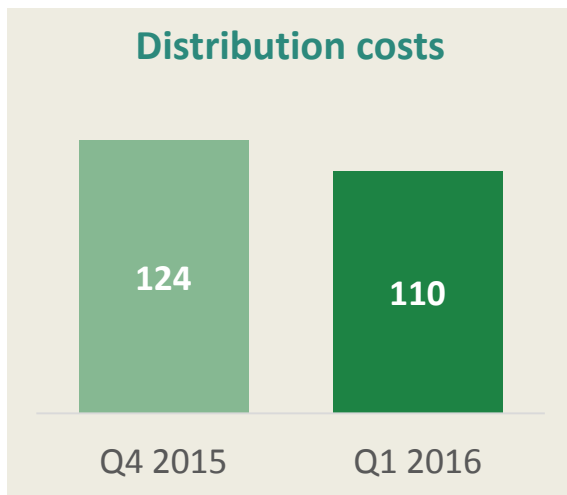
# REVENUES, COSTS AND NON-OPERATIONAL RESULTS

*In million U.S.\$*



**Administrative expenses** decreased by 18.3% or U.S.\$ 25.3 million:

- Lower expenses in wages, salaries and severance indemnities
- Adjustment to 4Q15's annual bonus provision
- Lower legal and technical advisory fees



**Distribution costs** declined of 11.3% or U.S.\$ 14.0 million:

- Sales volume decreased in both pulp and wood businesses
- Decline in freight costs/ container ships

# REVENUES, COSTS AND NON-OPERATIONAL RESULTS

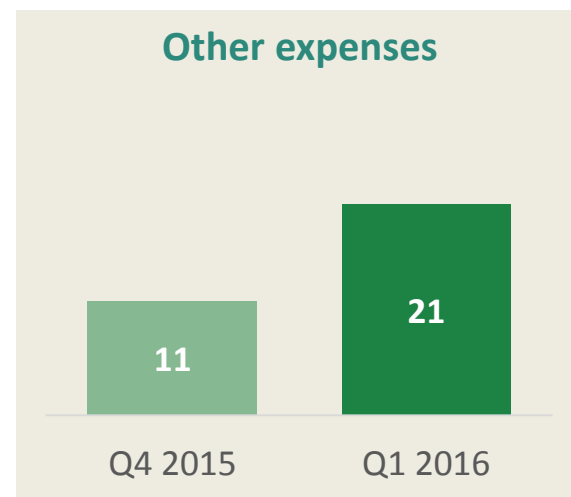
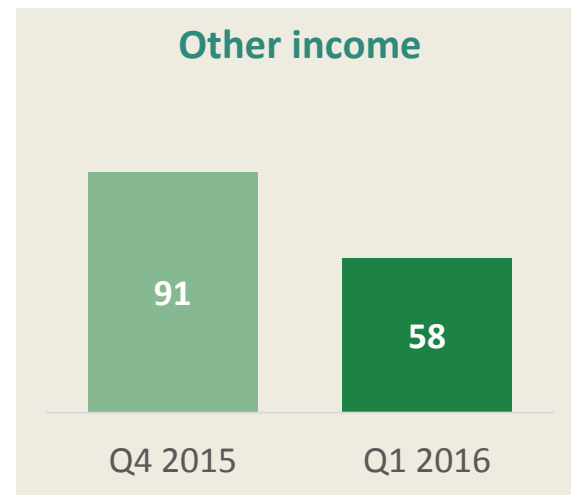
*In million U.S.\$*

**Other income** fell 35.9% or U.S.\$ 32.5 million:

- Lower Gain from changes in fair value of biological assets
- Other operating results declined due to a gain in 4Q15 related to Novo Oeste

**Other expenses** increased 85.3% or U.S.\$ 9.4 million:

- Loss due to sale of our subsidiary Stora Enso Arapoti Indústria de Papel S.A. in Brazil, of which Arauco owned 20%



# NET INCOME

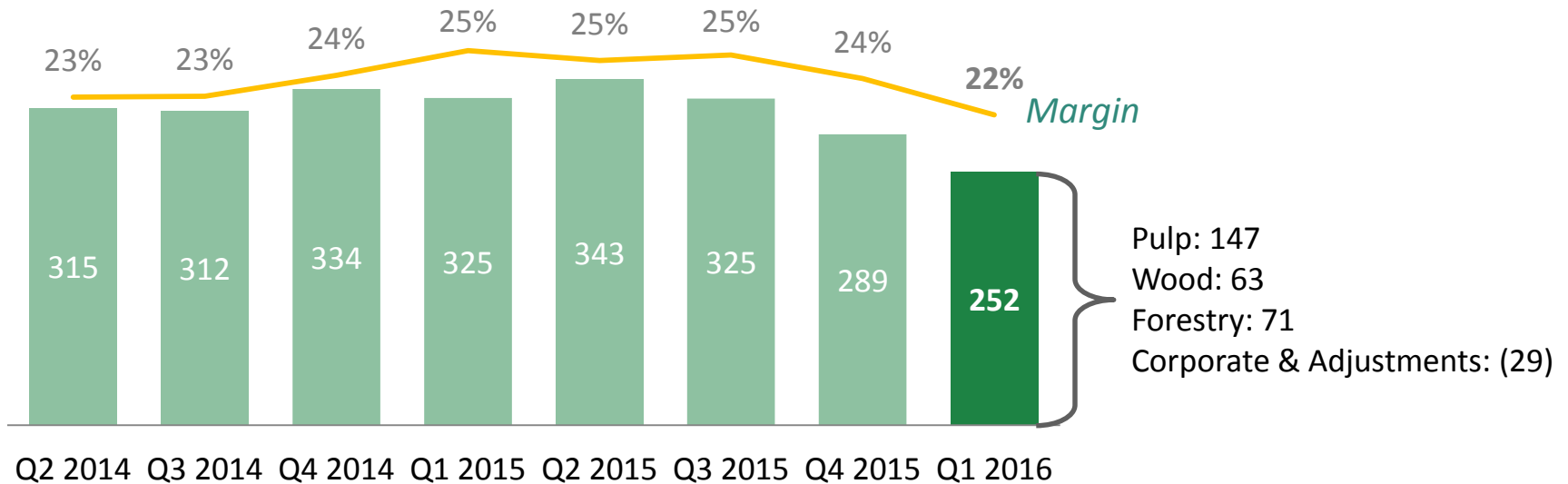
*In million U.S.\$*

In U.S.\$ Million	Q1 2016	Q4 2015	QoQ
Revenue	1,146.0	1,206.8	-5.0%
Cost of sales	(826.5)	(847.0)	-2.4%
Distribution costs	(110.2)	(124.2)	-11.3%
Administrative expenses	(112.7)	(138.0)	-18.3%
Other income	58.0	90.5	-35.9%
Other expenses	(20.5)	(11.1)	85.3%
Financial income	11.3	15.2	-25.7%
Financial costs	(70.3)	(69.2)	1.6%
Participation in (loss) profit in associates and joint ventures accounted through equity method	4.0	5.5	-26.5%
Exchange rate differences	1.1	(13.3)	-108.3%
<b>Income before income tax</b>	<b>80.3</b>	<b>115.3</b>	<b>-30.3%</b>
Income tax	(27.4)	(26.1)	4.7%
<b>Net income</b>	<b>52.9</b>	<b>89.1</b>	<b>-40.6%</b>



# ADJUSTED EBITDA

In U.S.\$ million



- ▶ Adjusted EBITDA decreased 12.9% compared to the previous quarter and 22.6% compared to the first quarter of 2015
- ▶ Main reason behind this decline is a scenario of lower prices and lower sales volume in our pulp and wood products segments
- ▶ Price adjustments have occurred quicker than cost adjustments



Financial Review

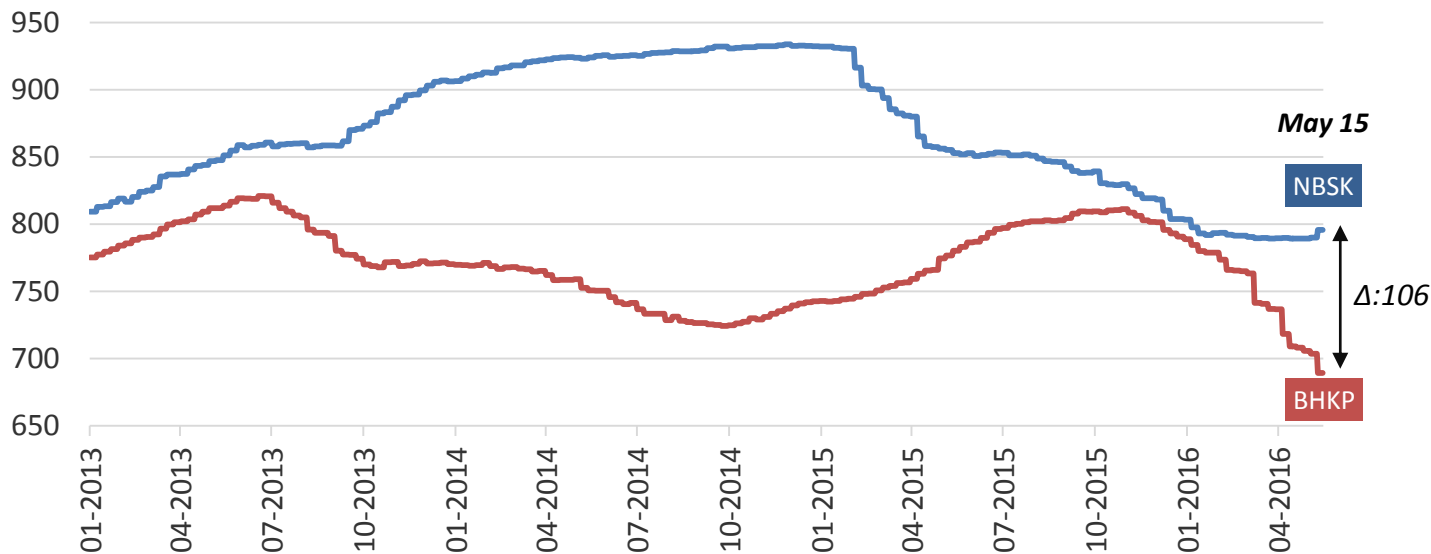
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# PULP BUSINESS

## BHKP and NBSK Indexes



May 15

NBSK

Δ:106

BHKP

Spread at previous call was U.S.\$ 49/ ton

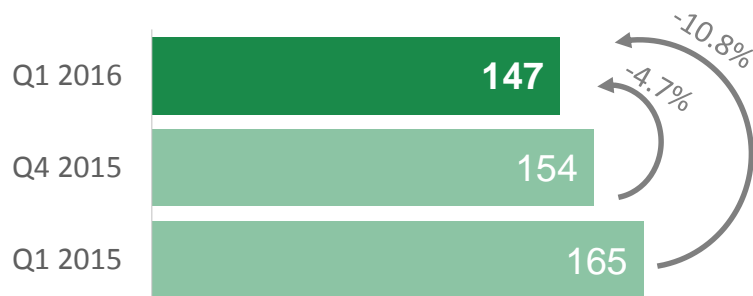
## Demand for bleached chemical pulp

	1Q15 vs1Q16
North America	-1.9%
West Europe	+0.3%
East Europe	+5.2%
Latin America	-7.0%
Japan	-2.2%
China	+15.3%
Other Asia/Africa	+8.8%
Oceania	-
<b>World Total BCP</b>	<b>+4.0%</b>

Source: Hawkins Wright

# PULP BUSINESS

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

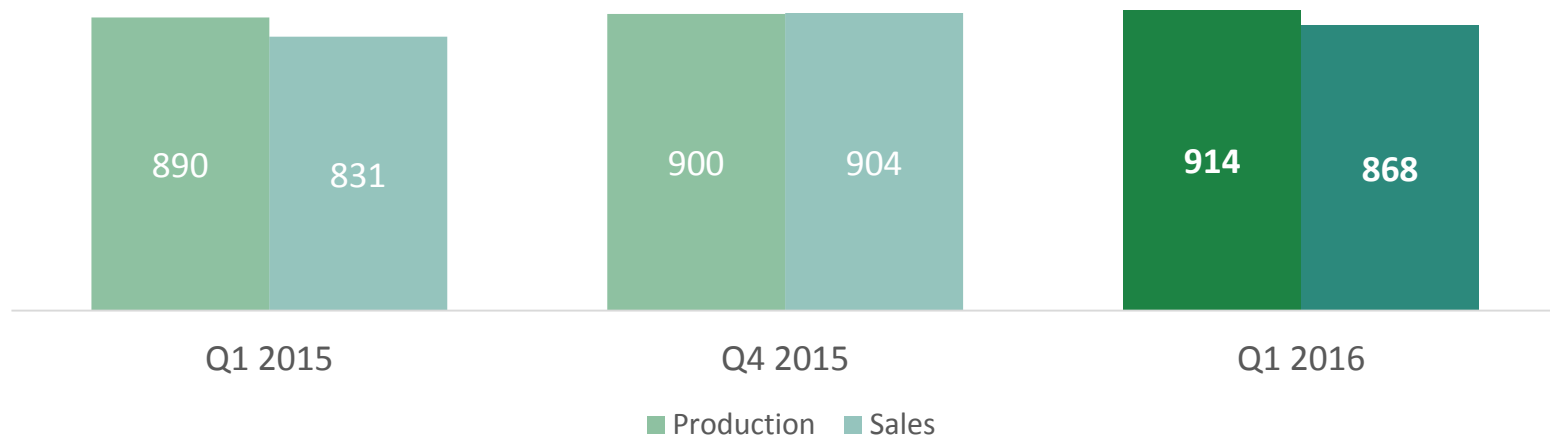


	Price	Volume
QoQ	-5.5%	-4.0%
YoY	-9.8%	4.4%

## Q1 2016

- ▶ Bleached long fiber prices maintained levels similar to last quarter
- ▶ Short fiber prices showed deterioration
- ▶ Unbleached long fiber prices suffered a slight slump between January and February
- ▶ The Chinese New Year, a seven-day holiday, decreased demand during February
- ▶ In Europe, high inventory levels in short fiber led to lower overall prices
- ▶ Some producers sold excess supply in short fiber pulp from Europe and China to the Middle East
- ▶ In Latin America, Brazil saw a decline in demand in pulp for paper production and fluff for absorbent product production
- ▶ Arauco mill had a two-week stoppage due to a failure in the effluent system

## Production and Sales Volume (In 000 ADT)



## Global Producers Inventory Levels

<i>In days</i>	Jun 2014	Sep 2014	Dec 2014	Mar 2015	Jun 2015	Sep 2015	Dec 2015	Mar 2016
BSKP	25	27	31	33	29	30	29	30
BHKP	40	38	36	39	38	38	39	46

## OUTLOOK

### Short Fiber

- ▶ Signs of improvement during April
- ▶ Northern Hemisphere demand decreases due to seasonality, but widening gap accelerates substitution back to short fiber, increasing its demand

### Long Fiber

- ▶ Long fiber prices remained stable up to March and have started to firm up from April onwards
- ▶ Decreasing demand due to substitution may offset April's positive scenario

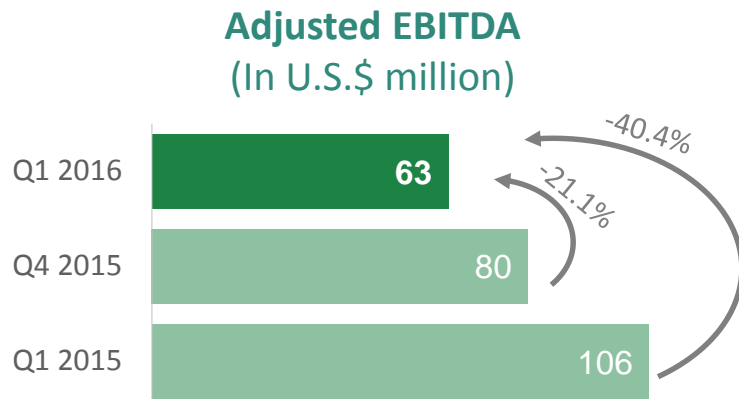
### Unbleached Long Fiber

- ▶ Signs of improvement in Asia

## Q2 Scheduled Pulp Mill Maintenance Stoppages

May-June:	Constitución Mill	57 days
April:	Montes del Plata	11 days

# WOOD PRODUCTS BUSINESS



	Price	Volume
QoQ	-0.6%	-3.8%
YoY	-9.5%	-2.1%

Panels\*

	Price	Volume
QoQ	-1.7%	5.9%
YoY	-8.7%	-1.5%

Sawn  
Timber\*\*

## Q1 2016

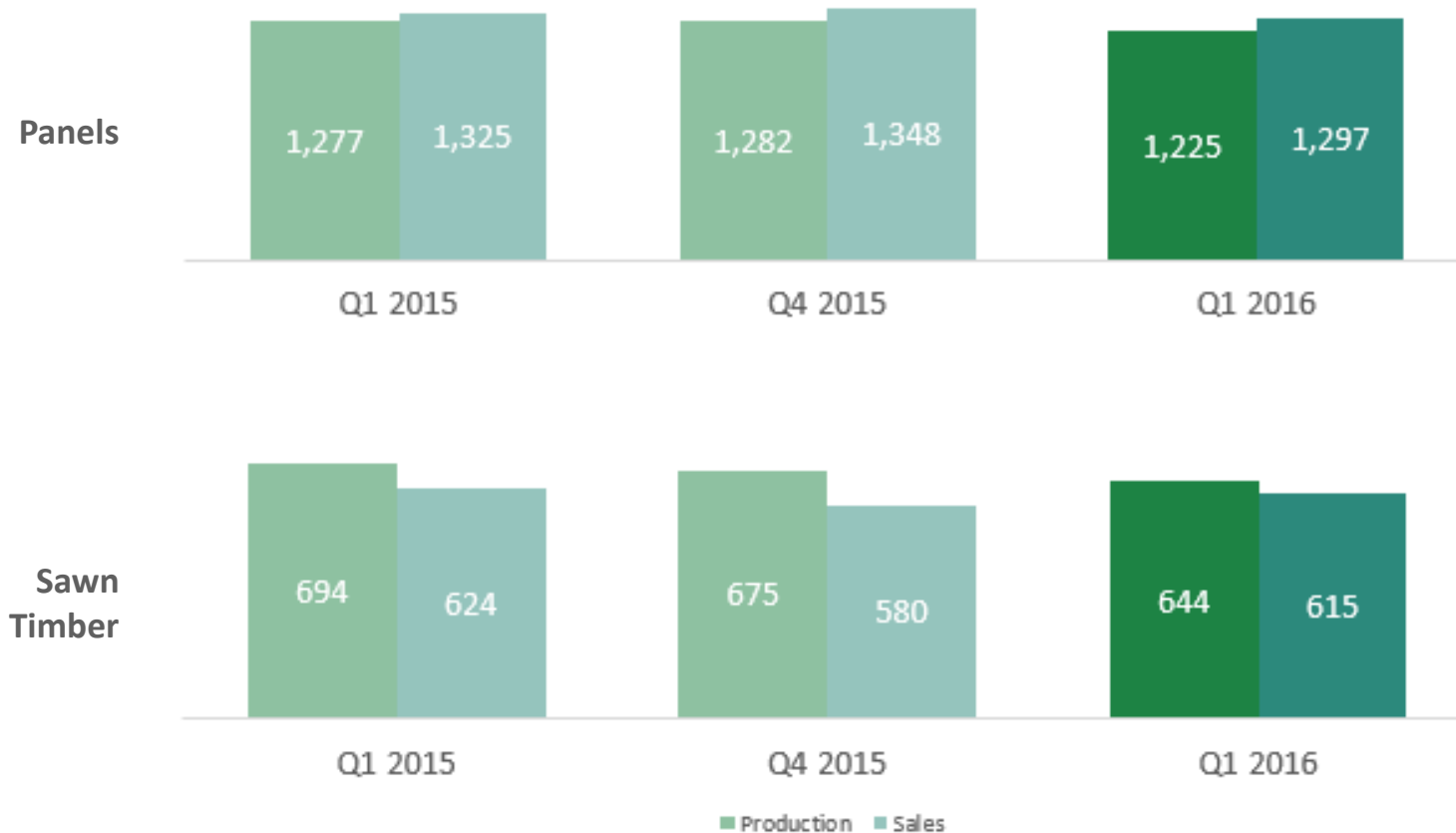
- ▶ Greater supply of MDF in panels market has led to production adjustments in our mills in Chile, Argentina and Brazil
- ▶ Seasonality in the Northern Hemisphere has increased demand, stabilizing prices
- ▶ Sawn timber market has shown signs of reverting, with an increased momentum in demand. In moldings market, prices have decreased due to more supply from Brazilian producers
- ▶ In Argentina, less competitiveness of exports has favored domestic sales

\*MDF, PBO, HB, plywood

\*\*sawn timber, remanufactured solid wood

# WOOD PRODUCTS BUSINESS

Production and Sales Volume  
(In 000 m<sup>3</sup>)





## OUTLOOK

- Housing Starts Index continues its upward trend – room to continue improving
- Seasonal increase in demand for MDF, moldings and plywood
- Particleboard market remains stable
- New construction and home remodeling goes up in spring and summer

North America

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



## OUTLOOK

### Central and South America

Brazil: MDF sales have improved; positive signs for volume in April  
PBO supply increased and demand decreased  
Hopes to increase exports are mitigated by diminished margins

Argentina: Imports from Brazil continue to enter the market  
Melamine sales have enabled to set us apart from competition

Chile: Demand for Vesto and MDF are stable

### Asia and Oceania

China: Increased demand for packaging and wood furniture  
Clients with low inventory levels low – prices have increased

Korea and Japan: Increase in demand – increase in prices

Oceania: Local competition continues to be aggressive, although fx differences have enabled prices to increase

### Europe and Middle East

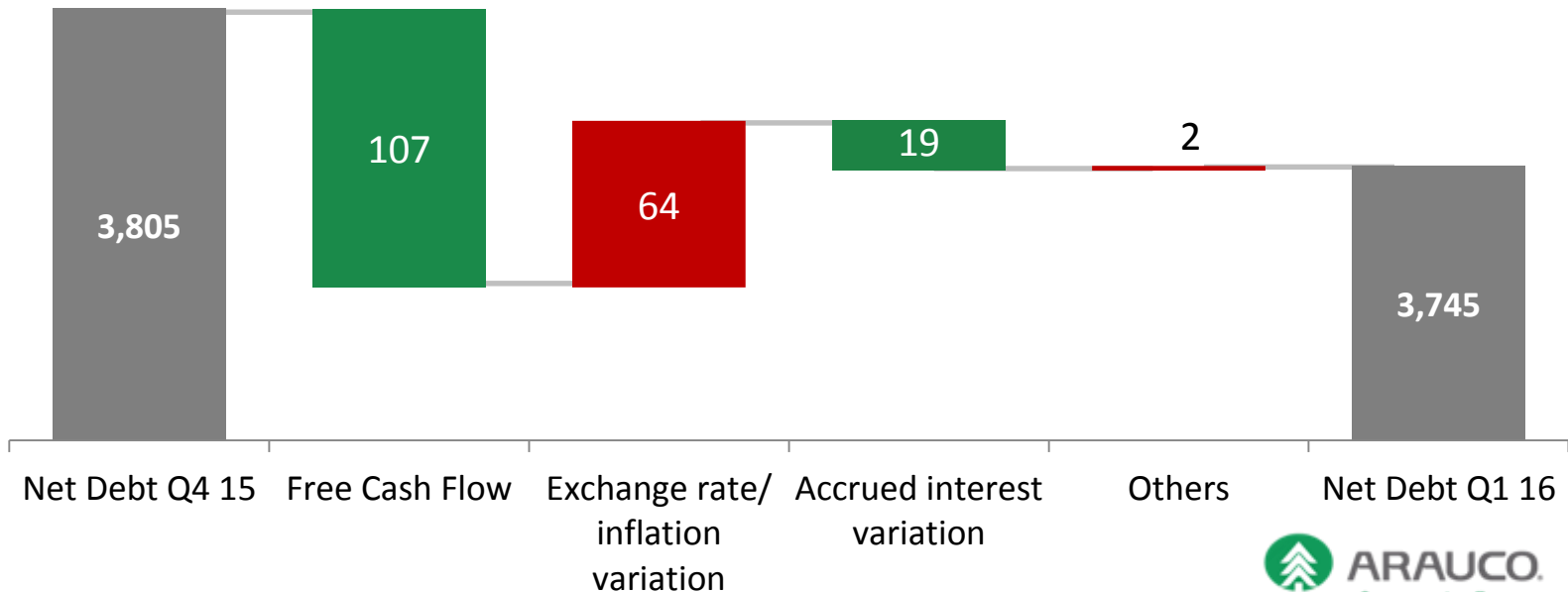
Europe: Sales volume targets are being reached, and prices are increasing

Middle East: Margins are low, but demand is picking up

# FREE CASH FLOW

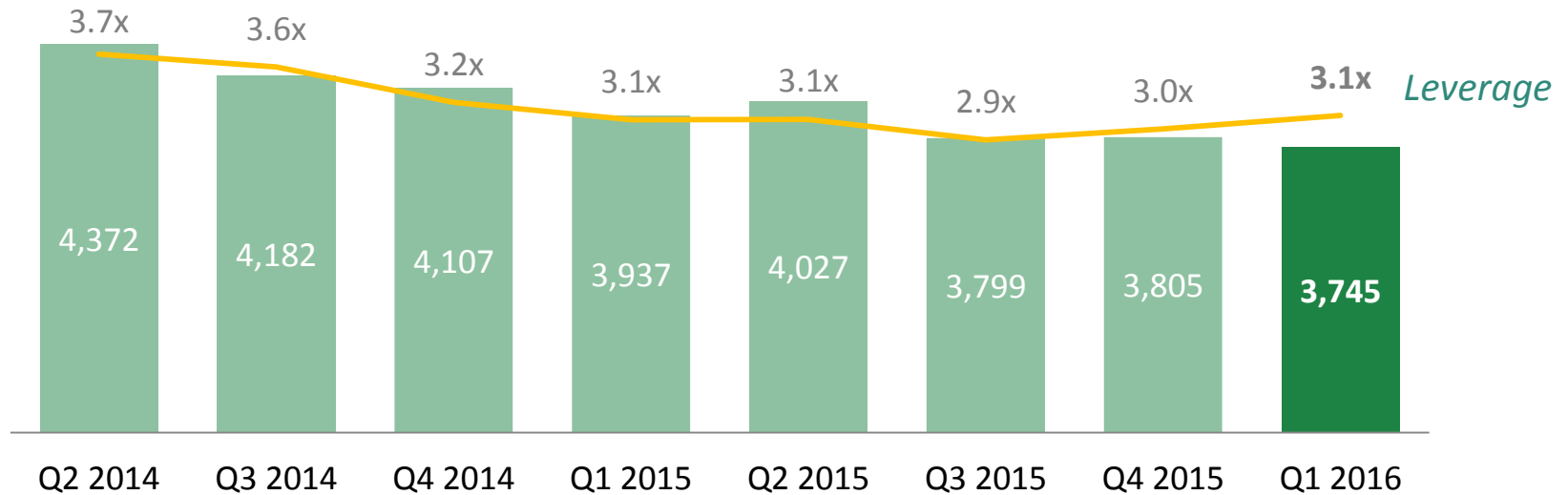
In U.S.\$ million

	Q1 2016	Q4 2015
<i>Adjusted EBITDA (a)</i>	252	289
<i>Others (b)</i>	(25)	(123)
<b>Cash from Operations (a+b)</b>	<b>227</b>	<b>166</b>
<i>Capex (c)</i>	(117)	(84)
<i>Others (d)</i>	4	2
<b>Cash from Investment Activities (c+d)</b>	<b>(113)</b>	<b>(81)</b>
<b>Cash from Financing activities (net of debt)</b>	<b>(0)</b>	<b>(44)</b>
Effect of exchange rate changes	(7)	(15)
<b>Free Cash Flow</b>	<b>107</b>	<b>26</b>



# NET FINANCIAL DEBT

In U.S.\$ million

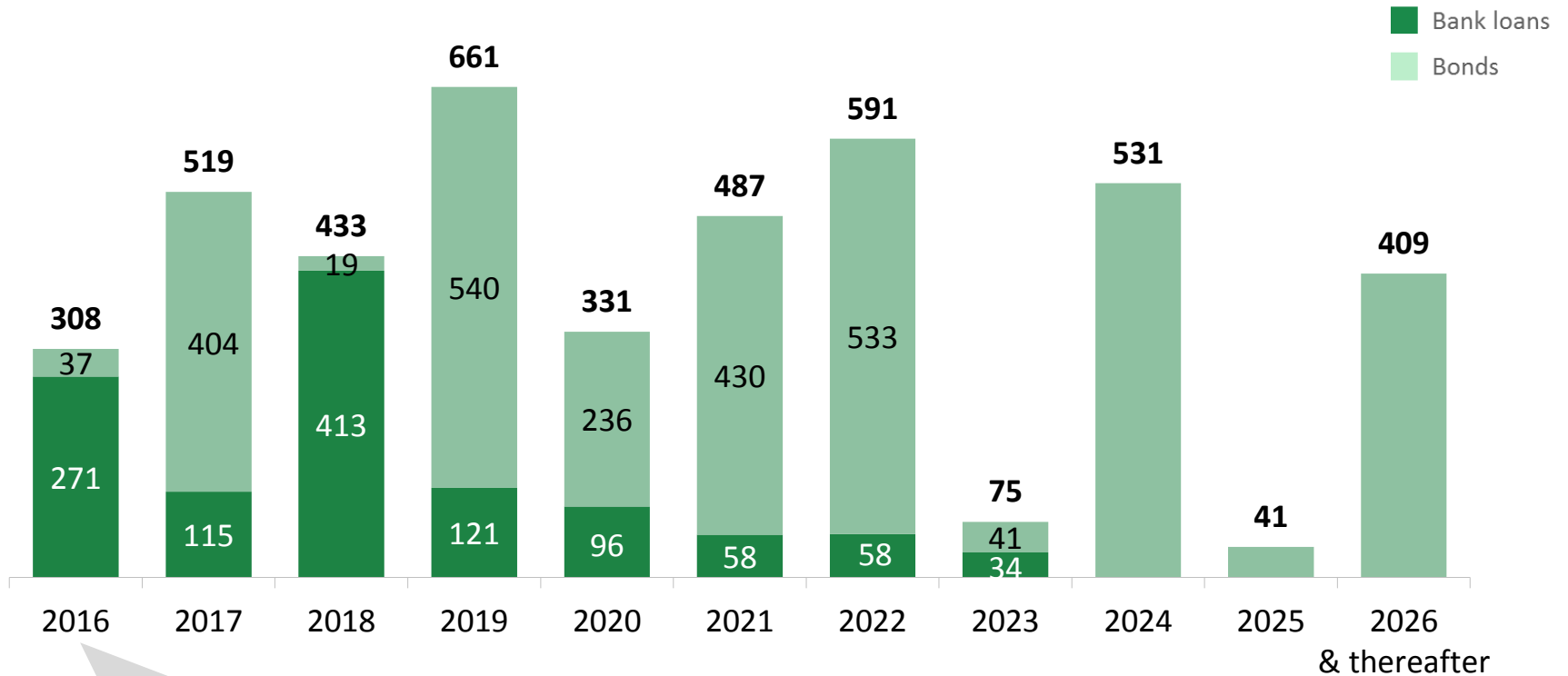


- ▶ **Total financial debt** increased 1.9% QoQ, mainly led by an increase in short term financial debt. Pre export loans for U.S.\$ 90 million outstanding, due in June of this year
- ▶ **Cash and cash equivalents** increased 28.5% QoQ
- ▶ **QoQ Net Leverage** increased from 3.0x to 3.1x mainly because of a weaker EBITDA

Short term financial debt	361
Long term financial debt	4,027
<b>TOTAL FINANCIAL DEBT</b>	<b>4,386</b>
Cash and cash equivalents	643
<b>NET FINANCIAL DEBT</b>	<b>3,745</b>

# DEBT

In U.S.\$ million



Bank obligations for the year 2016 include:

- ▶ U.S.\$ 134.6 million Montes del Plata
- ▶ U.S.\$ 90.0 million in Pre-export financing
- ▶ U.S.\$ 33.3 million guaranteed leaseings
- ▶ U.S.\$ 11.4 million Brazilian subsidiaries



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## SIMPLE + EFFICIENT + SUSTAINABLE

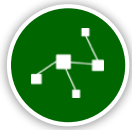


### **Objectives:**

- Simplify the organization
- Review purchases and contracts



**Status:** We are currently in the organization assessment phase



**Scope:** Chile, Argentina and Brazil



**Time length:** One year

# CONSTITUCION MILL PROGRAMMED MAINTENANCE STOPPAGE



## Constitución Mill

- Started production in 1976
- Annual production capacity of 355,000 tons of unbleached softwood pulp

- ▶ This 57-day programmed stoppage began on May 3, and it is the third most important in the mill's history
- ▶ Objective of these works is to extend the life of the recovery boiler for another 25 years
- ▶ Works include a comprehensive review of the production process, including preventive maintenance and the replacement of equipment and machinery
- ▶ Total investment of approximately US\$ 50 million



# WILDFIRE PROTECTION PROGRAM



- ▶ During the 2015-2016 season there was a 91% reduction in total wildfire area
- ▶ Improvement measures included shorter detection times and a prevention campaign with a participation of over 250,000 people from the VI to the IX Regions in Chile

Season:	14-15	15-16	Var.
Area damaged by wildfire (hectares)	7,335	669	-91%
Number of fires (#)	2,616	1,613	-38%

- ▶ Currently finalizing refinancing terms with commercial banks and focusing on completion of conditions for closing
- ▶ Closing date is estimated to occur in 2Q of this year



## Sonae Arauco project

- JV with Sonae Industria – Arauco will own 50% of Tafisa's shares
- 10 mills located in Germany, Spain, Portugal and South Africa
- Total aggregate capacity: 4.2 million m<sup>3</sup>/year
- Production of MDF, PBO, OSB and sawn timber



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## INVESTOR RELATIONS

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

**Replay for USA**

**+1-877-344-7529**

**Replay for other countries**

**+1-412-317-0088**

**Conference ID**

**10086456**



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