

Conference call presentation

# 1<sup>st</sup> Quarter 2013 Financial Results

## Celulosa Arauco y Constitución S.A.

Gianfranco Truffello, C.F.O.  
Santiago, May 24<sup>th</sup>, 2013



# 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 1<sup>st</sup> Quarter 2013**

- **Review by Business Segment & Outlook**

- **1<sup>st</sup> Quarter and Subsequent Events**

- **Q&A**

# Financial Review > 1Q 2013 Highlights

- Revenues of U.S.\$ 1,182.3 million  
(2% lower than 4Q 2012)
- Adjusted EBITDA of U.S.\$ 236.2million  
(12% lower than 4Q 2012)
- Net Income of U.S.\$ 93.5 million  
(U.S.\$ 11.8 million higher than 4Q 2012)
- Net Financial Debt of U.S.\$ 3,954.5 million  
(1% lower than 4Q 2012)
- CAPEX of U.S.\$ 128.2 million  
(22% lower than 4Q 2012)

# Financial Review > Income Statement

## Comments

### INCOME STATEMENT

In U.S. Million	1Q 13	4Q 12	QoQ
Revenue	1,182.3	1,201.9	(2%)
Cost of sales	(846.4)	(910.8)	(7%)
<b>Gross Margin</b>	<b>335.9</b>	<b>291.2</b>	<b>15%</b>
Other operating income	74.6	141.8	(47%)
Administration & Distribution costs	(237.0)	(259.8)	(9%)
Other operating gains (expenses)	(11.9)	1.1	
Financial costs (Net)	(50.4)	(80.3)	(37%)
Exchange rate differences	(2.0)	(3.1)	(35%)
<b>Income Before Income Tax</b>	<b>109.1</b>	<b>90.8</b>	<b>20%</b>
Income tax	(15.6)	(9.1)	72%
<b>Net Income</b>	<b>93.5</b>	<b>81.7</b>	<b>14%</b>

### ADJUSTED EBITDA

In U.S. Million	1Q 13	4Q 12	QoQ
<b>Net Income</b>	<b>93.5</b>	<b>81.7</b>	<b>15%</b>
Financial costs	56.0	85.3	-34%
Financial income	-5.5	-4.9	12%
Income Tax	15.6	9.1	72%
<b>EBIT</b>	<b>159.6</b>	<b>171.1</b>	<b>-7%</b>
Depreciation & amortization	69.5	76.1	-9%
<b>EBITDA</b>	<b>229.1</b>	<b>247.2</b>	<b>-7%</b>
Fair value cost of timber harvested	72.8	79.7	-9%
Gain from chg. in fair value of bio. Assets	-67.6	-60.3	12%
Exchange rate differences	2.0	3.1	-35%
<b>Adjusted EBITDA</b>	<b>236.2</b>	<b>269.7</b>	<b>-12%</b>

- **Revenue:** Decreased 2% mainly explained by lower sales of our sawn timber and pulp divisions by 10.3% and 3.8% respectively. Those effects were partially offset by a 6.1% increase in total sales of our panels business
- **Cost of Sales:** Decreased 7% mainly explained by lower sales volume of pulp (-6.1%) and lower unitary costs of our pulp business
- **Financial Costs:** Decreased 34% mainly because of prepayment charges of Flakeboard paid in the previous quarter
- **Other Operating Income:** Decreased US\$ 67 million, mainly due to net proceeds from insurance claims received in the previous quarter (Nueva Aldea's fire and TG2 Valdivia mill)
- **Adjusted EBITDA:** Reached US\$ 236.2 million, 12% or US\$ 34 million lower than the fourth quarter

# Financial Review > Cash Flow

## CASH FLOW

In U.S. Million	1Q 13	4Q 12	QoQ
Collection of accounts receivables	1,330.5	1,286.5	3%
Collection from insurance claims	29.8	10.8	176%
Other cash receipts (payments)	171.0	73.3	133%
Payments of suppliers and personnel (less)	(1,280.7)	(1,181.4)	8%
Dividends and other distributions received	0.0	(0.4)	-100%
Interest paid and received	(61.5)	(33.6)	83%
Income tax paid	(19.2)	(8.0)	139%
Other (outflows) inflows of cash, net	(0.4)	(2.7)	-87%
<b>Net Cash Provided by (Used in) Operating Activities</b>	<b>169.6</b>	<b>144.4</b>	<b>17%</b>
Capital Expenditures	-128.2	-165.1	(22%)
Other investment cash flows	16.7	31.2	(47%)
<b>Net Cash Provided by (Used in) Investing Activities</b>	<b>-111.5</b>	<b>-133.9</b>	<b>(17%)</b>
Proceeds from borrowings	269.6	438.0	(38%)
Repayments of borrowings	-321.7	-385.4	(17%)
Dividends paid	-6.2	-20.1	(69%)
Other inflows of cash, net	0.0	-15.1	(100%)
<b>Net Cash Provided by (Used in) Financing Activities</b>	<b>-58.3</b>	<b>17.4</b>	<b>(436%)</b>
<b>Total Cash Inflow (Outflow) of the Period</b>	<b>-0.3</b>	<b>27.9</b>	<b>(101%)</b>
Effect of exchange rate changes on cash and cash equivalents	-1.0	-2.5	(62%)
Cash and Cash equivalents. at beginning of the period	395.7	370.3	7%
<b>Cash and Cash Equivalents at end of the Period</b>	<b>394.5</b>	<b>395.7</b>	<b>(0%)</b>

## Comments

- **Cash from operating activities:** a U.S.\$25.1 increase mainly due to higher collection of receivables of U.S.\$ 43.9 million and a increase in Other cash receipts of U.S.\$ 97.6 million. Those effects were partially offset by a U.S.\$ 99.2 million increase in payment of suppliers
- **Cash from investing activities:** a decrease of 17% due to a lower Capex of U.S.\$ 36.9 million
- **Cash from financing activities:** a decrease of U.S.\$ 75.8 million, mainly due to a lower pre – export financing balance

# Financial Review > Debt

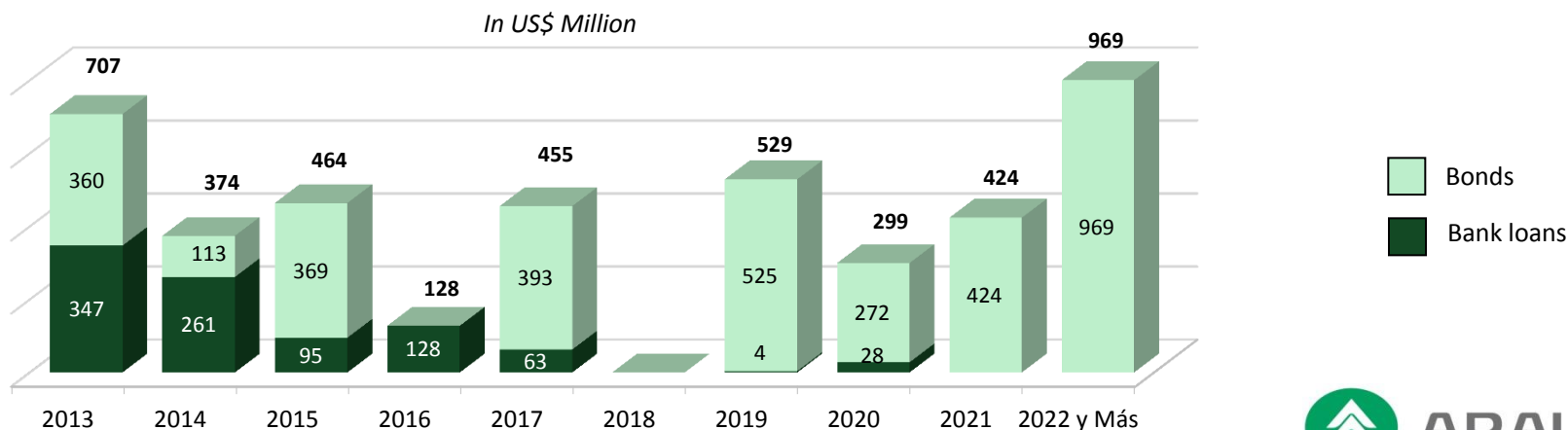
## Financial Debt

In U.S. Million	March 2013	December 2012	March 2012
Short term financial debt	829,5	806,9	182.2
Long term financial debt	3.519,4	3.593,6	3,484.7
<b>TOTAL FINANCIAL DEBT</b>	<b>4,348.9</b>	<b>4,400.5</b>	<b>3,666.9</b>
Cash and cash equivalents	394.5	395.7	538.0
<b>NET FINANCIAL DEBT</b>	<b>3,954.5</b>	<b>4,004.8</b>	<b>3,128.9</b>

## Comments

- Total Financial debt reached US\$ 4,349 million, a decrease of 1.2% QoQ.
- Short term debt includes US\$ 300 million notes due in July 2013
- Net Debt/ LTM EBITDA = 4.3x (previous quarter: 4.6x)

## Financial Debt Profile as of March 31, 2013



Note: Short term debt numbers include accrued interest

# Financial Review > Ratios

## KEY FINANCIAL RATIOS

	1Q 13	4Q 12	1Q 12
<b>Profitability</b>			
Gross margin	28.4%	24.2%	28.3%
Operating margin	8.4%	2.6%	7.7%
LTM <sup>(1)</sup> Adjusted EBITDA margin	20.8%	20.5%	26.9%
ROA (EBIT / Total assets)	4.7%	5.1%	3.6%
LTM ROCE (EBIT x (1–tax rate) / (Working Cap+Fixed assets)	2.7%	2.3%	6.0%
ROE (Net income / Equity)	5.3%	4.7%	2.9%
<b>Leverage</b>			
Interest coverage ratio (Adj. EBITDA LTM / Financial costs)	4.0x	3.8x	5.8x
Net financial debt / Adjusted EBITDA LTM	4.3x	4.6x	2.7x
Financial debt / Total capitalization <sup>(2)</sup>	38.2%	38.7%	34.1%
Net financial debt / Total capitalization	34.7%	35.2%	29.1%
Financial debt / Shareholders' equity	62.4%	63.9%	52.3%
Net financial debt / Shareholders' equity	56.7%	58.1%	44.6%

(1): LTM. Last Twelve Months

(2): Capitalization = Total financial debt + Equity



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# Review by Business Segment > Pulp

## PULP SALES (in US\$ million)

			<u>Net Sales</u>	<u>Price</u>	<u>Volume</u>
1Q 13	501				
4Q 12	521	Q o Q	(4.1%)	2.7%	(6.1%)
1Q 12	475	Y o Y	3.8%	0.4%	(0.9%)

*Note: pulp sales include energy sales*



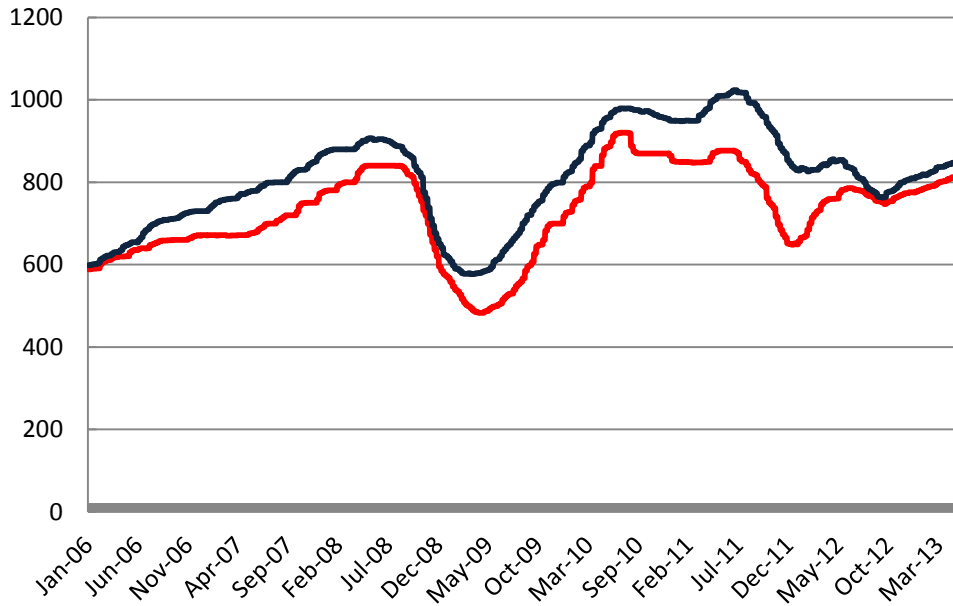
- During 1Q13 average pulp prices increased 2.7% respect to the previous quarter
- Sales volume was 6.1% lower: sales volume is cyclically higher in 4Q, and the port strike effect in 1Q
- The situation in Europe continues to be difficult with integrated paper producers releasing pulp to the spot market , specially affecting the long fiber market
- Middle East and Latin America continued with a stable and strong demand
- Production was better than other quarters, however invoicing levels did not reach target levels due to the strike at ports in Chile; we expect to recover sales level during the 2Q13

Pulp production in 000' tons

1Q 11	2Q 11	3Q11	4Q11	1Q12	2Q12	3Q12	4Q12	1Q13
683	736	646	751	763	732	726	749	801

# Review by Business Segment > Pulp > Outlook

## BHKP AND NBSK INDEXES



April 21<sup>th</sup>

855 NBSK

817 BHKP

## Comments

- We had price increases for long fiber and short fiber. For 2Q, we expect higher average prices than 1Q
- In the north hemisphere, markets make complicated because of the summer approaching
- The situation in Europe continues difficult in terms of demand and prices
- Asia with a positive demand outlook
- Spread between NBSK and BHKP at US\$ 38/ton

## GLOBAL PRODUCERS INVENTORY LEVELS

In days	March 2012	June 2012	Sept 2012	Dec 2012	March 2013
BSPK	29	29	27	29	29
BHKP	34	40	39	34	41

Source: Bloomberg; Hawkins Wright

# Review by Business Segment > Panels

## Panels Sales (in US\$ million)

			Net Sales	Price	Volume
1Q 13	450				
4Q 12	424	QoQ	6.1%	0.0%	0.8%
1Q 12	305	YoY	47.8%	(2.2%)	49.8%

Note: Panels sales include energy sales

- Average panels prices and volume sales remained practically unchanged respect to the previous quarter
- Average general prices were 2% lower (YoY) because of the new market mix after Flakeboard acquisition, not necessarily due to price cuts
- Volume sales of MDF increased in 1Q13 respect to 4Q12. This growth is mainly explained by an increase of supply in the North American market after Flakeboard and Moncure acquisitions and also because of the new MDF line in Jaguariaiva, Brazil
- Strong plywood demand

Panels production in 000' m3

1Q12	2Q12	3Q12	4Q12	1Q13
637	684	731	1,194	1,199



# Review by Business Segment > Panels > Outlook

## MDF Panels and Moldings

- MDF moldings with strong results during 2Q caused by sales recovery after the strike at ports in Chile and by higher sales reported during March and April
- We expect MDF moldings to have stable volume and average prices, although there may be possible price decreases in Mexico at the end of the year because of an increase in imports from Brazil
- Strong production in USA (Bennettsville and Moncure)
- Optimistic outlook for all of our markets

## PBO Panels

- Higher average prices in Argentina
- During 2Q, we expect strong sales orders in Brazil and USA, with similar prices as 1Q

## Plywood

- Positive outlook for Plywood boards in terms of demand and average prices

# Review by Business Segment > Sawn Timber

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

			<u>Net Sales</u>	<u>Price</u>	<u>Volume</u>
1Q 13	187				
4Q 12	208	QoQ	(10.3%)	(11.3%)	0.6%
1Q 12	189	YoY	(1.1%)	(6.3%)	0.3%

*Note: Sawn Timber sales include energy sales*



- First quarter had a decrease in sales, driven by lower average prices (due to product mix) and stable sales volume
- The real estate and construction sectors in the United States continued with a positive growth
- Strong Chinese demand

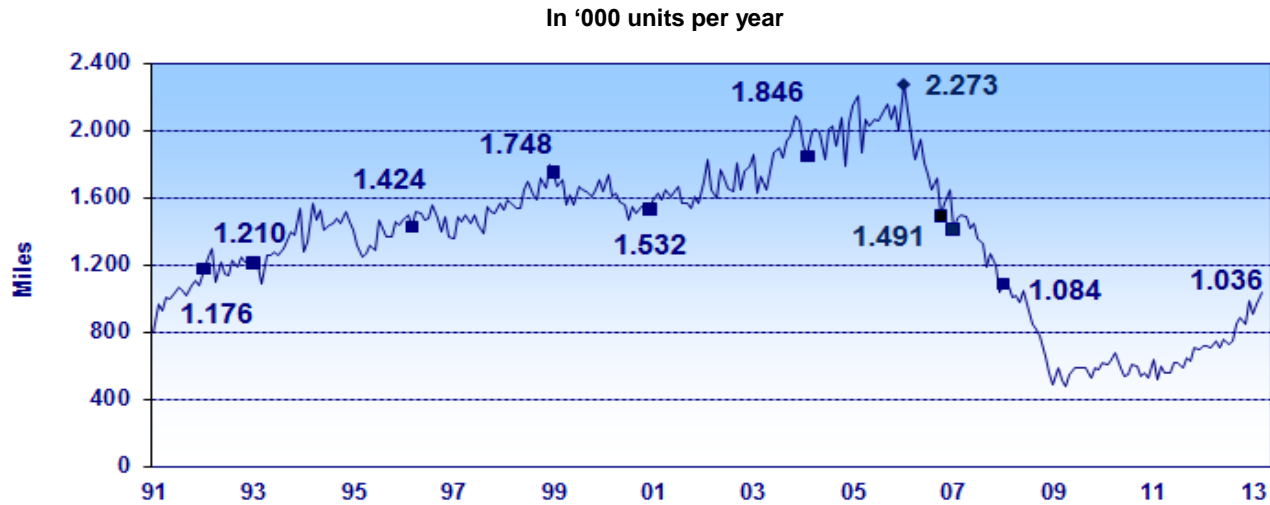
Sawn Timber production in 000' m3

1Q12	2Q12	3Q12	4Q12	1Q13
600	660	659	661	698

# Review by Business Segment > Sawn Timber > Outlook

- We expect 2Q to be better than 1Q. Price increases during 1Q should be reflected in 2Q
- Our main markets for sawn timber in Asia, Middle East, Latin America and remanufactured wood in USA are currently very active with strong demand

## US Housing Starts and Permits



Source: U.S. Census Bureau

- Housing starts index for March 2013 was 1,036.000 units per year
- Index for April 2013 had an adjustment and stood at 853.000 units per year

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# 1st Quarter and Subsequent Events

## In February our new Jaguariaiva MDF line started production

- Jaguariaiva project demanded an investment of U.S.\$ 166 million and has an annual production capacity of 500,000 m3 of MDF
- This new line will sell its production mainly in the Brazilian Market



## Construction work at Montes del Plata is significantly advanced

- Approximately at 85% of completion
- The start up process is expected to begin during 3Q13



# 1st Quarter and Subsequent Events



## **ARAUCO to supply Codelco with Non-Conventional Renewable Energy source**

- Through a tender offer, ARAUCO won a 58% of Codelco's Non-Conventional Renewable Energy needs for five years
- ARAUCO will supply NCRE credits generated by its power plants, all of each fueled by renewable forest biomass

## **ARAUCO publishes its 2012 Sustainability Report**

- This report is a tool for the company's internal staff and also allows its external stakeholders to get to know our environmental, social and economic performance



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# 1st Quarter 2013 Financial Results

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