



ARAUCO®

Growing the Future

2nd Quarter 2016

Financial Results
Conference Call Presentation
September 1, 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

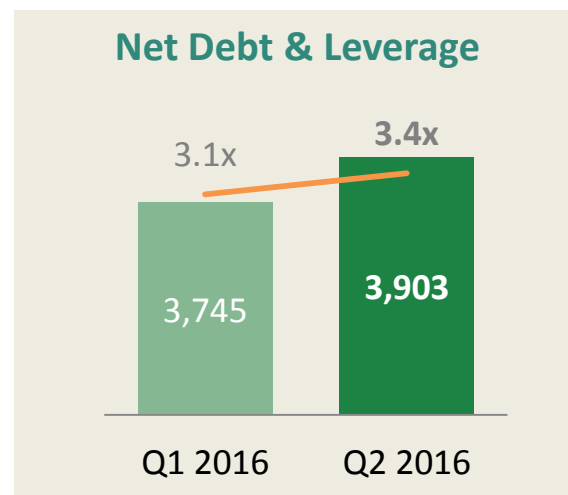
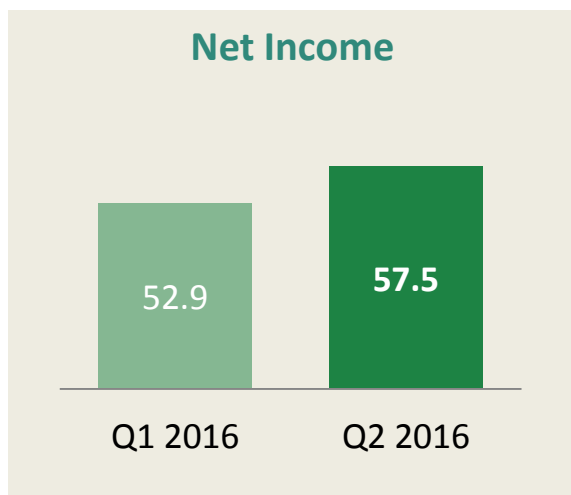
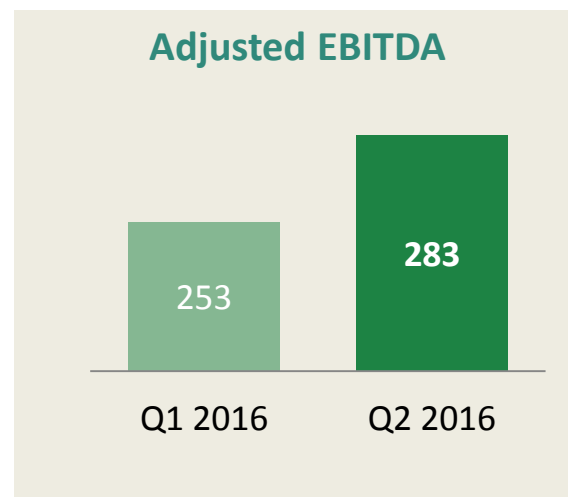
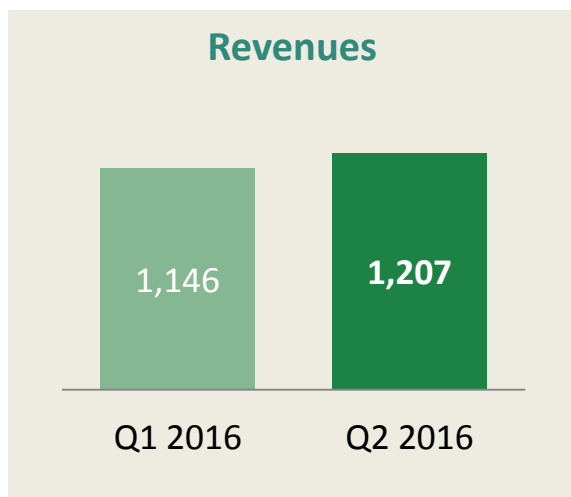
Review by Business Segment & Outlook

Material Facts and News

Q&A

QUARTER MAIN FIGURES

In million U.S.\$



REVENUES, COSTS AND NON-OPERATIONAL RESULTS

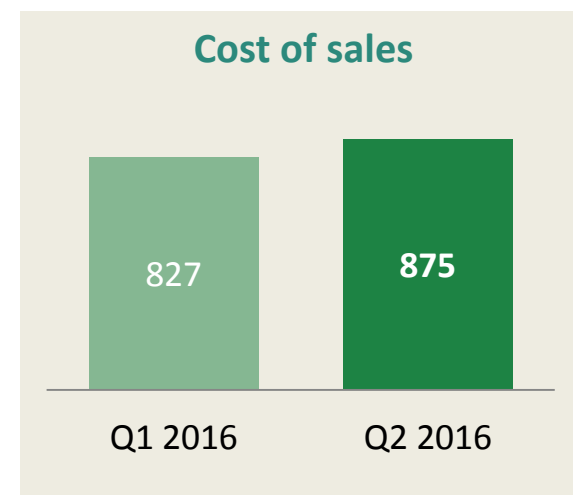
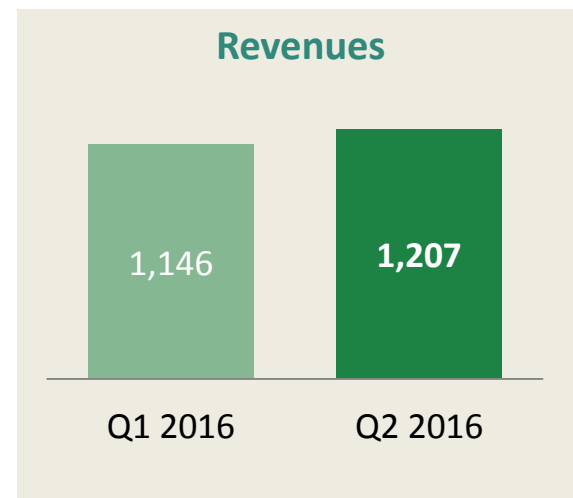
Revenues were U.S.\$ 61.3 million or 5.3% higher:

- Pulp business revenues were U.S.\$ 15.6 million higher, driven by higher sales volume
- Wood business was U.S.\$ 43.5 million above the previous quarter

Cost of sales were U.S.\$ 48.1 million or 5.8% higher:

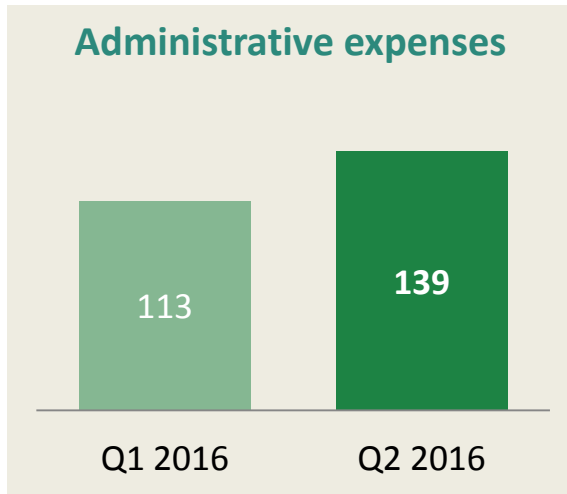
- Forestry labor costs increased due to higher road maintenances and harvesting costs
- Maintenance costs rose due to planned maintenance stoppage at our Constitución Mill for two months, Montes del Plata Mill for two weeks

In million U.S.\$



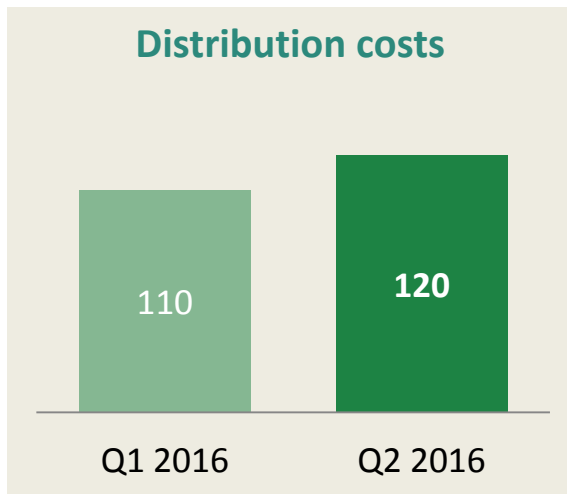
REVENUES, COSTS AND NON-OPERATIONAL RESULTS

In million U.S.\$



Administrative expenses increased by 23.4% or U.S.\$ 26.4 million:

- Yearly computer license expenses disbursed in April
- Implementation of SAP in North America brought forth minor reclassifications



Distribution costs increased by 8.6% or U.S.\$ 9.4 million:

- Sales volume increased in both pulp and wood businesses
- Freight costs increased due to higher pulp export sales

REVENUES, COSTS AND NON-OPERATIONAL RESULTS

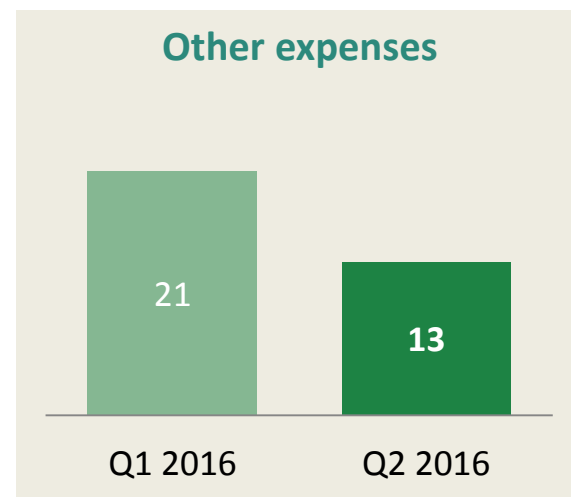
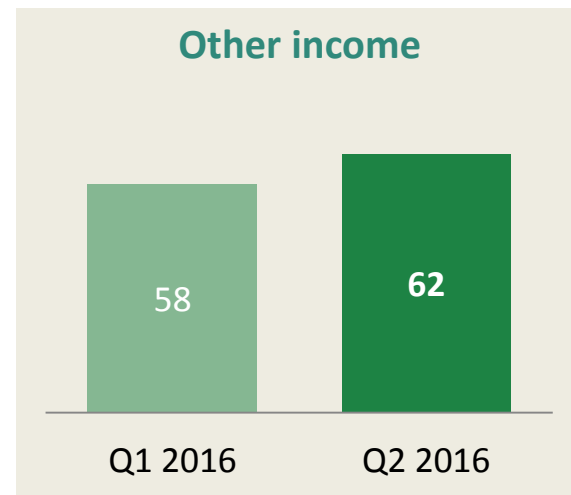
In million U.S.\$

Other income increased by 6.4% or U.S.\$ 3.7 million:

- Minor sales of lands, equipment, and water rights in Chile
- Less gain from changes in fair value of biological assets

Other expenses decreased by 37.1% or U.S.\$ 7.6 million:

- Last quarter included a U.S. \$ 10.4 million expense due to the sale of our 20% share in Stora Enso Arapotí Indústria de Papel in Brazil



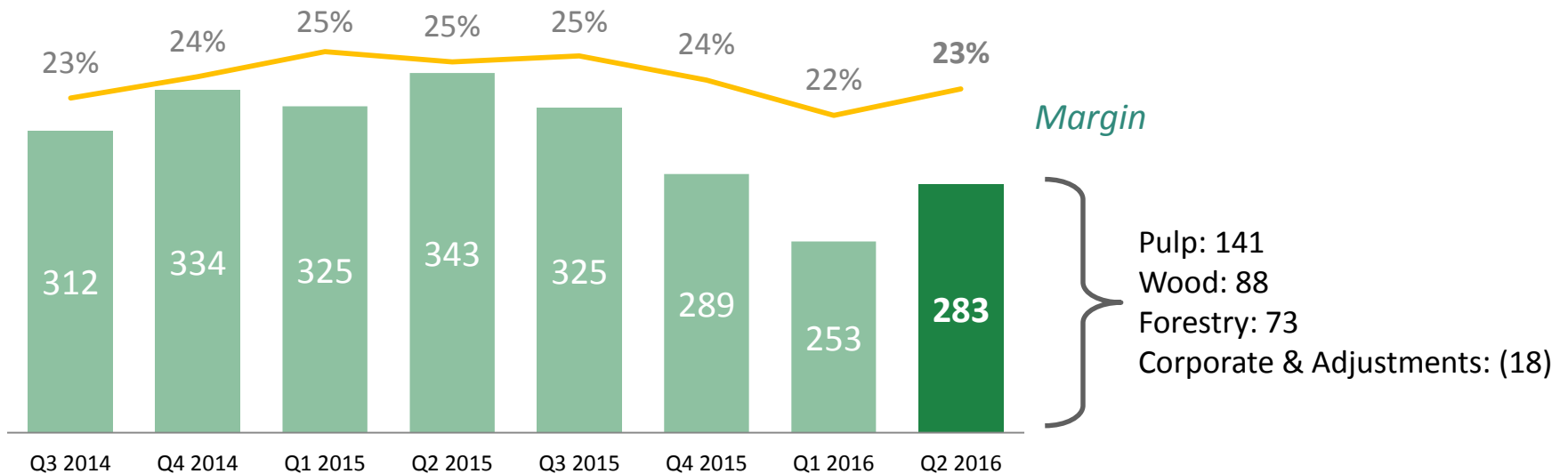
NET INCOME

In million U.S.\$

In U.S.\$ Million	Q2 2016	Q1 2016	QoQ
Revenue	1,207.3	1,146.0	5.3%
Cost of sales	(874.6)	(826.5)	5.8%
Distribution costs	(119.6)	(110.2)	8.6%
Administrative expenses	(139.1)	(112.7)	23.4%
Other income	61.7	58.0	6.4%
Other expenses	(12.9)	(20.5)	-37.1%
Financial income	6.6	11.3	-41.8%
Financial costs	(65.5)	(70.3)	-6.8%
Participation in (loss) profit in associates and joint ventures accounted through equity method	6.0	4.0	48.4%
Exchange rate differences	(0.2)	1.1	-117.2%
Income before income tax	69.7	80.3	-13.2%
Income tax	(12.2)	(27.4)	-55.5%
Net income	57.5	52.9	8.6%

ADJUSTED EBITDA

In U.S.\$ million



- ▶ Adjusted EBITDA rose 12.9% compared to the previous quarter and decreased 17.5% compared to the second quarter of 2015
- ▶ Recovery mainly due to our wood business segment
- ▶ Many markets have bounced back but continue on the way to recovery



Financial Review

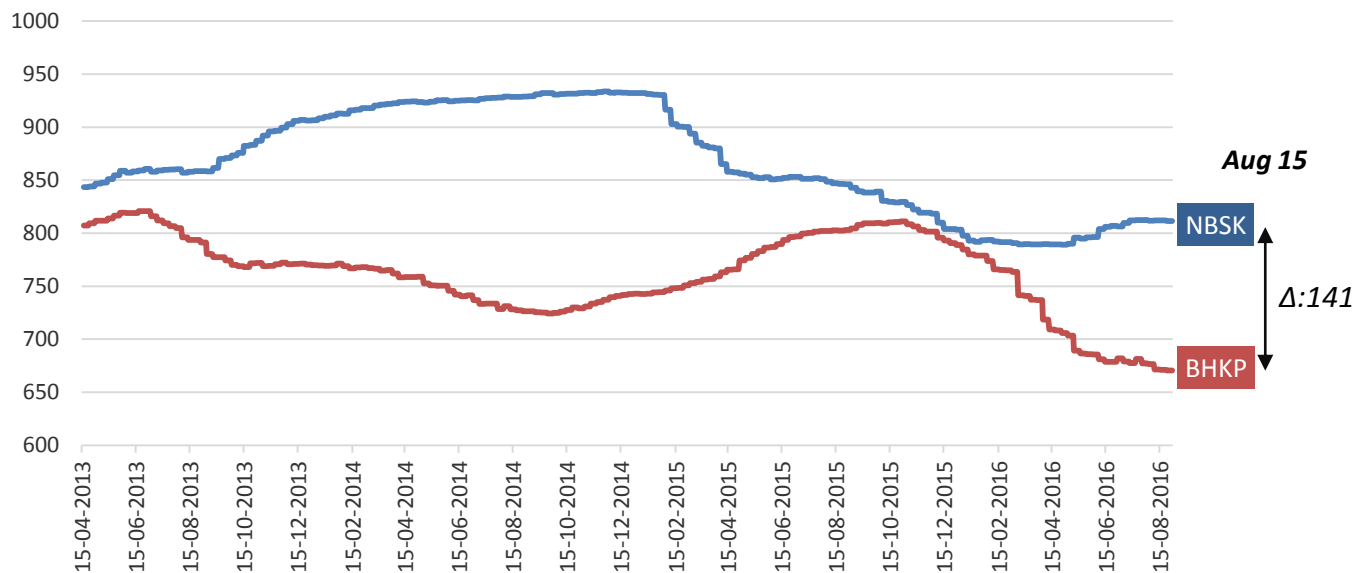
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PULP BUSINESS

BHKP and NBSK Indexes



Aug 15

NBSK

BHKP

Δ:141

Spread at previous call was U.S.\$ 106/ton

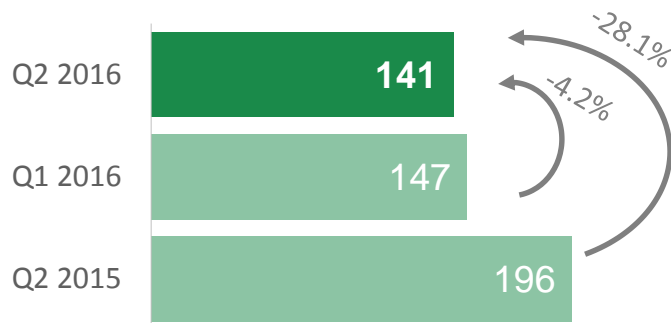
Demand for bleached chemical pulp

	2Q15 vs 2Q16
North America	-1.5%
West Europe	-0.8%
East Europe	+6.6%
Latin America	-3.6%
Japan	-
China	+16.2%
Other Asia/Africa	+5.0%
Oceania	+3.7%
World Total BCP	+4.0%

Source: Hawkins Wright

PULP BUSINESS

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

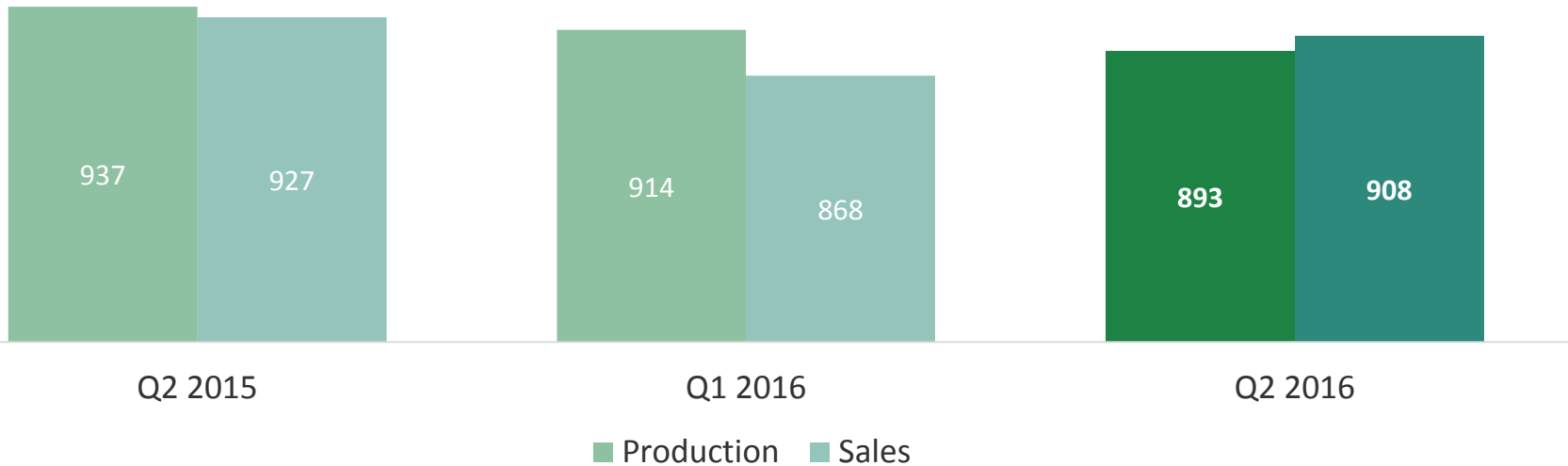


Q2 2016

	Price	Volume	Sales
QoQ	-2.7%	4.6%	3.0%
YoY	-11.8%	-2.1%	-14.5%

- ▶ Prices reached a plateau in most markets, regaining strength in others
- ▶ Western Europe slowest recovery rate
- ▶ Short fiber still under pressure
- ▶ Annual maintenance stoppage season in Northern hemisphere supported some price surges
- ▶ Latin American supply increased from a new pulp mill in Brazil
- ▶ Maintenance stoppages in our Constitución and Montes del Plata Mill
- ▶ Energy sales increased 24.7% QoQ

Production and Sales Volume (In 000 ADT)



Global Producers Inventory Levels

<i>In days</i>	Sep 2014	Dec 2014	Mar 2015	Jun 2015	Sep 2015	Dec 2015	Mar 2016	Jun 2016
BSKP	27	31	33	29	30	29	30	28
BHKP	38	36	39	38	38	39	46	41

OUTLOOK

Long Fiber

- ▶ Seasonal decrease in demand during Northern Hemisphere summer
- ▶ June and July with pressure over prices, explained in part by a \$100 price gap between short-long fibers and North American NBSK producers that completed their annual maintenance and now are operating at full capacity

Short Fiber

- ▶ In general, price cuts have been smaller than those of long fiber
- ▶ China: Prices decreasing during July
- ▶ Europe: Market is still weak, with adjustments in sales volume

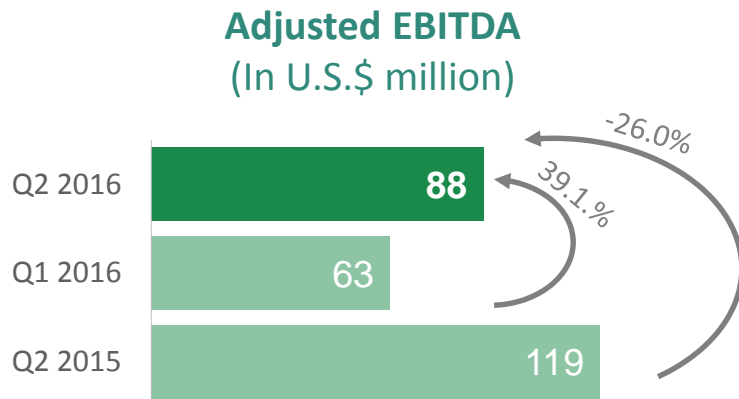
Unbleached Long Fiber

- ▶ In line with short and long fiber, unbleached long fiber has also adjusted its prices down

Q3 - Q4 Scheduled Pulp Mill Maintenance Stoppages

August – September:	Arauco Mill Line 2	10 days
October:	Nueva Aldea Mill	11 days
November:	Alto Paraná Mill	10 days
November:	Valdivia	11 days

WOOD PRODUCTS BUSINESS



	Price	Volume
QoQ	2.4%	8.2%
YoY	-6.3%	-2.9%

Panels*

	Price	Volume
QoQ	3.1%	-2.8%
YoY	-12.9%	-5.1%

Sawn
Timber**

Q2 2016

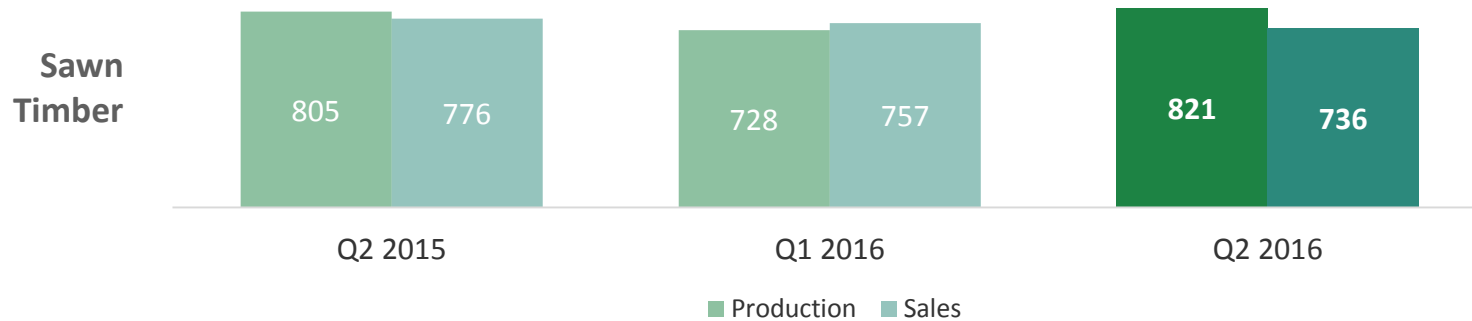
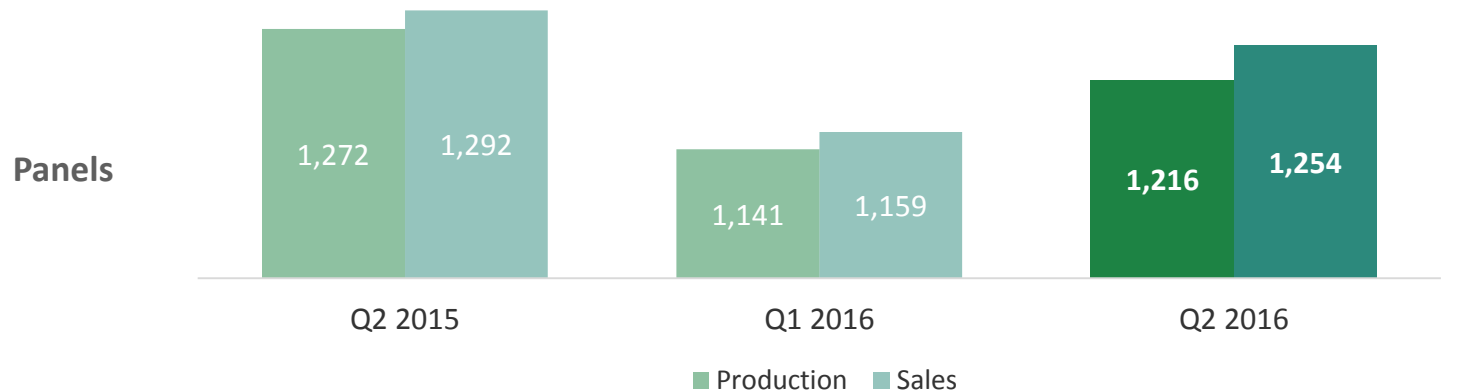
- ▶ Sales in panels market helped to increase revenues of the whole segment
- ▶ Supply in North America with less pressure due to temporary closing of mills damaged by fire
- ▶ Growth in Brazil has been counteracted by depreciation of real (when measured in U.S. dollar)
- ▶ Sawn timber still recovering through the quarter
- ▶ Wood products for packaging have shown strength in Asia and Middle East
- ▶ Plywood improved prices in Europe, Latin America and North America

*MDF, PBO, HB

**sawn timber, remanufactured solid wood, plywood

WOOD PRODUCTS BUSINESS

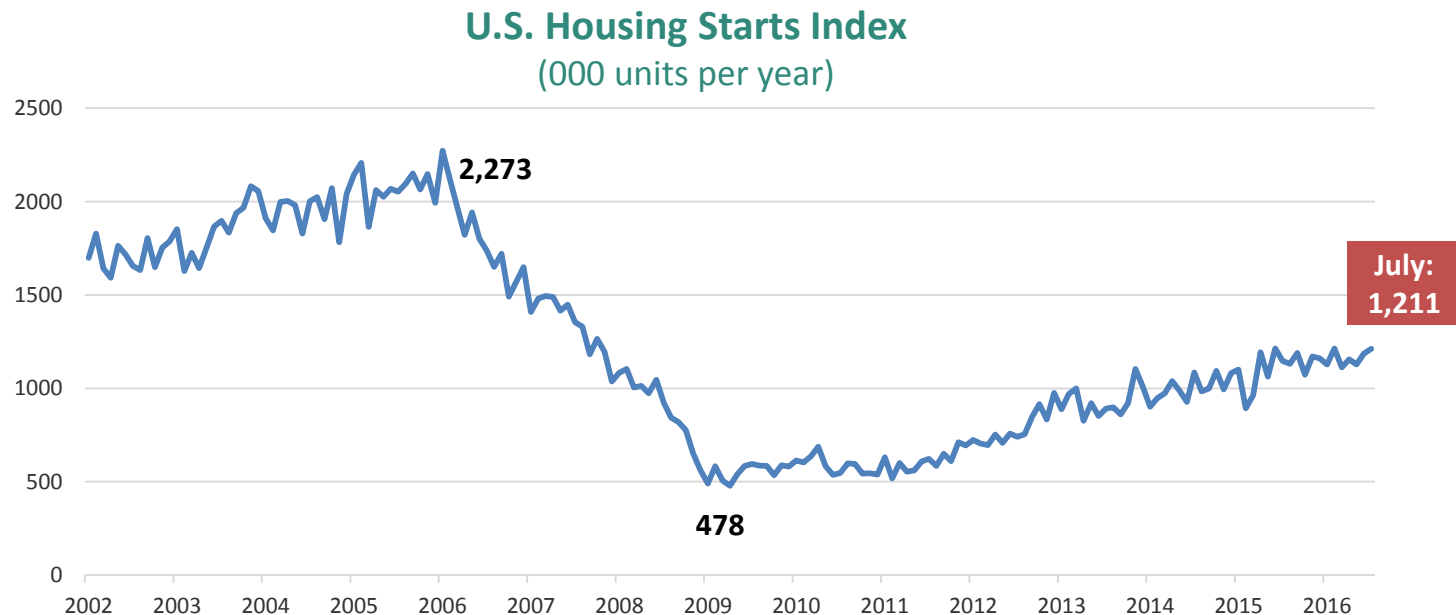
Production and Sales Volume (In 000 m³)



OUTLOOK

- Housing Starts Index growing, ending July with a rate of 1,211 thousand units per year
- MDF: Despite an increase in imports, local supply declined due to the shutdown of two mills damaged by fires in 1H2016, maintaining the market at equilibrium. We are importing boards from Brazil to meet higher demand
- MDF moldings: Good demand, volumes and prices are improving
- Particleboard: Good demand level
- Plywood: Prices are increasing

North America
49%



OUTLOOK

Central and South America 34%

Brazil: MDF sales are improving, however, market is uncertain and sales have been below plans. We continue exporting to other markets. Particleboard sales with high competition, adding pressure to prices and lowering margins.

Argentina: We have seen a slowdown of market dynamics during 1H2016, and we expect it to continue during the rest of the year.

Chile: Good demand for our plywood products to export markets. We have sold according to plan and been able to achieve price hikes.

Rest of Latam and Central America with good sales level in sawn timber

Asia and Oceania 12%

In general, Asia is with good demand for sawn timber, which in turn has enabled price hikes and sales above plans

Oceania market has recovered its plywood volume sales and even been able to increase prices

Europe and Middle East 6%

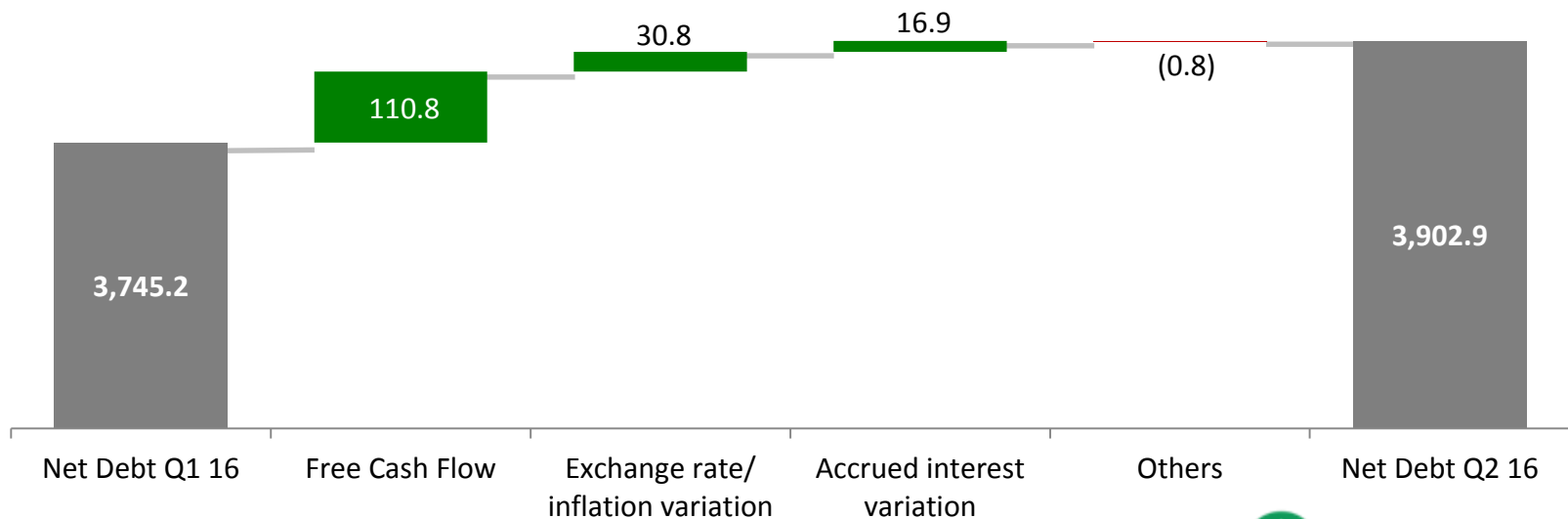
Europe: Good demand for plywood

Middle East: This market has low margins, however, demand is improving and we have been able to achieve important price increases

FREE CASH FLOW

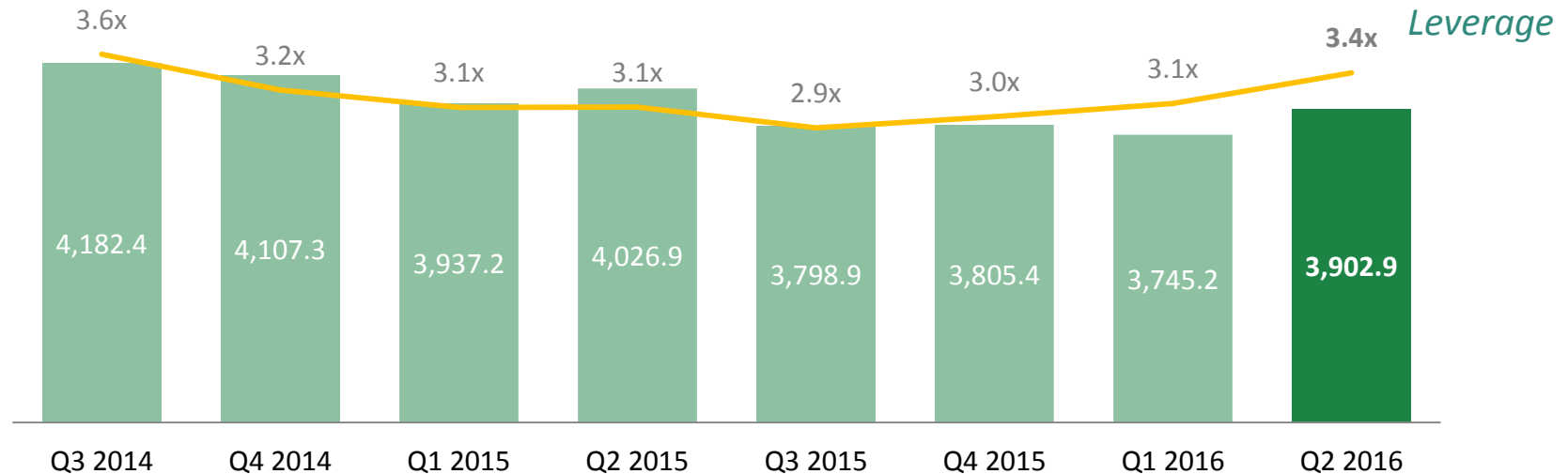
In U.S.\$ million

	Q2 2016	Q1 2016
Adjusted EBITDA (a)	283	253
<i>Others (b)</i>	(40)	(42)
Cash from Operations (a+b)	243	211
<i>Capex (c)</i>	(272)	(101)
<i>Others (d)</i>	4	4
Cash from Investment Activities (c+d)	(261)	(97)
Cash from Financing activities (net of debt)	(100)	(0)
Effect of exchange rate changes	7	(7)
Free Cash Flow	(111)	107



NET FINANCIAL DEBT

In U.S.\$ million



► **Total financial debt** increased 1.0% QoQ, mainly led by an increase in short term financial debt. Pre export loans for U.S.\$ 90 million outstanding, due in August and September of this year

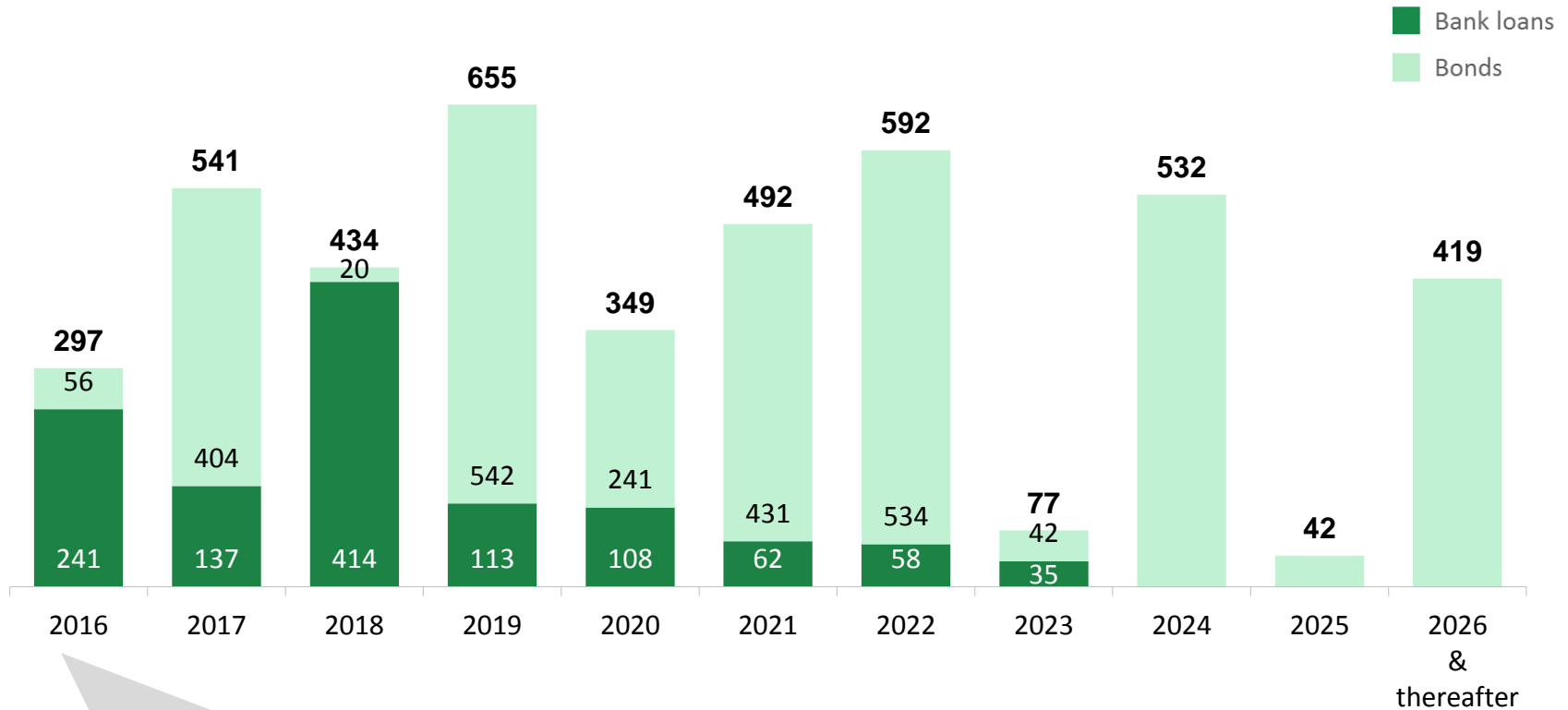
► **Cash and cash equivalents** decreased 17.9% QoQ

► **QoQ Net Leverage** increased from 3.1x to 3.4x mainly because of Tafisa acquisition, dividend payments, and lower LTM EBITDA

Short term financial debt	648
Long term financial debt	3,783
TOTAL FINANCIAL DEBT	4,430
Cash and cash equivalents	527
NET FINANCIAL DEBT	3,903

DEBT

In U.S.\$ million



Bank obligations for the year 2016 include:

- ▶ U.S.\$ 123.7 million Montes del Plata
- ▶ U.S.\$ 90.0 million in Pre-export financing
- ▶ U.S.\$ 21.5 million guaranteed leaseings
- ▶ U.S.\$ 6.0 million Brazilian subsidiaries



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CONSTITUCION MILL PROGRAMMED MAINTENANCE STOPPAGE



Constitución Mill

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

- ▶ This programmed stoppage began on May 3 and ended on June 29, lasting 57 days
- ▶ Works included renovation of recovery boiler, and upgrade of electrostatic precipitators to reduce emissions
- ▶ Purpose of these works is to extend the life of the recovery boiler for another 25 years
- ▶ Total investment was approximately U.S.\$ 43 million: U.S.\$ 29 million in investment projects, U.S.\$ 14 million in programmed maintenance projects

SONAE - ARAUCO JOINT VENTURE

- ▶ On May 31, 2016, Arauco completed share agreement
- ▶ Investment of € 137.5 million
- ▶ Arauco's production capacity totals 9.0 million m³
- ▶ positions Arauco as the world's second largest panel producer



Sonae - Arauco

- JV with Sonae Industria – Arauco owns 50% of Tafisa's shares
- 10 mills located in Germany, Spain, Portugal and South Africa
- Total aggregate capacity: 4.2 million m³/year
- Production of MDF, PBO, OSB and sawn timber

CAROLINA PARTICLEBOARD MILL EXPANSION

- ▶ New drying area and state-of-the-art fast-cycle press improve facility's flexibility
- ▶ Mill capacity increased by 100,000 m³ annually, as well as TFL capacity, reaching 600,000 m³ total capacity
- ▶ Investment of U.S.\$ 32 million



CAMPUS ARAUCO



- ▶ Alliance between Duoc UC and Arauco
- ▶ Technical majors in various industry-oriented careers
- ▶ Located in Southern commune of Arauco, Chile, with more than 2,500 square meters
- ▶ Total investment from Arauco was U.S.\$ 8.5 million



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INVESTOR RELATIONS

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