

1st Quarter 2019

Financial Results Conference Call Presentation
May 22nd, 2019

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Chief Financial Officer

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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 CMF 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.

The Arauco logo is positioned in the top right corner of the slide. It consists of the word "arauco" in a bold, white, lowercase sans-serif font. The background of the slide is a close-up photograph of green pine needles with several water droplets clinging to them, set against a dark green background.

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Financial Review

Review by Business Segment & Outlook

Material Facts and News

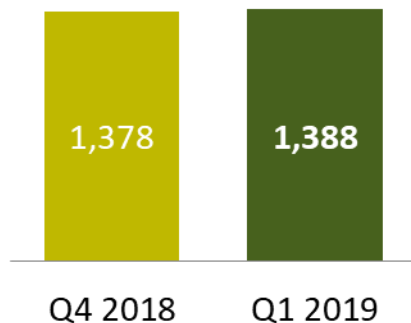
Q&A



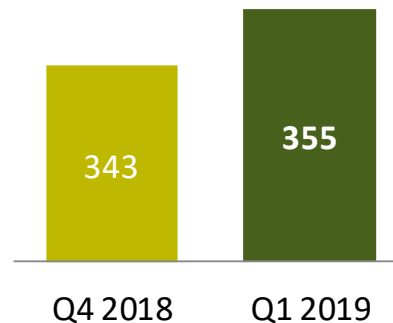
QUARTER MAIN FIGURES

In US\$ million

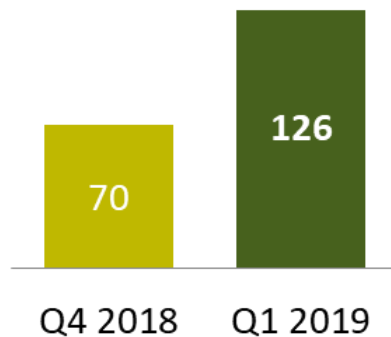
Revenues



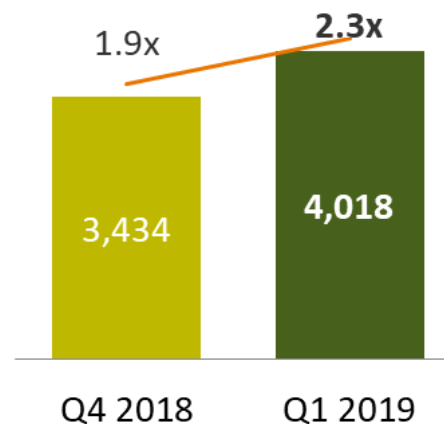
Adjusted EBITDA



Net Income



Net Debt & Leverage



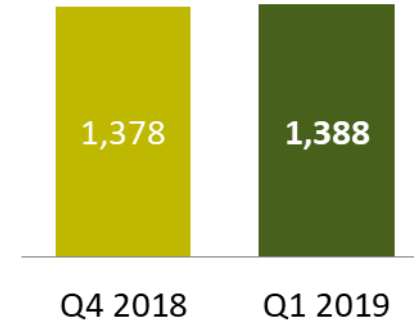
REVENUES, COSTS AND NON-OPERATIONAL RESULTS

In US\$ million

Revenues remained stable, increasing by US\$10.6 million QoQ

- Pulp business revenues were US\$25.1 million lower, driven by a decrease in average prices, offset by an increase in sales volume
- Wood products revenues were US\$36.3 million above the previous quarter, with higher Sawn timber volume sales and higher Composite panels products average prices

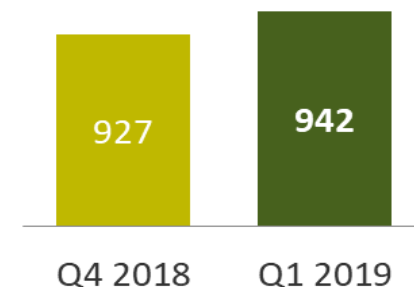
Revenues



Cost of sales increased by 1.6% or US\$14.8 million

- Wages and salaries increased by 7.1%, associated to the Mexican subsidiaries, acquired on January 2019
- Depreciation for the right of use of US\$18.5 million due to IFRS 16 adoption
- Forestry labor costs decreased due to lower cost of roads (summer season)

Cost of sales



Pulp unitary sale costs QoQ

- ▶ Softwood bleached pulp: ↓8.4%
- ▶ Hardwood bleached pulp: ↓4.5%
- ▶ Unbleached softwood pulp: ↓0.9%

REVENUES, COSTS AND NON-OPERATIONAL RESULTS

In US\$ million

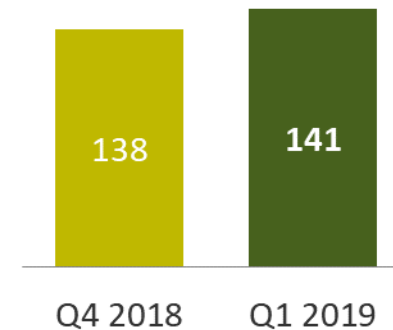
Administrative expenses increased by 2.3% or US\$3.2 million QoQ

- Marketing expenses increased US\$2.9 million
- Depreciation for right of use of MUS\$2.1 million, due to IFRS 16 adoption

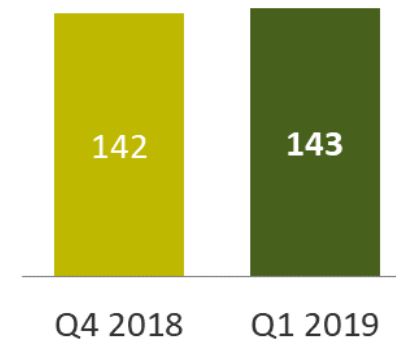
Distribution costs remained steady, increasing only by 0.6% or US\$0.9 million QoQ

- Freight costs increased by US\$11.0 million or 10.2%, driven by higher pulp sales volume
- Other Shipping and freight costs decreased compared to the previous quarter by US\$4.7 million

Administrative expenses



Distribution costs



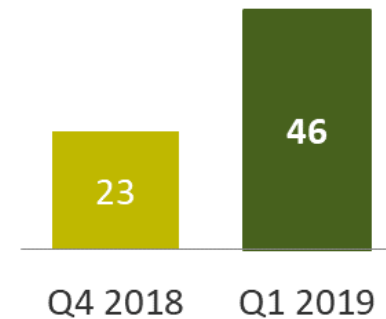
REVENUES, COSTS AND NON-OPERATIONAL RESULTS

In US\$ million

Other income increased by 101.3% or US\$22.9 million QoQ

- Gain from changes in fair value of biological assets reached US\$30.8 million, compared to US\$6.2 million in the previous quarter, when we did a review of the valuation model

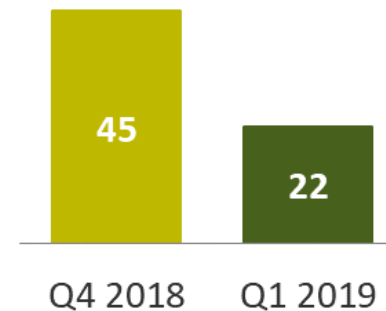
Other income



Other expenses decreased by 49.9% or US\$22.2 million QoQ

- Impairment provision for property, plant & equipment and others decreased by US\$18.0 million compared to last quarter, when we had special provisions in the Arauco I mill and St. Stephen mill

Other expenses



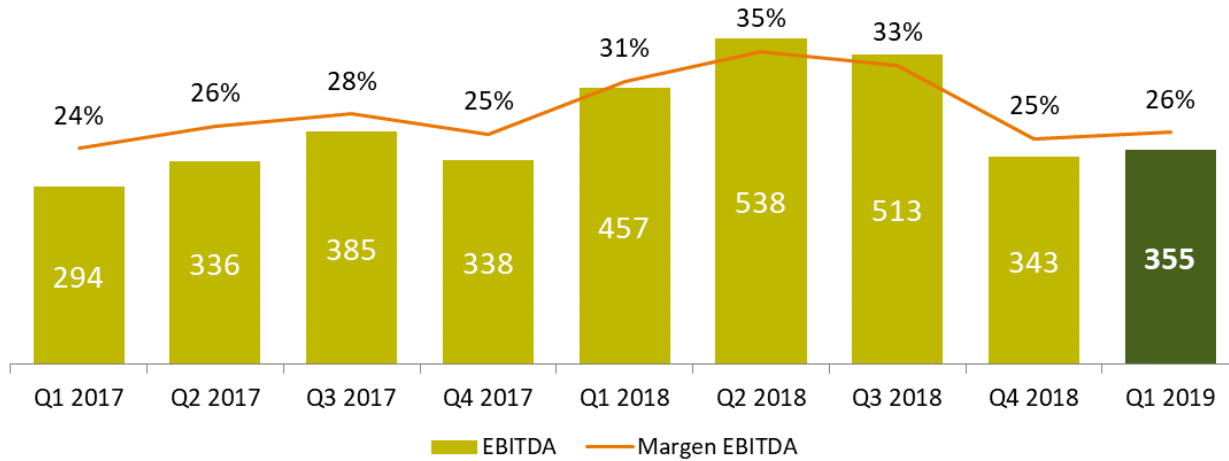
NET INCOME

In US\$ million

	Q1 2019	Q4 2018	QoQ
Revenue	1,388.2	1,377.6	0.8%
Cost of sales	(941.9)	(927.1)	1.6%
Distribution costs	(142.9)	(142.0)	0.6%
Administrative expenses	(141.3)	(138.1)	2.3%
Other income	45.5	22.6	101.3%
Other expenses	(22.3)	(44.5)	-49.9%
Financial income	6.7	8.8	-23.3%
Financial costs	(57.4)	(58.9)	-2.5%
Participation in (loss) profit in associates and joint ventures accounted through equity method	4.4	(11.4)	-138.1%
Exchange rate differences	2.1	(4.2)	-150.6%
Income before income tax	141.2	97.0	45.6%
Income tax	(15.1)	(26.8)	-43.7%
Net income	126.1	70.1	79.8%

ADJUSTED EBITDA

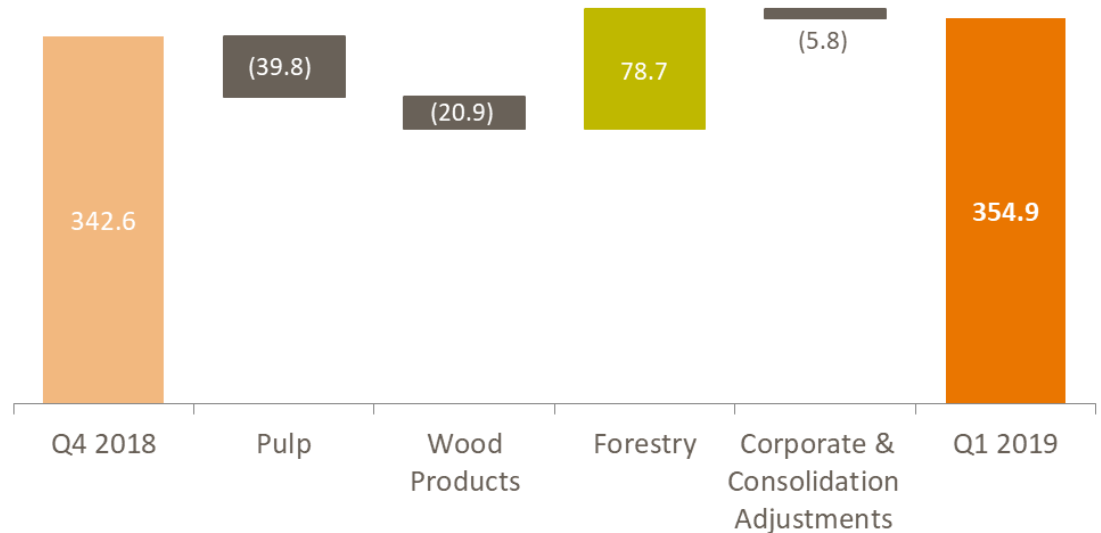
In US\$ million



Adjusted Ebitda by division

Pulp:	246
Forestry:	68
Wood Products:	64
Corporate & Adjustments:	-23

► Adjusted EBITDA increased by 3.6% explained by an increase of US\$78.7 in our Forestry division. This was partially offset by a decrease in our Pulp and Wood products division Adjusted EBITDA of 10.9% and 9.4%, respectively



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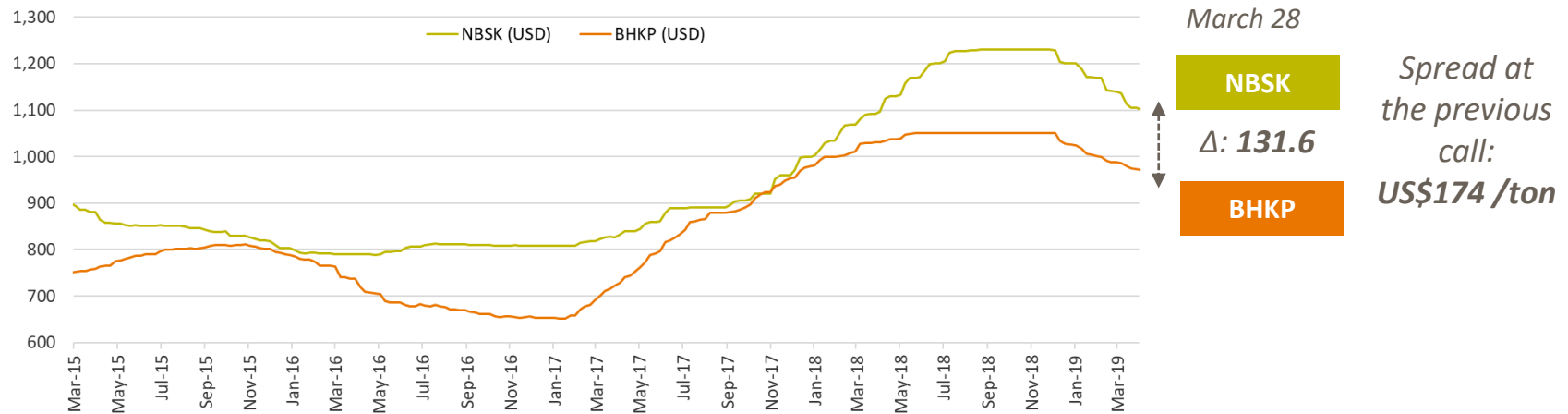
Material Facts and News

Q&A



PULP BUSINESS

BHKP and NBSK Indexes



Source: RISI

Demand for bleached chemical pulp (YTD)

In thousand tonnes

Destination	Mar-18	Mar-19	Δ	%
North America	1,750	1,845	95	▲ 5.4%
West Europe	3,605	3,405	- 200	▼ -5.5%
China	3,595	3,560	- 35	■ -1.0%
Other	3,200	3,470	270	▲ 8.4%
W-20 Total BCP	12,150	12,280	130	■ 1.1%

Source: Hawkins Wright Report

Global Producers Inventory Levels

In days Supply

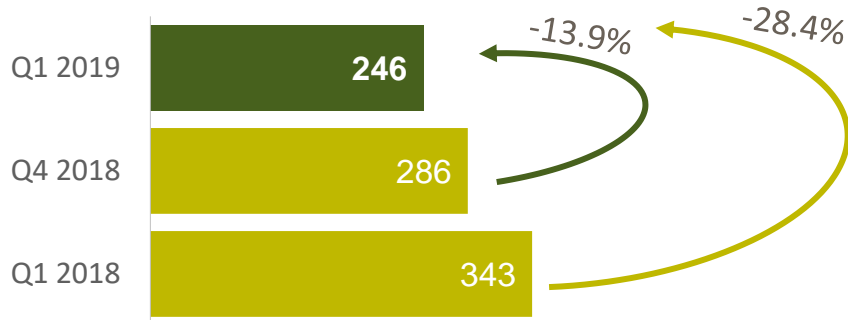
	Jun 2017	Sep 2017	Dec 2017	Mar 2018	Jun 2018	Sep 2018	Dec 2018	Mar 2019
BSKP	31	30	29	31	30	33	41	37
BHKP	37	43	38	45	45	41	57	59

Source: Pulp and Paper products Council, 2019

PULP BUSINESS

Adjusted EBITDA

In US\$ million

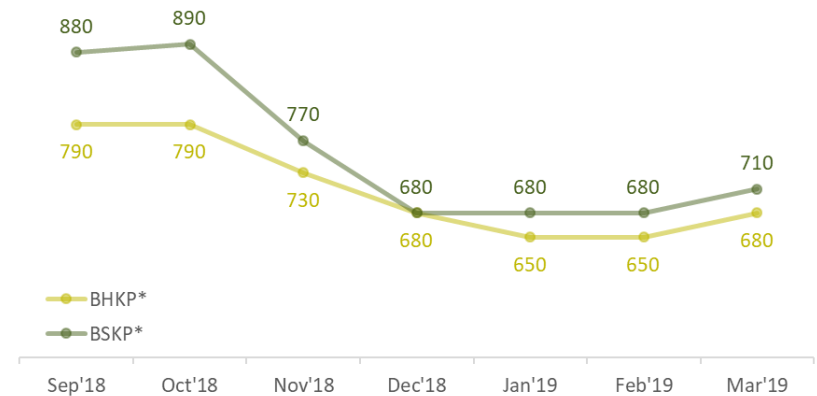


	Price	Volume
QoQ	↓ -10.9%	↑ 9.4%
YoY	↓ -12.2%	↑ 4.4%

Q1 2019

- ▶ The pulp industry showed a tendency toward recovery in demand at the end of the 1Q, especially in China
- ▶ Asian markets and paper producers were cautious in purchasing raw material, due to the uncertainty of ongoing trade war negotiations and high inventories
- ▶ European markets activity was characterized by a low demand and high inventory levels in the ports

BHKP and BSKP prices

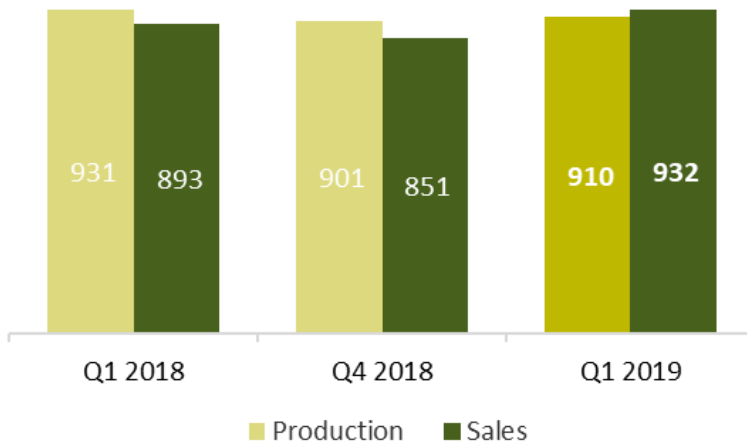


* Net prices in China

PULP BUSINESS

Production and Sales Volume

In Thousand ADT



Q4 2018 – Q1 2019 Scheduled Pulp Mill Maintenance Stoppages

Date	Pulp Mill	Annual Capacity (thousand Adt)	Days of Stoppage
Oct	Arauco Line 2	510	10 ✓
Nov	Valdivia	550	13 ✓
Nov	Montes del Plata	1,400	10 ✓
Jan	Nueva Aldea	1,040	10 ✓
Feb	Licancel	160	10 ✓
Mar	Alto Paraná	350	15 ✓

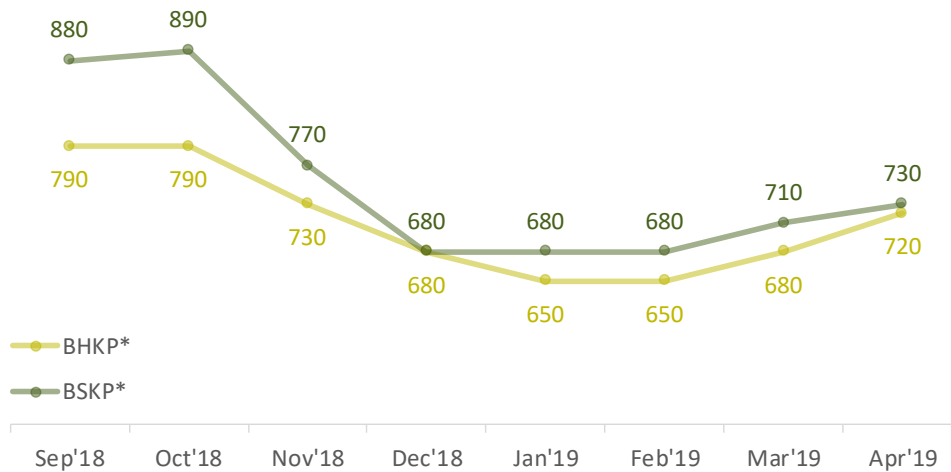
PULP BUSINESS

Outlook

- ▶ For the next quarter, the scenario looks complicated, mainly due to the following reasons:
 - The start of the low demand season, which is starting earlier than 2018
 - The trade war between US and China without final agreement
 - High level of inventories

- ▶ Markets uncertainty is triggering price adjustments and announcements of production reduction (Brazil)

BHKP and BSKP prices



Q2 2019 – Q3 2019 Scheduled Pulp Mill Maintenance Stoppages

Date	Pulp Mill	Annual Capacity (thousand Adt)	Days of Stoppage
April	Constitución	355	20 ✓
May	Arauco Line 1	290	10 ✓
Aug	Valdivia	550	47*

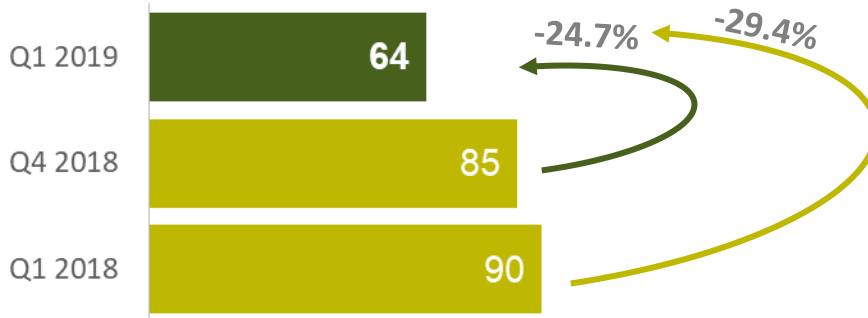
* Due to the Dissolving Pulp project

* Net prices in China

WOOD PRODUCTS BUSINESS

Adjusted EBITDA

In US\$ million



Composite Panels*

	Price	Volume
QoQ	↑ 1.6%	↓ -1.3%
YoY	↓ -2.8%	↓ -0.3%

Solid Wood**

	Price	Volume
QoQ	↓ -4.1%	↑ 2.2%
YoY	↓ -2.9%	↓ -4.4%

Q1 2019

- ▶ Composite panels sales volume showed a slight decrease, partially offset by a rise in average prices. While MDF demand in the Brazilian market was negatively affected by political and economic factors, Argentina stabilized. In US and Canada, sales were higher than the previous quarter
- ▶ In Sawn timber, demand in Asia and Middle East remained low, as a result of higher supply from Europe, Canada and Brazil. Remanufactured products in the Northern Hemisphere were in high demand as a result of positive seasonal effects
- ▶ The Plywood scenario did not change significantly, with high competition from South America and Asia and therefore, lower prices. Additionally, OSB is increasing its share in the plywood market

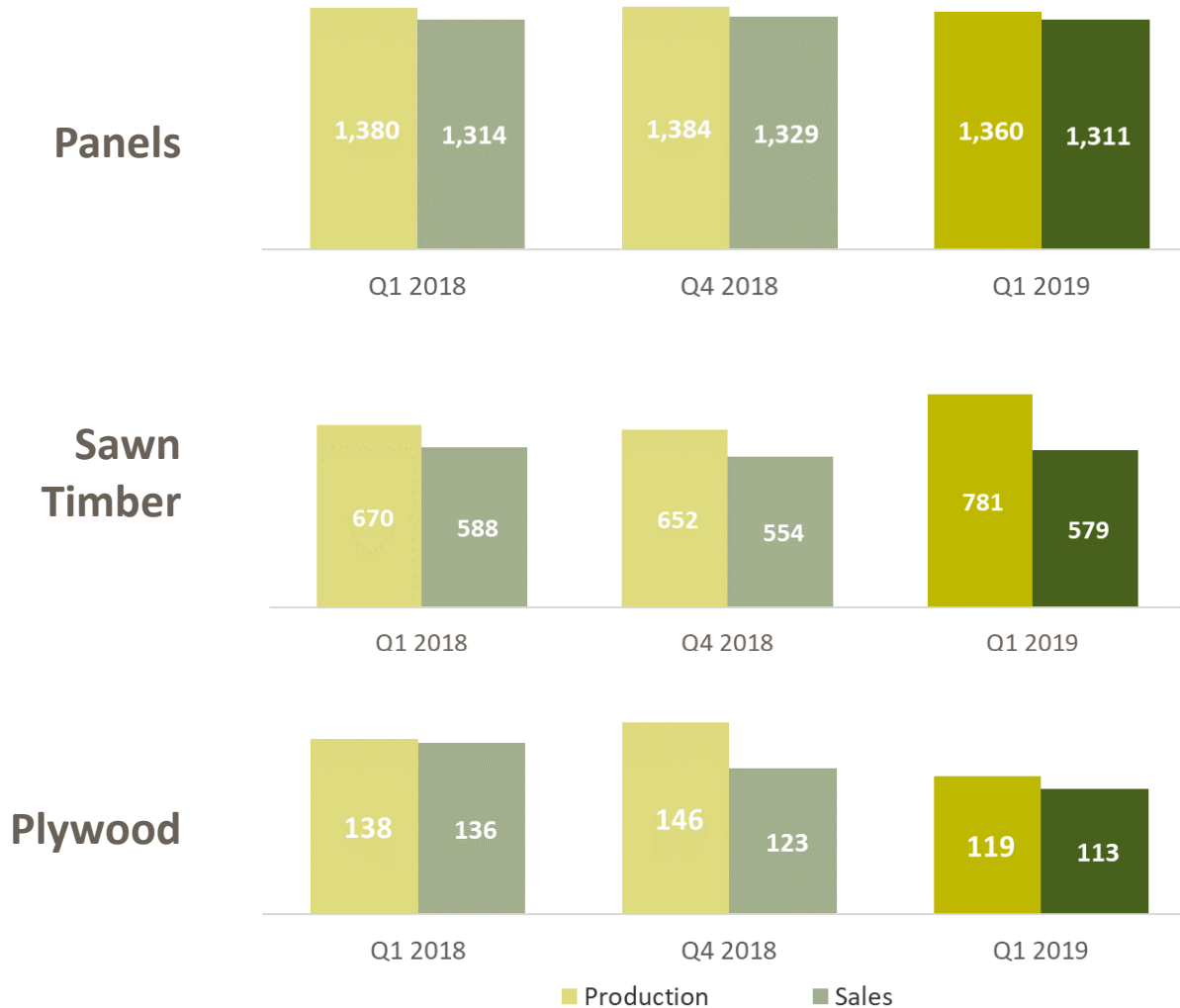
* MDF, PBO, HB

** Sawn timber, remanufactured solid wood, plywood

WOOD PRODUCTS BUSINESS

In thousand m³

Production and Sales Volume



WOOD PRODUCTS BUSINESS

Outlook

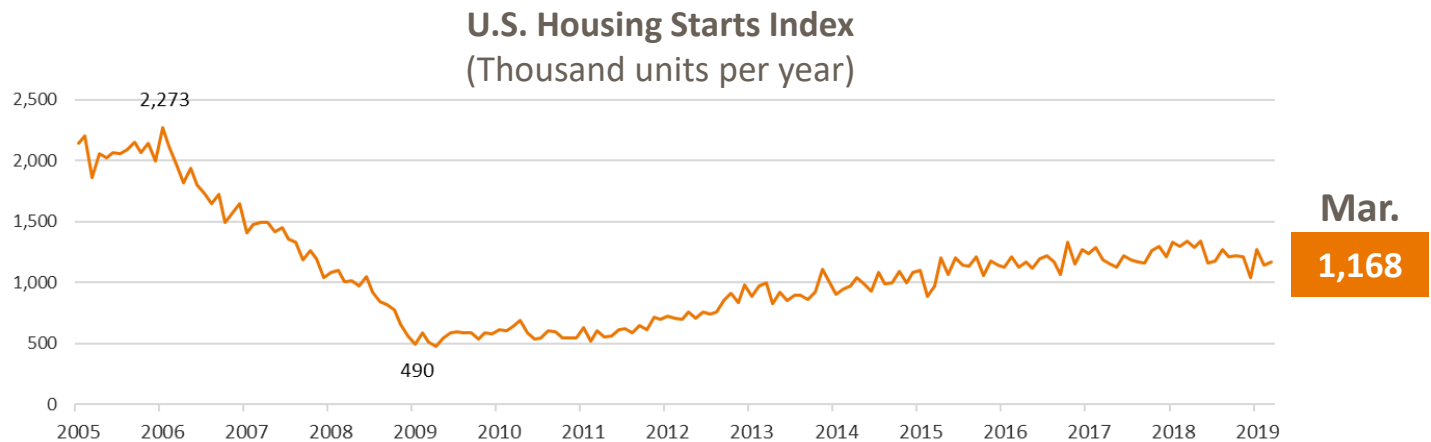
Housing Starts Index at 1.2 million units per year as of March 2019

PB/MDP: the demand is expected to remain positive, better than in the first quarter, mainly influenced by positive seasonal effects and slightly lower production.

Remanufactured products: the demand is expected to increase in the next months, mainly due to better weather conditions and to the positive impact of the new duties imposed to China.

Plywood: sales volume are expected to remain healthy in the coming months, however, the oversupply from Brazil, Chile and others, is expected to keep affecting negatively the prices.

North
America
54%



WOOD PRODUCTS BUSINESS

Outlook

Central and
South America
31%

Brazil: the scenario looks challenging for the coming months, due to slow economy, sluggish consumption of panels and increasing production capacity of other Brazilian competitors.

Argentina: sales volume are expected to recover. Inflation and the devaluation of the Argentine peso will continue keeping USD margins in a negative trend

Chile: for composite panels, the outlook remains positive, expecting steady sales volume. Plywood will remain a challenge, due to local oversupply and a slightly lower growth expected for the construction industry.

Asia and
Oceania
10%

Asia: this market is definitely facing the biggest uncertainty as the trade war between China and US remains to be resolved. After the last announcements made by both parties in the last months, the outlook has showed nothing but uncertainty for the next period. The forecast could change depending on the final negotiations.

Europe and
Middle East
5%

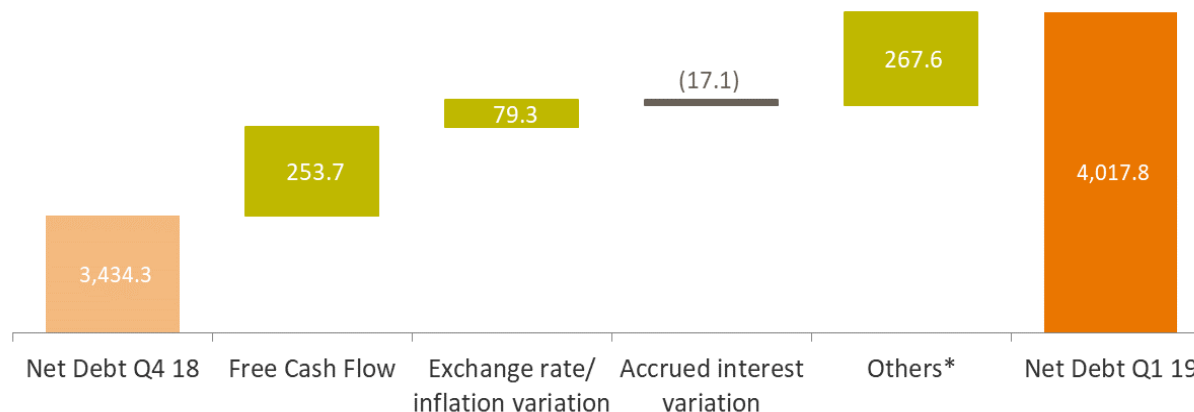
Europe: plywood market is expected to keep showing low demand and low prices, mainly affected by the significant oversupply from Brazilian and European competitors. This situation is expected to be marginally offset by the positive seasonal effects in the coming months.

Middle East: as a consequence of the lower demand in Europe and China, damage wood by storms and some forestry diseases, there is big pressure mainly from European and Brazilian suppliers to allocate higher volumes in this market. As a result, prices are expected to continue going downwards

FREE CASH FLOW

In US\$ million

	Q1 2019	Q4 2018
Adjusted EBITDA	354.9	342.6
Working Capital Variation	(70.9)	141.8
Interest paid and received	(43.3)	(39.2)
Income tax paid	(12.6)	(20.9)
Others	(97.9)	(5.2)
Cash from Operations	130.3	419.1
Capex	(394.6)	(341.6)
Others	11.7	6.4
Cash from Investment Activities	(382.9)	(335.2)
Cash from Financing activities (net of debt)	(0.3)	(143.0)
Effect of exchange rate changes	(0.7)	(5.3)
Free Cash Flow	(253.7)	(64.4)

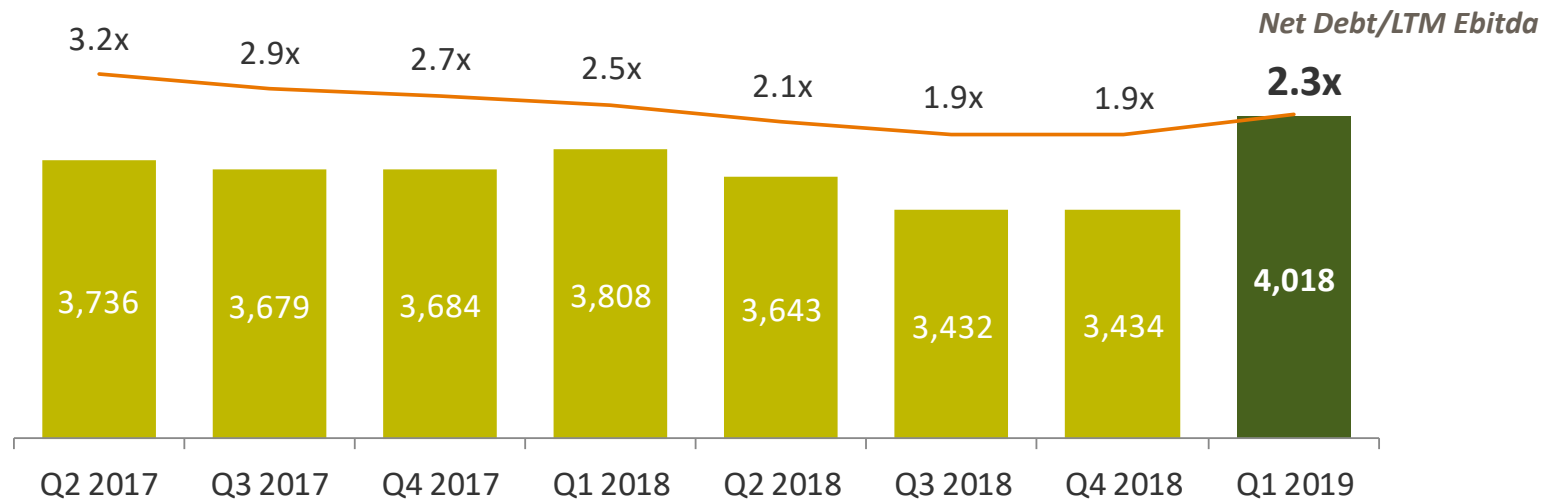


*As of December 31 2018, leases were recognized as cost of sales or Administrative expenses on the Income Statement. From January 1, 2019, with the adoption of the IFRS 16, it is recognized as Depreciation for the right of use and it increases slightly our Financial expenses. IFRS 16 impact: Other financial liabilities increased by \$287.6 million.

- Leasing of vehicles (US\$135.4 million)
- Others properties, plants and equipment (US\$114.7 million)
- Land lease (US\$65.0 million)

NET FINANCIAL DEBT

In US\$ million



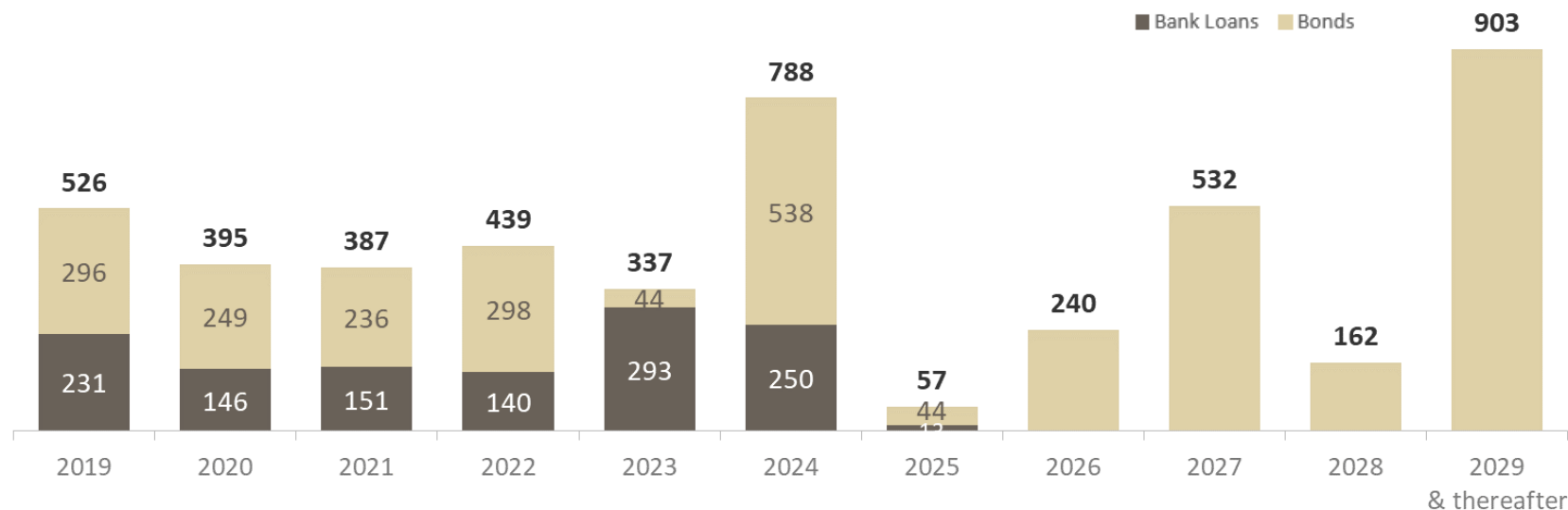
- ▶ **Cash and cash equivalents** decreased by 30.5% QoQ. Cash flow from operating activities decreased due to increase in working capital. Investment cash flow increased associated with the Mexico acquisition.
- ▶ **LTM Adjusted EBITDA** decreased by 5.5% QoQ, mainly due to pulp prices volatility
- ▶ **QoQ Net Leverage** reached 2.3x, mainly due to IFRS 16 leases (2.1x without this accounting change)

	1Q 2019	4Q 2018
Short term debt	576	536
Long term debt	4,189	3,974
TOTAL DEBT	4,766	4,510
Cash	748	1,076
NET DEBT	4,018	3,434

DEBT

In US\$ million

As of March 2018



Bank obligations for the year 2019 include:

- ▶ US\$137.0 million in Montes del Plata
- ▶ US\$ 66.2 million of leasing (US\$53.0 million are from IFRS 16)
- ▶ US\$13.2 million in Argentina
- ▶ US\$8.7 million in Brazil
- ▶ US\$5.4 million of United States

Bond obligations for the year 2019 include:

- ▶ US\$46.2 million in amortization of local bonds
- ▶ US\$202.8 million in USD bonds with maturity in 2019*
- ▶ US\$46.8 million in interests of local and USD bonds

* We repurchased US\$33.2 million on April 2019. As a result, the 2019 Yankee Notes outstanding reached US\$169.6 million

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GRAYLING PROJECT



- ▶ The new particleboard mill located in Grayling, Michigan, was officially inaugurated on April 16
- ▶ The investment was approximately US\$450 million
- ▶ The annual installed production capacity is 800,000 m³
- ▶ The plant is currently producing and has already commercialized some volumes

DISSOLVING PULP PROJECT

- ▶ As of March 2019, the construction phase is going as planned with 75% of construction completed
- ▶ The start-up is expected to be at the end of 2019
- ▶ The mill will keep the flexibility to switch from paper grade to dissolving pulp



MAPA PROJECT UPDATE

- ▶ On February 2019, the earth-moving works started
- ▶ On April 1, 2019, Arauco signed an ECA credit agreement with Finnvera and three banks
 - Total amount: €555 million
 - Disbursement period: during the Line 3 construction
Amortizations: 17 equal consecutive semi-annual installments
 - Proceeds: to pay the main equipment of the project
 - Main suppliers: Valmet and Andritz

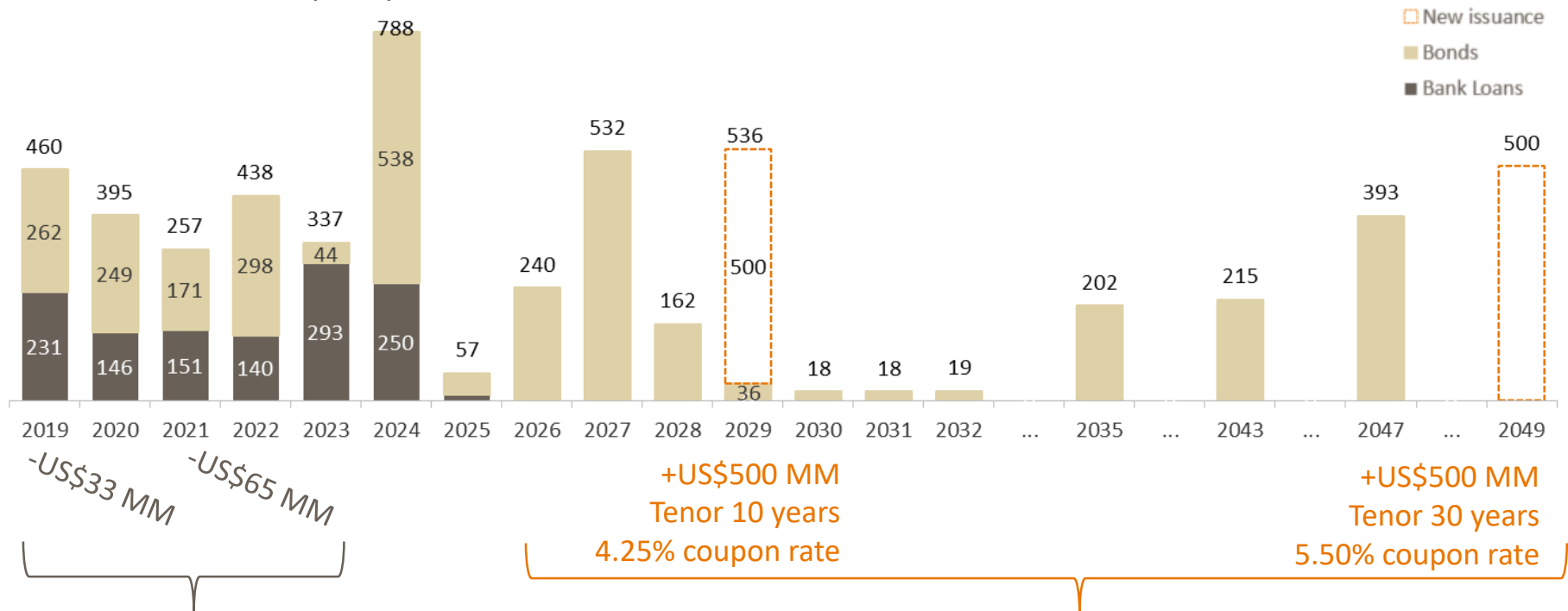
What is next?

- ▶ Biding process with construction companies
- ▶ Equipment assembly expected to begin in October, 2019
- ▶ Line 3 expected to start operating in the second quarter of 2021, with Line 1 shutdown



INTERNATIONAL BOND ISSUANCE

On April 30, 2019, Arauco completed an offering of US\$500 million principal amount of 4.25% Notes due 2029 and US\$500 million principal amount of 5.5% Notes due 2049.



- Repurchase of US\$33 and US\$65 million of Notes due 2019 and 2021, respectively

Use of proceeds

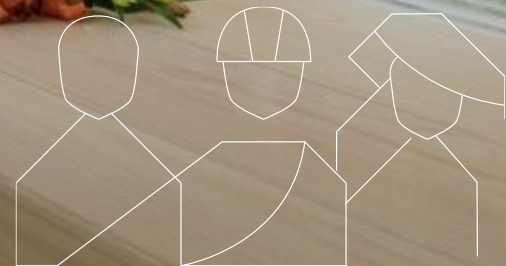
- to finance the **MAPA Project**
- to **partially repurchase** two of our outstanding bonds: (i) 7.25% Notes due 2019, (ii) 5.00% Notes due 2021
- to other corporate purposes

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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	10129409

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