

A close-up photograph of a hand holding a pine cone. The background is filled with green pine needles, creating a textured, natural setting. A semi-transparent green circle is overlaid on the left side of the image, containing the text. A thin white line curves across the image, separating the text area from the rest of the background. A vertical yellow line is positioned near the center, highlighting a specific part of the pine cone.

2<sup>nd</sup> Quarter 2018

Financial Results  
Conference Call  
Presentation  
August 27, 2018

Gianfranco Truffello  
CHIEF FINANCIAL OFFICER

**arauco**

# 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

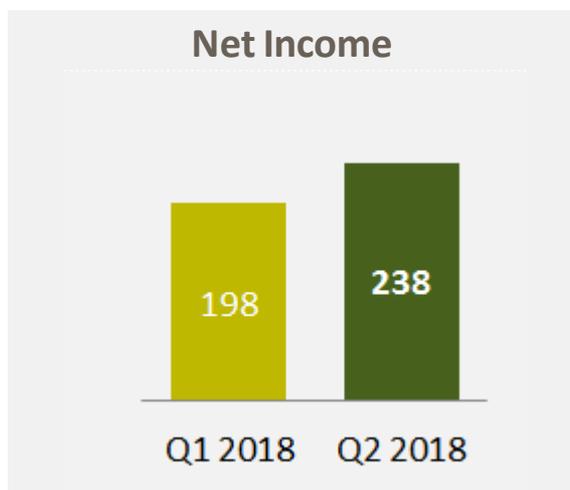
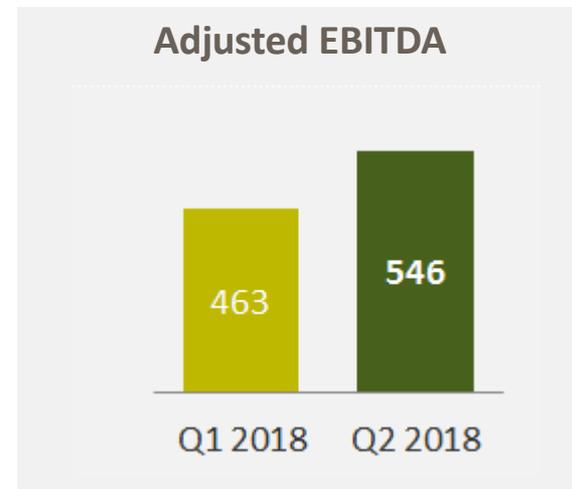
Review by Business Segment & Outlook

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Q&A

# QUARTER MAIN FIGURES

*In U.S.\$ million*



# REVENUES, COSTS AND NON-OPERATIONAL RESULTS

*In U.S.\$ million*

**Revenues** increased U.S.\$ 94.7 million or 6.5%:

- Pulp business revenues were U.S.\$ 91.2 million higher, driven by an increase in sales volume and prices
- Wood products revenues were U.S.\$ 1.2 million above the previous quarter due to higher sales volume in panels and plywood, and higher prices in sawn timber



**Cost of sales** increased U.S.\$ 14.9 million or 1.6%:

- Forestry costs increased due to a higher volume sold, an increase in the costs of roads, added to higher average distances of forest harvested
- Chemical costs increased due to higher consumption and higher sales volume
- Pulp unitary costs QoQ:
  - ▶ Softwood bleached: ↑ 1.4%
  - ▶ Hardwood bleached: ↑ 0.3%
  - ▶ Unbleached softwood: ↓ 6.6%



# REVENUES, COSTS AND NON-OPERATIONAL RESULTS

*In U.S.\$ million*



**Administrative expenses** decreased by 0.4% or U.S.\$ 0.6 million:

- Decrease in wages, salaries and severance indemnities, mainly because during the first quarter there was a change in the calculation of compensation for years of service and because of the depreciation of the Chilean peso
- Increase in Computer Services due to payments associated with software licenses

**Distribution costs** increased by 2.2% or U.S.\$ 2.9 million:

- Increase in freights costs of 5.2% due to higher sales volume and an increase in delivered costs in the US due to shortage of certified trucks drivers

# REVENUES, COSTS AND NON-OPERATIONAL RESULTS

*In U.S.\$ million*

**Other income** decreased by 21.5% or U.S.\$ 8.0 million:

- Gain from changes in fair value of biological assets decreased U.S.\$ 7.3 million compared to last quarter
- Gain on sales of assets decreased U.S.\$ 3.0 million because during the previous quarter there were some property sales and land expropriation



**Other expenses** remained stable:

- Impairment provision of PP&E\* fell U.S.\$ 5.6 million due to the write-off of some fixed assets done in the first quarter
- Project expenses increased due to the Grayling project

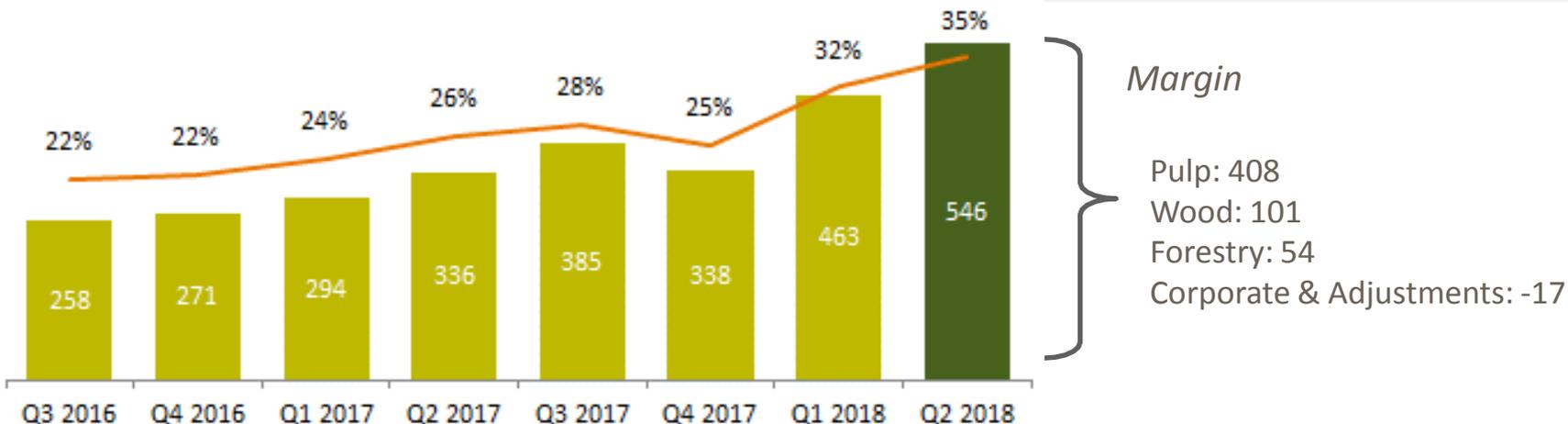


# NET INCOME

In U.S.\$ Million	Q2 2018	Q1 2018	QoQ
Revenue	1,559.3	1,464.7	6.5%
Cost of sales	(936.5)	(921.6)	1.6%
Distribution costs	(135.3)	(132.4)	2.2%
Administrative expenses	(140.9)	(141.5)	-0.4%
Other income	29.2	37.2	-21.5%
Other expenses	(16.8)	(16.8)	-0.2%
Financial income	2.6	4.8	-46.4%
Financial costs	(51.4)	(51.7)	-0.5%
Participation in (loss) profit in associates and joint ventures accounted through equity method	18.2	5.8	210.8%
Exchange rate differences	(17.3)	1.0	-1747.2%
<b>Income before income tax</b>	<b>311.1</b>	<b>249.6</b>	<b>24.7%</b>
Income tax	(72.9)	(51.8)	40.5%
<b>Net income</b>	<b>238.2</b>	<b>197.7</b>	<b>20.5%</b>

# ADJUSTED EBITDA

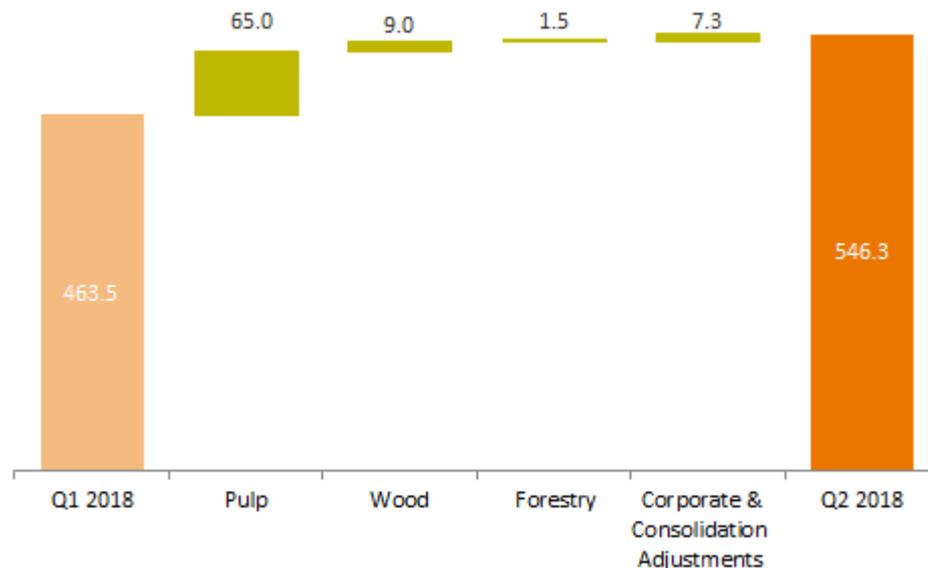
In U.S.\$ million



▶ Adjusted EBITDA rose 17.9% compared to the previous quarter and increased 62.5% compared to the second quarter of 2017

▶ Pulp division EBITDA continued its positive trend, increasing by 18.9% due to higher sales volume and pulp prices. Pulp EBITDA margin reached 49.5%

▶ Wood division EBITDA increased 9.9% compared to last quarter due to higher sales volume in panels and plywood, and higher prices in sawn timber



Financial Review

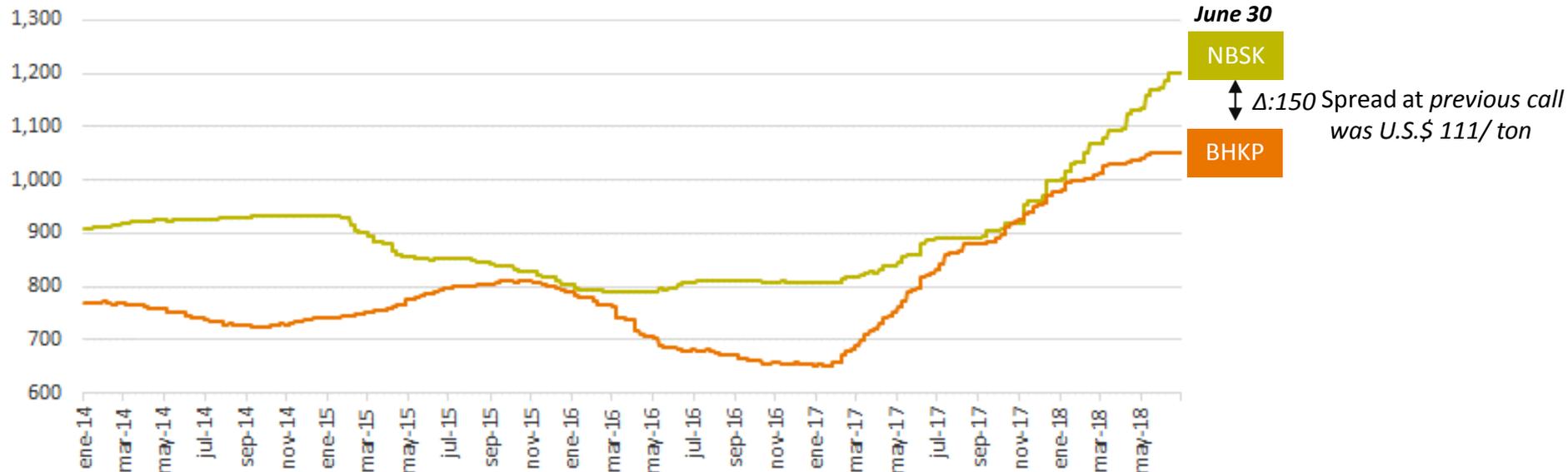
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# PULP BUSINESS

## BHKP and NBSK Indexes



## Demand for bleached chemical pulp June 2018 vs June 2017 (YTD)

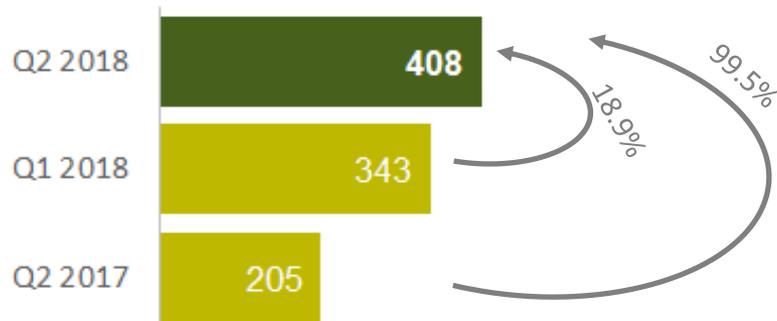
*In thousand tonnes*

Destination	June 2017	June 2018	Δ	%
North America	3,755	3,590	- 165	▼ -4.4%
West Europe	6,920	7,165	245	▲ 3.5%
China	7,005	7,295	290	▲ 4.1%
Other	6,495	6,525	30	■ 0.5%
<b>W-20 Total BCP</b>	<b>24,175</b>	<b>24,575</b>	<b>400</b>	<b>■ 1.7%</b>

# PULP BUSINESS

## Pulp Adjusted EBITDA

*In U.S.\$ million*



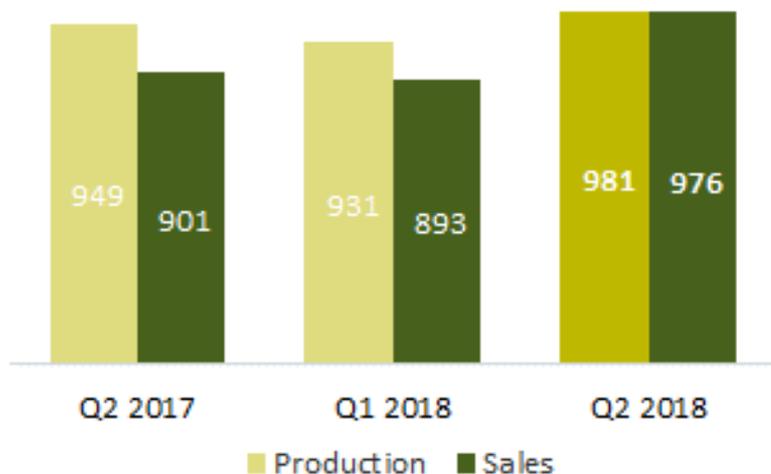
	Price	Volume	Sales
QoQ	2.5%	9.2%	12.4%
YoY	31.8%	8.4%	40.2%

### Q2 2018:

- ▶ Worldwide demand during the second quarter remained active, even with the seasonality effects of the summer in the Northern Hemisphere, when demand for pulp is lower.
- ▶ Asian markets still active, led by China. Pulp prices remained steady in the three types of fiber sold in Asia.
- ▶ In Europe, paper producers experienced good demand, and were able to implement price increases. However, margins have been reduced and some less efficient factories are in a weak financial situation
- ▶ Arauco production volumes increased, due to less programmed maintenance stoppages

# PULP BUSINESS

**Production and Sales Volume**  
*In Thousand ADT*



**Q1 2018 – Q2 2018 Scheduled Pulp Mill Maintenance Stoppages**

Date	Pulp Mill	Annual Capacity (thousand Adt)	Days of Stoppage
Feb	Licancel	155	9 ✓
Feb	Constitución	355	14 ✓
Mar	Valdivia	550	14 ✓
Apr	Arauco Line 1	290	13 ✓

**Global Producers Inventory Levels**

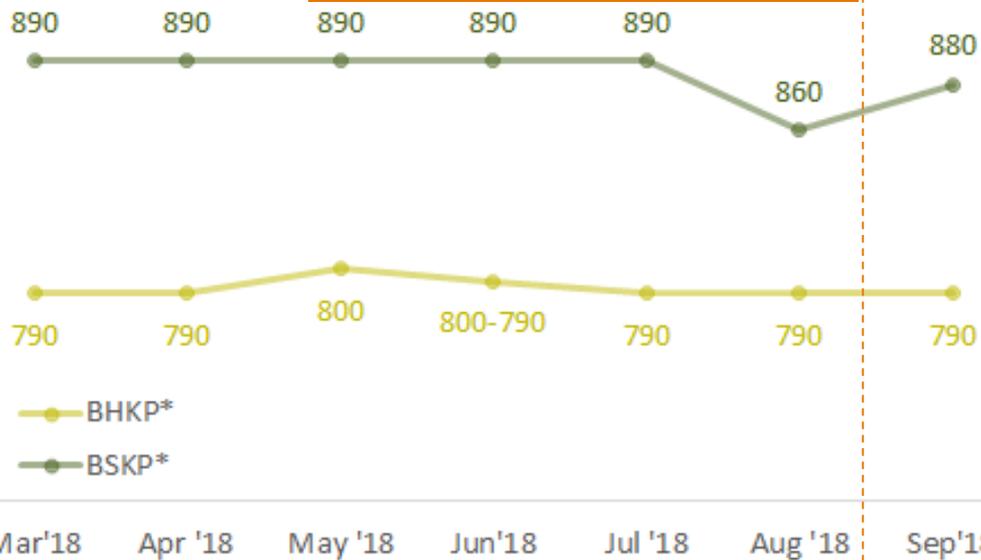
<i>In days</i>	Jun 2016	Sep 2016	Dec 2016	Mar 2017	Jun 2017	Sep 2017	Dic 2017	Mar 2018	Jun 2018
BSKP	28	30	32	29	31	30	29	31	30
BHKP	41	47	37	38	37	43	38	45	45

# PULP BUSINESS

## OUTLOOK

- ▶ For the third quarter, significant price variations are not expected, just some minor adjustments, due to the summer months
- ▶ In China, but the rest of Asia follow the same trend, during August there were adjustments in long fiber price. Short fiber remained stable

Price hikes announced for BSKP for September



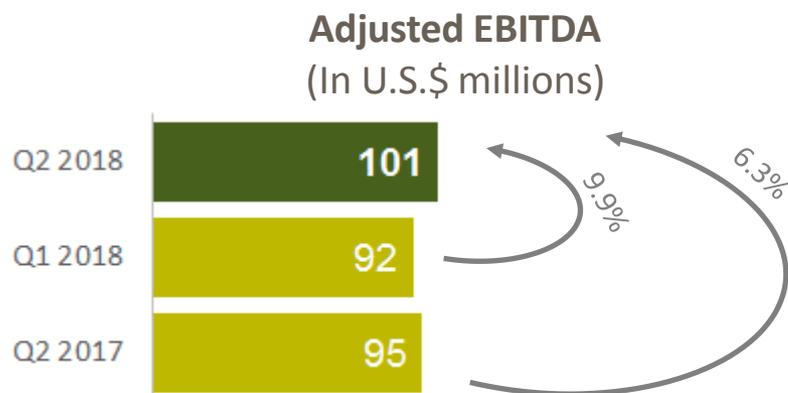
## Q3 2018 – Q4 2018 Scheduled Pulp Mill Maintenance Stoppages

Date	Pulp Mill	Annual Capacity (thousand Adt)	Days of Stoppage
Oct	Arauco Line 2	290	10 days
Nov	Montes del Plata	1,400	10 days
Nov	Valdivia*	550	13 days

\*Associated to the Dissolving Pulp project

\* Net prices in China

# WOOD PRODUCTS BUSINESS



## Panels\*

	Price	Volume
QoQ	-2.1%	2.1%
YoY	-4.6%	10.9%

## Sawn Timber\*\*

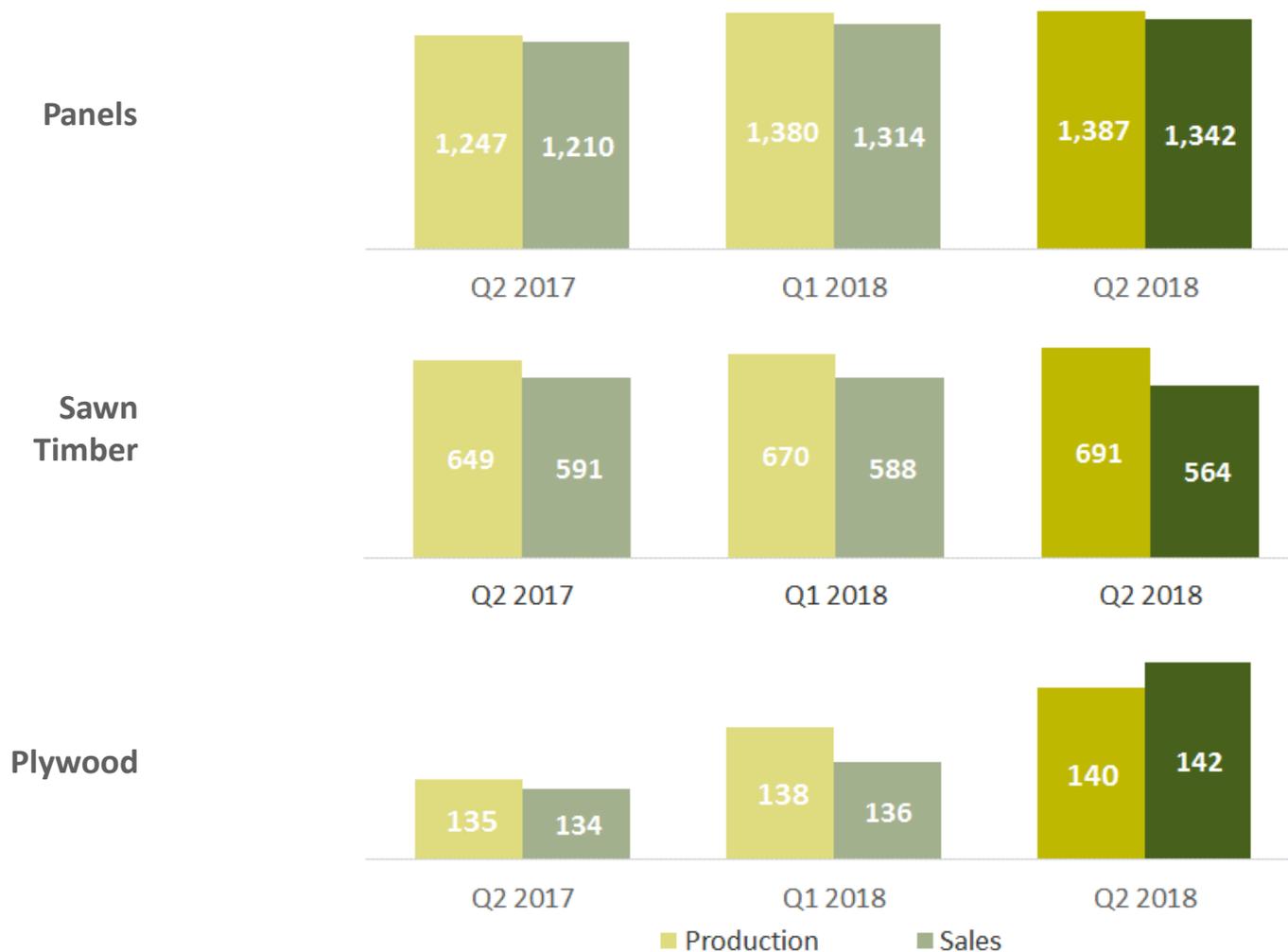
	Price	Volume
QoQ	3.1%	-2.5%
YoY	9.3%	-2.7%

## Q2 2018:

- ▶ Composite panels sales remained stable, with increasing sales volume offset by decreasing average prices. MDF and PBO with higher sales volume in our major markets, North America
- ▶ United States and Canada, reflected improvements in price levels and sales volume. Mexico, confirms the positive level of activity in furniture and construction, with local consumption rising
- ▶ Sawn Timber demand rose during the quarter. There was lower demand in China towards the end of the quarter, due to the uncertainty generated by the trade conflict between China and the US. In remanufacturing products, the US market showed a recovery in demand towards the end of the quarter due to a period of better seasonality and tariff on Chinese products
- ▶ Plywood production and sales increased. Demand remained strong in all major markets, due to the dynamism of the construction sector

# WOOD PRODUCTS BUSINESS

## Production and Sales Volume



North  
America  
47%

## OUTLOOK

Housing Starts Index at 1.2 million units per year in June 2018

**MDF/PBO:** stability in both products. Some price increases in MDF

**MDF moldings:** no big changes in supply and demand

**Remanufactured products:** started to improve in volume and prices, due to the seasonality and logistical problems of one Brazilian competitor

**Plywood:** good and active demand. More local supply, but we remain optimistic

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



# WOOD PRODUCTS BUSINESS

## OUTLOOK

Central and  
South  
America  
35%

**Brazil:** sales were good during the first semester. Concerns regarding the devaluation of the Brazilian real and logistics. Increases in prices are difficult due to the higher supply. Trying to increase exports

**Argentina:** sales could be affected by the economic uncertainty. Margins suffer with the depreciation of the Argentine peso. We are trying to export more

**Chile:** good first semester. Prices increases and improvements in the mix of products are reflected in the results. Some sales have been affected by the devaluation of the Chilean peso

Asia and  
Oceania  
14%

**Asia:** price increases in relevant markets such as Japan and Korea. The concern is China, with lower prices due to the Renminbi devaluation and the trade war

Europe and  
Middle East  
3%

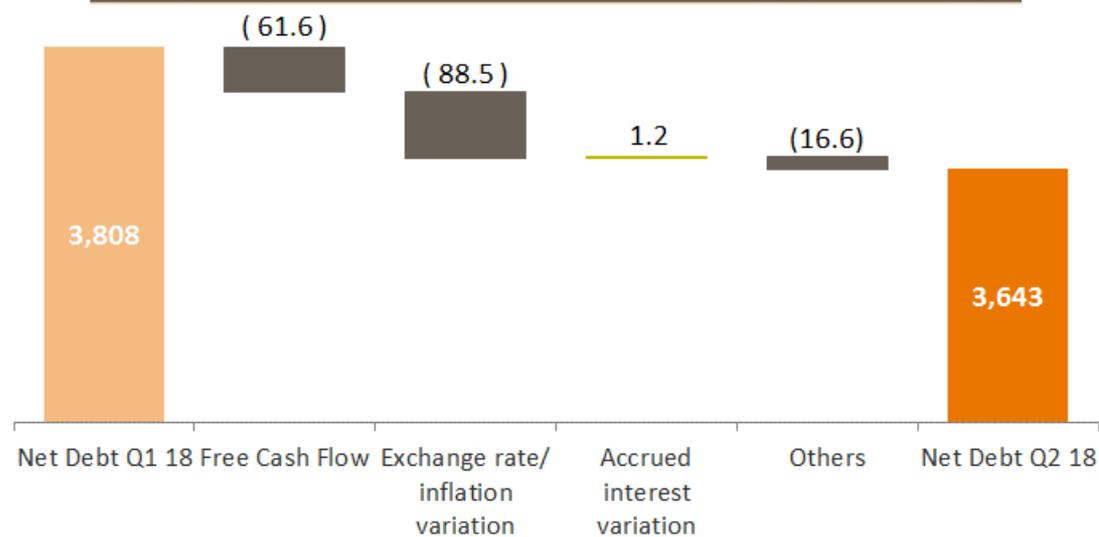
**Europe:** real demand of plywood still uncertain due to summer holidays, however consumption remains high. Even though prices from Brazilian competitors are declining, we expect that our prices will remain stable.

**Middle East:** stable and strong demand mainly due to petrochemical industry. However a weaker Euro, lower demand from China and lower prices from Brazil, may result in higher supply from European producers into the Middle East, putting pressure on prices

# FREE CASH FLOW

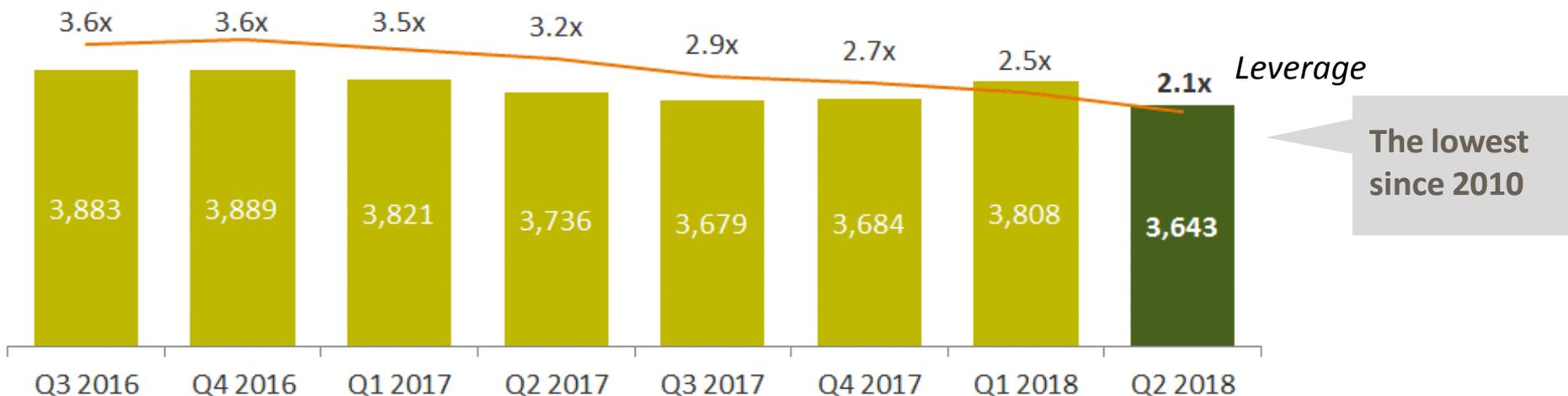
In U.S.\$ million

US\$ Million	Q2 2018	Q1 2018
Adjusted EBITDA	546.3	463.5
Working Capital Variation	(15.5)	(300.8)
Interest paid and received	(40.8)	(41.1)
Income tax paid	5.8	21.8
Other cash inflows (outflows)	(100.1)	(59.9)
<b>Cash from Operations</b>	<b>395.7</b>	<b>83.4</b>
Capex	(202.2)	(183.2)
Proceeds from investment activities	3.6	2.8
Other inflows of cash, net	0.6	2.2
<b>Cash from Investment Activities</b>	<b>(198.0)</b>	<b>(178.2)</b>
Dividends paid	(113.8)	(0.6)
Other inflows of cash, net	(0.8)	0.0
<b>Cash from (used) in financing activities - Net proceeds and repayments</b>	<b>(114.6)</b>	<b>(0.6)</b>
Effect of exchange rate changes on cash and cash equivalents	(21.4)	(0.9)
<b>Free Cash Flow</b>	<b>61.6</b>	<b>(96.3)</b>



# NET FINANCIAL DEBT

In U.S.\$ million



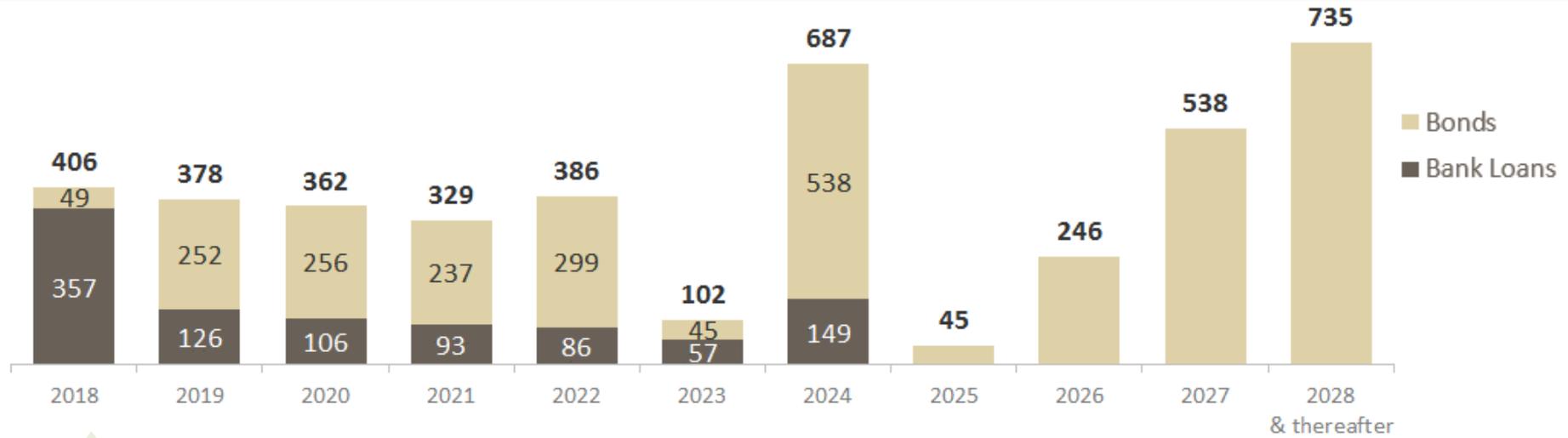
- ▶ **Cash and cash equivalents** increased 15.8% QoQ. Cash flow from operating activities increased U.S.\$ 312.2 million, as receipts from sales increased U.S.\$ 308.9 million, offset by a decreased in cash flow from financing activities, due to dividends paid
- ▶ **LTM Adjusted EBITDA** increased 13.8% QoQ, from U.S.\$ 1,523 to U.S.\$ 1,733 million
- ▶ **QoQ Net Leverage** decreased from 2.5x to 2.1x, the lowest since 2010, due to higher LTM adjusted EBITDA and lower net financial debt

Short term financial debt	496
Long term financial debt	3,719
<b>TOTAL FINANCIAL DEBT</b>	<b>4,215</b>
Cash and cash equivalents	572
<b>NET FINANCIAL DEBT</b>	<b>3,643</b>

# DEBT

In U.S.\$ million

As of March 2018



## Bank obligations for the year 2018 include:

- ▶ U.S.\$ 133.4 million in Montes del Plata
- ▶ U.S.\$ 199.9 million of a credit loan
- ▶ U.S.\$ 18.9 million of guaranteed leaseings
- ▶ U.S.\$ 3.2 million in Brazilian subsidiaries

## Bond obligations for the year 2018 include:

- ▶ U.S.\$ 10.4 million in amortization of local bonds
- ▶ U.S.\$ 38.6 million in interests of local and USD bonds

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# MAPA PROJECT APPROVED BY THE BOARD OF DIRECTORS

- ▶ In July 2018, the Board of Directors approved the MAPA project
- ▶ The estimate investment is U.S.\$ 2,350 million
- ▶ The project consists mainly in the construction of a new Line of 1.56 million tons of short fiber (Line 3). After the start-up of Line 3, Line 1, that produces 290,000 tons of short fiber, will be shut down. The net effect for the Arauco mill will be 1.27 million tons of new short fiber capacity
- ▶ The project is self-sufficient in energy consumption, and additionally will add a capacity surplus of approximately 132 megawatts of renewable energy
- ▶ It is expected that the mill will start its operations during the second quarter of 2021



# GRAYLING PROJECT, MICHIGAN, US

- ▶ Project at 80% completion
- ▶ The investment is approximately U.S.\$ 400 million
- ▶ The capacity would be 800,000 m<sup>3</sup> per year
- ▶ Rollout of the first panel is estimated to occur during latter part of 2018



# DISSOLVING PULP PROJECT

- ▶ Project at 31% completion
- ▶ Total estimated investment is approximately U.S.\$ 185 million, and the start-up is expected during the latter part of 2019
- ▶ Valdivia Mill will be able to switch between paper grade and dissolving pulp
- ▶ In August 13, the two digesters arrived to the Valdivia mill



# ARAUCO ACQUIRES PANOLAM ASSETS IN OREGON

- ▶ In July 2018, Arauco North America announced the purchase of Panolam's industrial assets located in Albany, Oregon.
- ▶ The transaction price was approximately U.S.\$ 13.3 million, plus the cost of inventory of approximately U.S.\$ 3 million.
- ▶ The main assets include two thermally fused lamination lines with an annual installed capacity of 212,000 m<sup>3</sup>, as well as two impregnation lines and warehouse capacity
- ▶ Panolam assets are in a strategic location, 10 km from our Duraflake mill and 77 km from our Eugene mill



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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	10123203

## FOR FURTHER INFORMATION, PLEASE CONTACT:

**Marcelo Bennett, TREASURER**

[marcelo.bennett@arauco.cl](mailto:marcelo.bennett@arauco.cl)

Phone: (562) 2461 7309

**María José Ulloa, INVESTOR RELATIONS**

[maria.ulloa@arauco.cl](mailto:maria.ulloa@arauco.cl)

Phone: (562) 2461 7494

[investor\\_relations@arauco.cl](mailto:investor_relations@arauco.cl)



Visit [www.arauco.cl](http://www.arauco.cl) for more information

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