



**Conference Call Presentation**

**2<sup>nd</sup> Quarter 2011**

**Financial Results**

**Gianfranco Truffello**  
**Chief Financial Officer**

**August 29<sup>th</sup>, 2011**



# Disclaimer

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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

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- **Financial Review 2<sup>nd</sup> Quarter 2011**
- **Review by Business Segment and Outlook**
- **2<sup>nd</sup> Quarter and Subsequent Events**
- **Q&A**

# Financial Review > 2Q 2011 Highlights

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- Revenues of U.S.\$ 1,188 million  
(13% over 1Q 2011)
- EBITDA of U.S.\$ 364 million  
(8% over 1Q 2011)
- Net Income of U.S.\$ 183 million  
(4% over 1Q 2011)
- Net Financial Debt of U.S.\$ 2,731 million  
(11% over 1Q 2011)
- CAPEX of U.S.\$ 212 million  
(28% over 1Q 2011)

# Financial Review > Income Statement

## Arauco - Income Statement

(U.S.\$ million)	2Q 2011	1Q 2011	QoQ
Revenue	1,188	1,047	13%
Cost of sales	(738)	(644)	15%
<b>Gross Income</b>	<b>450</b>	<b>403</b>	<b>11%</b>
Other operating income	73	65	13%
Administrative and Distribution Costs	(226)	(196)	15%
Other operating expenses, and gains (losses)	(23)	(17)	35%
Net Financial Costs	(48)	(44)	9%
Exchange rate differences	4	13	(66%)
<b>Income before income tax</b>	<b>230</b>	<b>224</b>	<b>3%</b>
Income tax	(46)	(47)	(1%)
<b>Net Income</b>	<b>183</b>	<b>177</b>	<b>4%</b>
Minority Interest	2	4	(62%)
Net Income attributable to parent company	182	172	5%
Depreciation	58	57	1%
Stumpage	83	72	15%
Special items	-	-	
<b>EBITDA</b>	<b>364</b>	<b>336</b>	<b>8%</b>

Note: Numbers may not add up due to rounding

## Comments

- **Revenue** higher sales volume of panel and pulp divisions by 17% and 9% respectively with an increase in average prices of sawn timber and pulp divisions of 11% and 5% respectively, partially offset by lower sales volume of sawn timber by 6% and a decrease in average prices of panels by 2%
- **Cost of Sales** was 15% higher than the first quarter, mainly explained by an increase in panels and pulp sales volume of 17% and 9% respectively. Higher labor costs and an increase in other raw materials and indirect costs were seen this quarter
- **EBITDA:** reached U.S.\$ 364 million during the second quarter, 8% higher than last quarter, mainly explained by higher pulp and forestry EBITDA of 10% and 14% respectively, partially offset by a decrease of 14% in Panel EBITDA
- **Administration and distribution costs** were 15% higher than the first quarter mainly explained by an increase in freight costs and higher wages and salaries. As a percentage of sales, administration and distribution costs remained stable at 19%

# Financial Review > Cash Flow

## Arauco - Cash Flow Statement

(U.S.\$ million)	2Q 2011	1Q 2011	QoQ
Collection of accounts receivables	1,240	1,034	20%
Collection from insurance claims	2	0	
Payments to suppliers and employees (less)	(1,000)	(896)	12%
Other expenses paid and received	64	60	5%
Interest paid and received	(27)	(56)	(51%)
Income tax paid	(60)	(14)	326%
<b>Net cash provided by (used in) operating activities</b>	<b>218</b>	<b>129</b>	<b>68%</b>
Capital Expenditures	(212)	(165)	28%
Other investment cash flow	(36)	(44)	(18%)
<b>Net cash provided by (used in) investing activities</b>	<b>(248)</b>	<b>(209)</b>	<b>18%</b>
Proceeds from short-term borrowings	54	8	564%
Repayments of borrowings	(30)	(51)	(41%)
Dividends paid	(194)	(3)	
Other inflows of cash, net	1	0	108%
<b>Net cash provided by (used in) financing activities</b>	<b>(169)</b>	<b>(45)</b>	<b>272%</b>
<b>Total cash inflow (outflow) of the period</b>	<b>(199)</b>	<b>(125)</b>	<b>59%</b>
Effect of exchange rate variations on cash and cash equivalents	8	(6)	(234%)
Cash and cash equivalents at beginning of the period	912	1,044	(13%)
<b>Cash and cash equivalents at end of the period</b>	<b>721</b>	<b>912</b>	<b>(21%)</b>

## Comments

- **Cash from operating activities** was 68% higher than the first quarter, mainly due to an increase of 20% in collection of accounts receivables, partially offset by higher payments to suppliers and employees by 12%.
- **Cash used in investing activities** increased 18% when compared with last quarter, mainly explained by an increase of 30% in purchase of property, plant and equipment
- **Cash used in financing activities:** during May we paid U.S.\$ 194 million in dividends to our shareholders.

# Financial Review > Debt

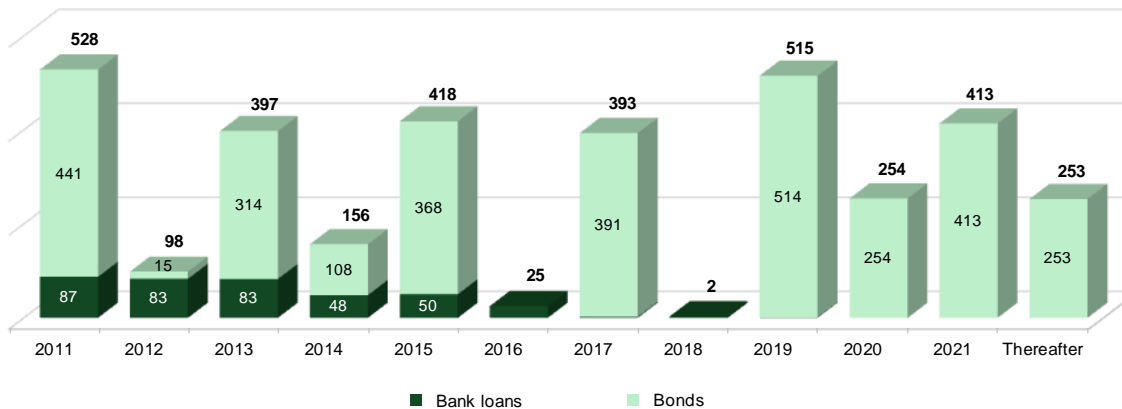
## Financial Debt Profile

(US\$ million)	June 2011	March 2011	QoQ
Short term financial debt	569	522	9%
Long term financial debt	2,883	2,860	1%
<b>TOTAL FINANCIAL DEBT</b>	<b>3,452</b>	<b>3,382</b>	<b>2%</b>
Cash and cash equivalents	721	912	(21%)
<b>NET FINANCIAL DEBT</b>	<b>2,731</b>	<b>2,470</b>	<b>11%</b>

## Comments

- Short term debt includes U.S.\$ 387 million from our 7.75% Notes due in September 2011
- Our cash balance decreased 21% when compared with first quarter 2011, mainly explained by the payment of U.S.\$ 194 million in dividends during May

## Financial Debt Schedule as of June 30, 2011



Note: Short term debt numbers include accrued interest

# Financial Review > Ratios

## Arauco - Key Financial Ratios

	2Q 2011	1Q 2011	2Q 2010
<b>Profitability</b>			
Gross margin	37.9%	38.5%	41.3%
Operating margin	18.8%	19.8%	23.2%
EBITDA margin	30.6%	32.1%	41.7%
ROA (EBIT / Total Assets)	7.0%	6.6%	7.9%
ROCE (EBIT (1-Tax) / (Working Capital + Fixed Assets))	6.7%	6.2%	7.2%
ROE (Net Income / Equity)	10.4%	10.2%	10.9%
<b>Leverage</b>			
Interest Coverage Ratio (EBITDA / Financial Costs)	6.9x	6.5x	6.6x
Net Financial Debt / EBITDA	1.8x	1.8x	1.7x
Total Financial Debt / Total Capitalization	32.7%	32.7%	31.7%
Net Financial Debt / Total Capitalization	25.8%	23.9%	27.9%
Total Financial Debt / Shareholders' Equity	49.2%	49.3%	47.1%
Net Financial Debt / Shareholders' Equity	38.9%	36.0%	41.5%



# Agenda

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- Financial Review 2nd Quarter 2011

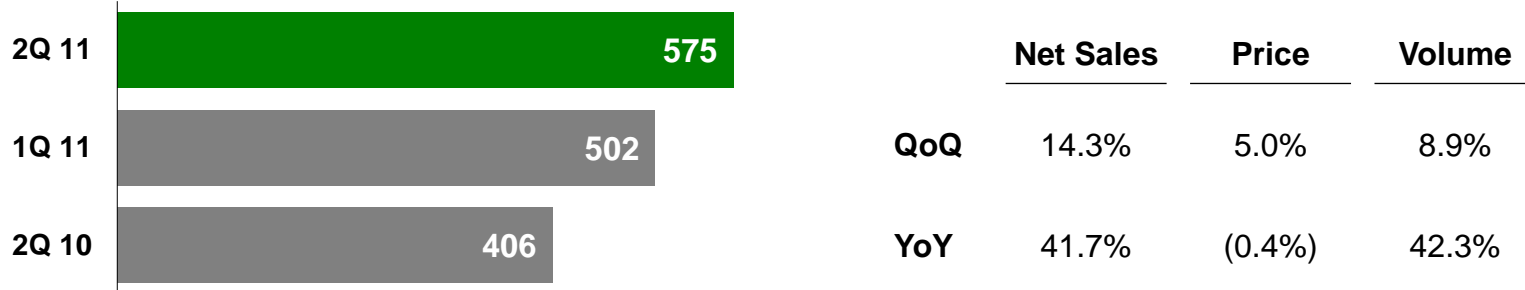
- Review by Business Segment and Outlook

- 2<sup>nd</sup> Quarter and Subsequent Events

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# Review by Business Segment > Pulp

## Pulp Division Net Sales (in US\$ million)



Note: pulp sales do not include Energy sales

- Pulp sales increased 14.3% or U.S.\$72.0 million during this quarter, mainly due to higher sales volume of 8.9% and also an increase in average prices of 5.0%
- At the end of the second quarter, global pulp inventories reached 28 days of supply for long fiber and 42 days of supply for short fiber. When compared with previous quarter, long and short fiber levels increased 4 and 2 days respectively
- China began to show a lower demand driven by lower activity during the summer. This has been increased by energy restrictions imposed to paper manufactures. Although local pulp producers had downward adjustments in pulp prices and sales, our demand and sales were normal
- The Latin American market continues very active and with strong demand. Prices remain stable and only a moderate adjustment is expected, which will be caused by world trends and to avoid a drop in prices due to the spot pulp producers from North America

### Pulp production in 000' Adt

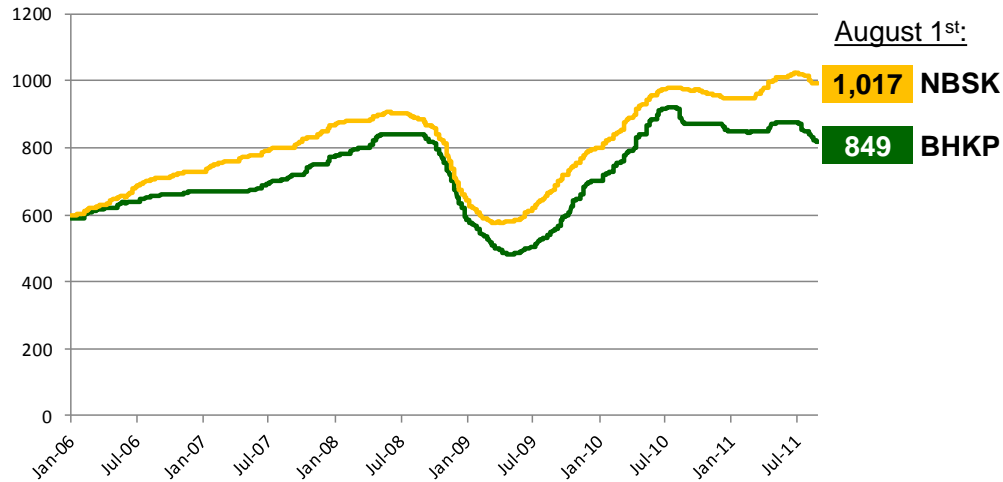
2Q 10	3Q 10	4Q 10	1Q 11	2Q 11
483	671	608	683	736

Line II of Arauco, which was not operating since February 27th, 2010 due to the earthquake, restarted its operations in February 1st, 2011



# Outlook > Pulp market

## BHKP and NBSK Indexes



- Although it was expected to have price adjustments during the Northern Hemisphere summer (July and August) prices fell more than expected
- Despite these recent drops in prices we can see stability in some markets, specially in China
- Our prices in China had no changes from August to September for both short fiber and long fiber
- It is not clear what will happen with the pulp market in Europe for the following months, however, we have a positive outlook towards the end of the year

## Global Producers Inventory Levels

In days	June 2010	September 2010	December 2010	March 2011	June 2011
BSKP	21	27	25	24	28
BHKP	30	38	37	40	42

# Review by Business Segment > Panels

## Panels Division Net Sales (in US\$ million)

			<u>Net Sales</u>	<u>Price</u>	<u>Volume</u>
2Q 11	342				
1Q 11	299	QoQ	14.5%	(1.8%)	16.6%
2Q 10	275	YoY	24.3%	9.7%	13.3%



- Our net sales increased 14.5% or U.S.\$ 43.3 million when compared with the previous quarter, mainly due to a 16.6% increase in sales volume, partially offset by lower average prices of 1.8%
- Plywood: sales volume were 12% higher than last quarter, driven by an increase in shipments to Europe and Asia that came with important recoveries in prices
- During the second quarter, MDF sales volume decreased by a drop in the Brazilian and Chilean markets. PBO sales volume increased mainly due to higher demand in Argentina
- HB: sales showed a drop in volume of 6%, mainly explained by less supply. However, prices increased due to higher demand driven by lower world supply

### Panels production in 000' m3

2Q 10	3Q 10	4Q 10	1Q 11	2Q 11
743	767	770	750	748

# Outlook > Panels market

## Plywood

- After the summer, the European market has been more depressed, with some price drops. Sales volume however remains stable
- Sales volume in the USA to continue strong, however prices have been stable
- Latin American market has been very active in demand and stable in prices
- Demand coming from Asia stabilized after the Japan earthquake, and is a market with good margins

## MDF

- Argentina is beating Brazil in terms of leading demand, prices and margins in the region
- Brazil has been slowing down with prices decreasing and lower volume than previous months
- Chilean market in MDF has remained stable with good prices, demand and margins

## PBO

- Argentina (in line with MDF market) is very strong with record in sales (volume and price)
- Brazil also with a less active market

# Review by Business Segment > Sawn Timber

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

	Net Sales	Price	Volume
2Q 11	186		
1Q 11	178	QoQ 4.5%	(5.8%)
2Q 10	162	YoY 14.8%	(5.0%)

- Total net sales grew 4.5% or U.S.\$ 7.9 million when compared with the first quarter of 2011, mainly due to higher average prices of 10.9%, partially offset by a decrease in sales volume of 5.8%
- Wood products continued to have a favorable demand in most markets, specially in Asia, which has brought higher sales prices in China, Korea, Japan and Taiwan
- During this quarter, sale prices of sawn timber and moldings rebounded mainly as a consequence of an increase in demand in the market
- The real state and the construction sectors in the United States have remained in low levels during the second quarter. The housing start index reached 629,000 units per year in June. Current levels remain low when compared with the last ten year average

### Sawn Timber production in 000' m3

2Q 10	3Q 10	4Q 10	1Q 11	2Q 11
641	695	652	667	697



# Outlook > Sawn Timber market

- The U.S. continues with low volumes, but stable. Main driver still is a low housing market. However, the repair and remodel segment has helped the remanufactured wood business
- Asia remains being the driver of demand for sawn timber, with China, Korea and Japan as the major markets
- Latin American markets: Peru, Colombia, Mexico remain stable
- Chilean market is expected to grow during fourth quarter as we enter the spring season

## US Housing Starts and Permits

In '000 units per year



Source: U.S. Census Bureau

Housing starts index for July 2011 was 604,000 units per year, an increase of 26.6% when compared with the lowest level in April 2009

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# 2<sup>nd</sup> Quarter and Subsequent Events

## Arauco creates the position of Executive Vice Chairman

On July 14<sup>th</sup>, the Company's Board of Directors agreed upon an initiative that follows best international practices for corporate governance in businesses similar to Arauco in size. This initiative consists in strengthening the higher structure of Arauco's executive management by creating an Executive Vice Chairman position that will directly report to Arauco's Board, and to whom the Chief Executive Officer will report. Matías Domeyko, who until that day served as the Company's CEO, was designated in this new position.

During these past years we've experienced significant growth, in our business lines as well as our international expansion, and therefore in our globalization process. Today, and for the company's expansion in years to come, Arauco's corporate governance needs to strengthen its management and administration. The decision that was made is based on this strategic vision. The new responsibilities Matías Domeyko will need to focus on now are mainly strategic planning, international development and expansion, further integration of the different businesses of the Arauco group, incorporate best international practices for corporate governance, contribute to strengthening the Company's management and development, and coordinate the fulfillment of guidelines established by the Board.

Also, the Board decided to designate Mr. Infante as the Company's new Chief Executive Officer. Prior to this new position, Cristián had served as Corporate Management and Development Director. He has broad experience in Arauco's lines of business, and in past years he has served in charge of subsidiaries in Argentina and Brazil and has had significant participation in the Montes del Plata project in Uruguay. The Chief Executive Officer's responsibilities will be to steward the Company in all of its business areas, in Chile as well as abroad.



Matías Domeyko  
Arauco's Executive Vice Chairman



Cristián Infante  
Arauco's Chief Executive Officer

# 2<sup>nd</sup> Quarter and Subsequent Events

## Arauco's main projects update



### TENO: MDP PANEL MILL

- Greenfield project
- Capacity: 300,000 m3 /yr
- Investment: U.S.\$ 100 million
- Currently, the Teno project is under construction (50% completeness) and has begun the assembling of the equipment
- The start up is expected for the first quarter of 2012



### JAGUARIAIVA II: MDF NEW PRODUCTION LINE

- Brownfield project
- Adicional capacity: 500,000 m3 /yr
- New total capacity: 850,000 m3 /yr
- Investment: U.S.\$ 170 million
- Currently, with 41% completeness
- The start up is expected for the first half of 2012



### MONTES DEL PLATA: EKP PULP MILL

- Greenfield project
- Capacity: 1,300,000 Adt /yr
- Investment: U.S.\$ 1,900 million
- Financial closing expected during September
- Currently, port construction for equipment reception and civil works
- The start up is expected for the first quarter of 2013

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# Q & A



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Growing the Future



Conference Call Presentation  
**2<sup>nd</sup> Quarter 2011**  
**Financial Results**

**August 29<sup>th</sup>, 2011**

A replay of this conference call will be available from August 29<sup>th</sup>, 2011, 13:30  
to September 5<sup>th</sup>, 2011, 23:59 (EST)

Replay number: +1 (404) 537 3406 or (855) 859 2056  
Password: 94491026

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