

Arauco North America

Governor's 2015 Forest Products Summit

October 2015



Schedule

Arauco – A Brief Introduction

Why Particleboard?

Why Michigan?

Product Offering Strategy

Schedule

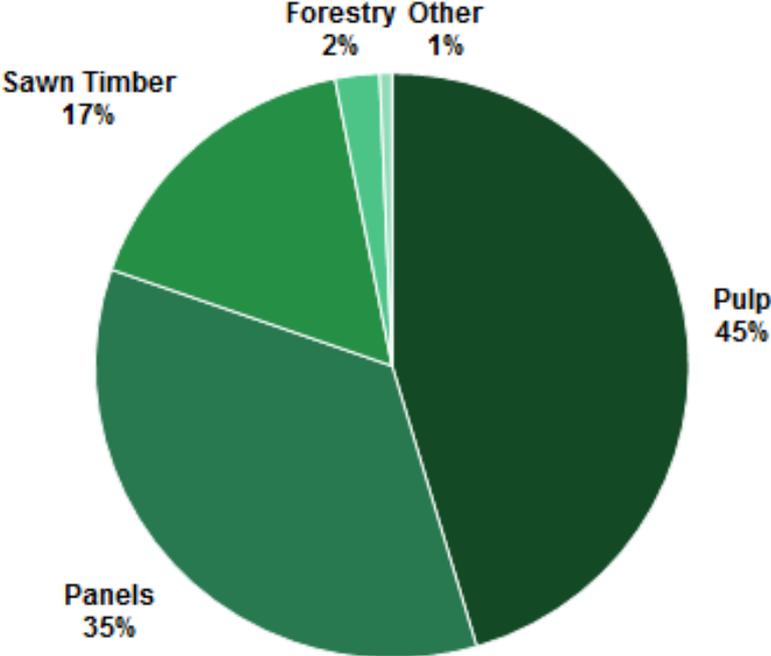
Arauco – A Brief Introduction

Company Overview

Our Products

Arauco at a glance

- Global forestry player, producer of market pulp, panels, solid wood and energy
- Headquartered in Santiago, Chile
- One of the world's lowest cost producers



*Note: Panels division sales include plywood
Pulp, Panels and Sawn Timber division sales include energy*

Operational footprint

	FORESTRY	PULP	PANELS	SOLID WOOD	ENERGY
	1,108,735 Ha	5 mills 2,882,000 ADt	4 mills MDF: 515,000 m ³ PB: 300,000 m ³ HB: 60,000 m ³ Plywood: 710,000 m ³	8 sawmills 4 remanufacturing facilities	10 Power Plants 606 MW
	263,386 Ha	1 mill 350,000 ADt	2 mills MDF: 300,000 m ³ PB: 260,000 m ³	1 sawmill 1 remanufacturing facility	2 Power Plants 78 MW
	144,390 Ha		2 mills MDF: 1,255,000 m ³ PB: 310,000 m ³		
	50% of 232,146 Ha	50% of 1,300,000 Adt			50% of 164 MW
 			8 mills MDF: 1,470,000 m ³ PB: 1,416,000 m ³		

TOTAL **1,632,585 ha** **3.9 million Adt** **6.6 million m³** **2.9 million m³** **766 MW**

Arauco at a glance

Financial Highlights LTM June 2015

(in US\$ million)

Sales U.S.\$ 5,375	EBITDA U.S.\$ 1,315	EBITDA Margin 24 %
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Financial Highlights YTD June 2015

(in US\$ million)

Sales U.S.\$ 2,646	EBITDA U.S.\$ 668	EBITDA Margin 25 %
Net Income U.S.\$ 192	Cash U.S.\$ 512	Capex U.S.\$ 282
Debt U.S.\$ 4,539	Net Debt/Ebitda 3.1x	Debt to Equity 67%

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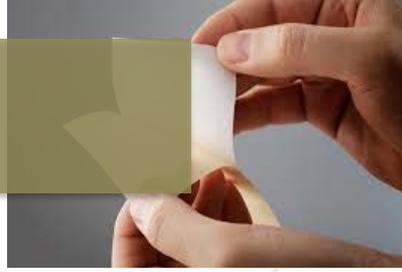
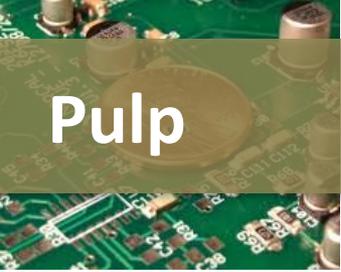
Our Products

Forestry



Market Pulp





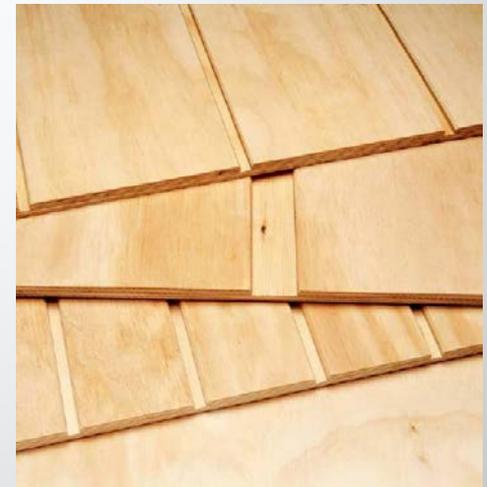
UKP Pulp Exterior Siding



PLYWOOD



ARAUCO PLY[®]



Plywood



ARAUCOPLY[®]





MOULDINGS



Transformation

Changing the look of the house...



Adds Value to the home

Decoratively Surfaced Panels



Panels with Decorative Surfacing



SF232 Ashen



WF409 Ranch Gate



SF230 Sienna



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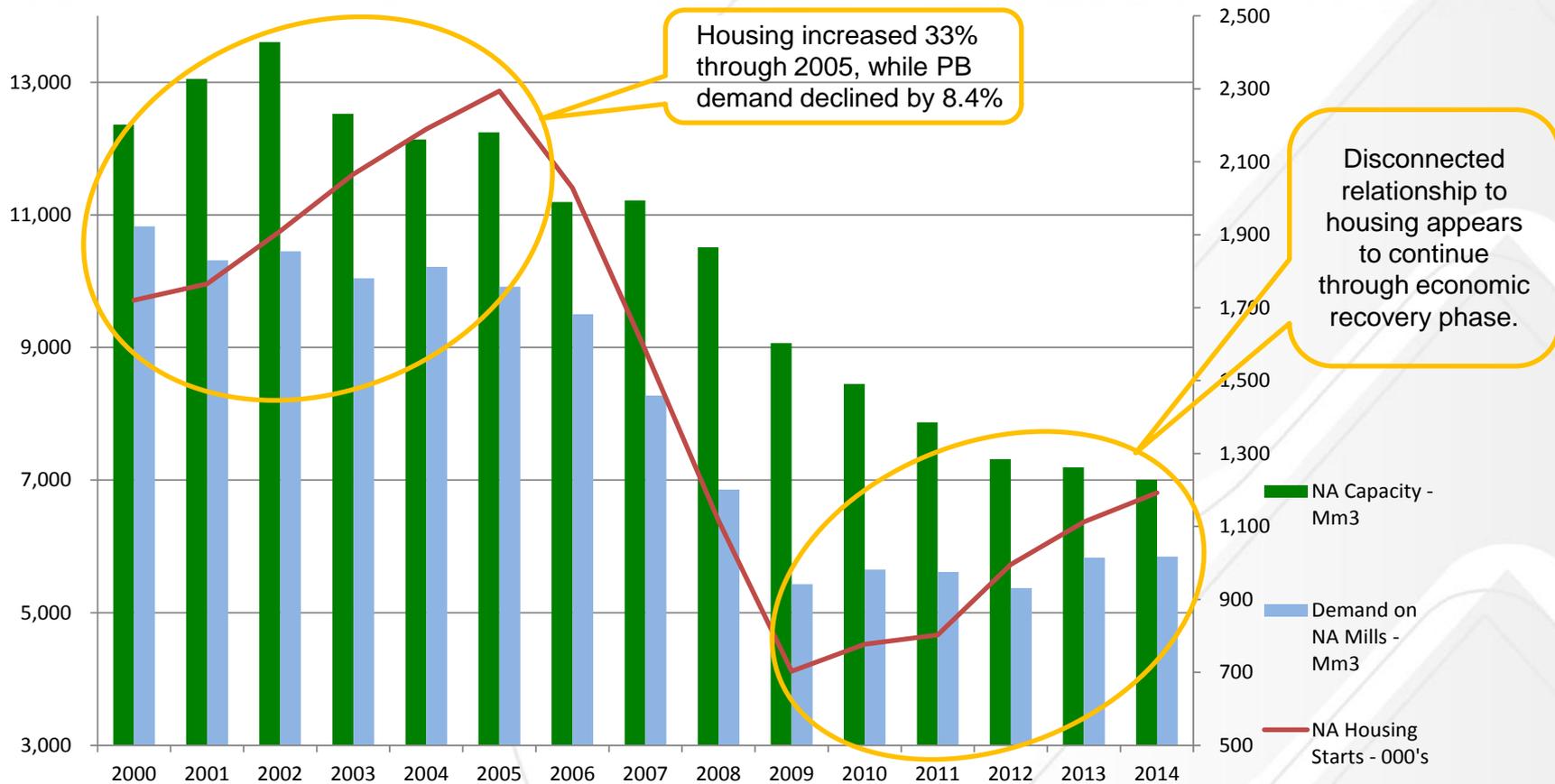
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Why Particleboard?

Lessons from Recent History

The Opportunity

The Particleboard Import Lesson



- Furniture production has steadily move offshore through the last 15 years
 - Foreign jurisdictions have benefited from currency, low production costs (labor, freight, regulatory, among others), and poorly invested North American production assets
- The force of “Offshoring” saw particleboard demand decline during the largest housing surge in history

North America – Composite Panels Industry:

Understanding our past to capitalize on our future:

- **Where did the customers go?**
 - Momentum shifts toward offshore production of downstream products, especially furniture
Particleboard demand declined while housing starts climbed to an all time high.
- **Consumer Tastes Change**
 - Product specifications change – PB replaced by OSB in flooring
 - Less furniture for electronics such as TV's, computers, entertainment centers
- **Housing drops 75%, still down 30% from 50 year average**
 - Slowly recovers housing starts are recovering from the cyclical lows, but remain well off 50 year average.

North America – Composite Panels:

Key Learnings & Themes :

- **Competitiveness issue in North America:**
 - No investments in modern assets
 - Older technology built in the 60-70's
 - Modern investments have scale, lower material, energy & labor costs
 - Lack of vertical integration
 - Disconnected supply chain between mills & customer
 - Panel industry is clustered with downstream consumers – imports mainly in finished form...furniture, mouldings, flooring
 - NA Furniture industry is under-invested
 - Process automation
 - Poor geographic alignment with customers / panel producers
- **Costs in North America:**
 - Wood & energy are globally competitive

Summary...North America is cost competitive, but the model is not

How can we fix the model?

*Can the Arauco **South American** experience be instructive in dealing with the challenges and opportunities in **North America**?*

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Why Particleboard?

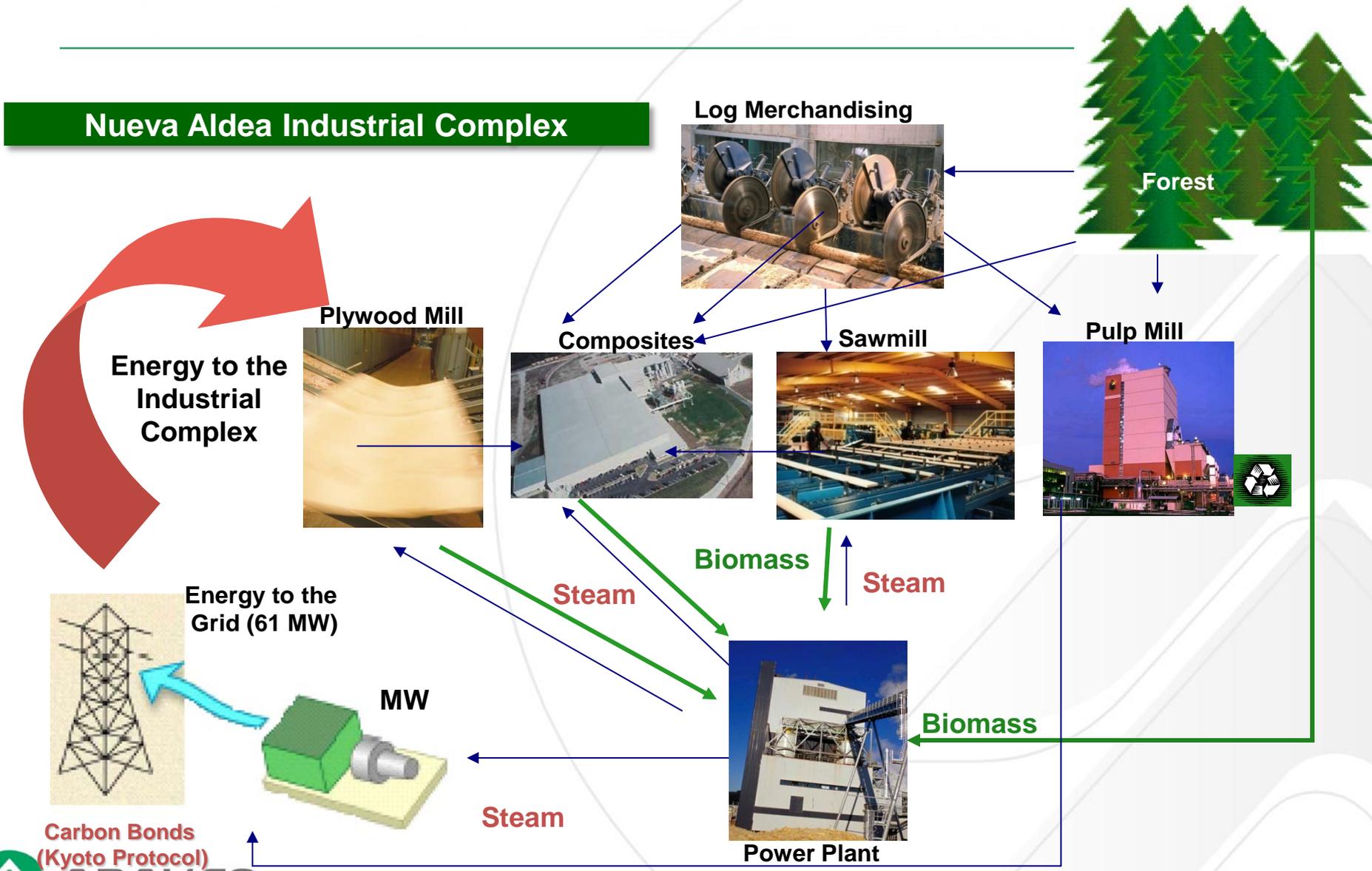
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The integral and efficient use of resources allows Arauco to maximize the value of the forest



Integration of Modern Panel Facilities

Treating



Resin Plant



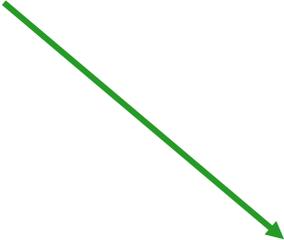
Fiber



Modern & Efficient Particleboard Mill



Decorative Surfacing



Michigan Mill Investment:

The Particleboard Opportunity

Trajectory of PB markets positive

- OLD & uncompetitive manufacturing operations closing down
 - 10 PB mills closed since 2000 , 3 alone in 2014
- US housing starts continue to climb back to underlying demand
- Business Model of scale, modern assets with high levels of integration
- Attract global furniture manufacturers seeking to on-shore back to North America to improve service
- PB is substrate of choice for melamine decorative finishing

Application of 55 years of learning

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Why Michigan?

A Good Fit!

Integrated Product Offering on Site

A Recipe for Success!

Michigan – A Good Fit!

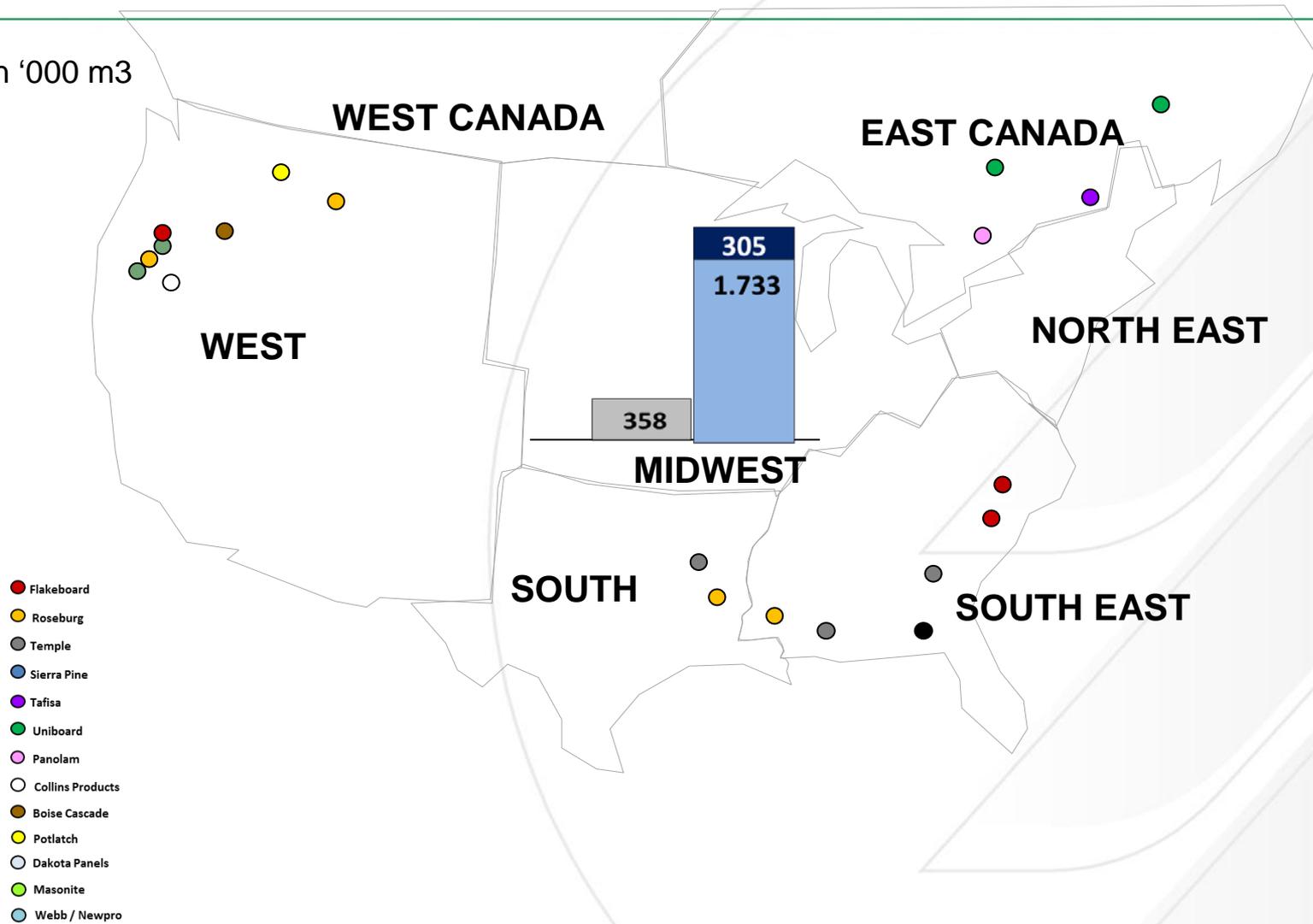
Why Michigan?

- **Close to forest & Close to our customers**
 - Wood fibre to sustainably supply large-scale operation
 - Complementary fit into the wood fibre ecosystem
 - Address regional supply/demand imbalances
 - Long distance freight is under pressure
 - Largest consumption base in North America
- Labor is in good supply
- Local Community College
- Resin Plant across the street
- Competitive energy costs

Ideal logistics and competitive input costs

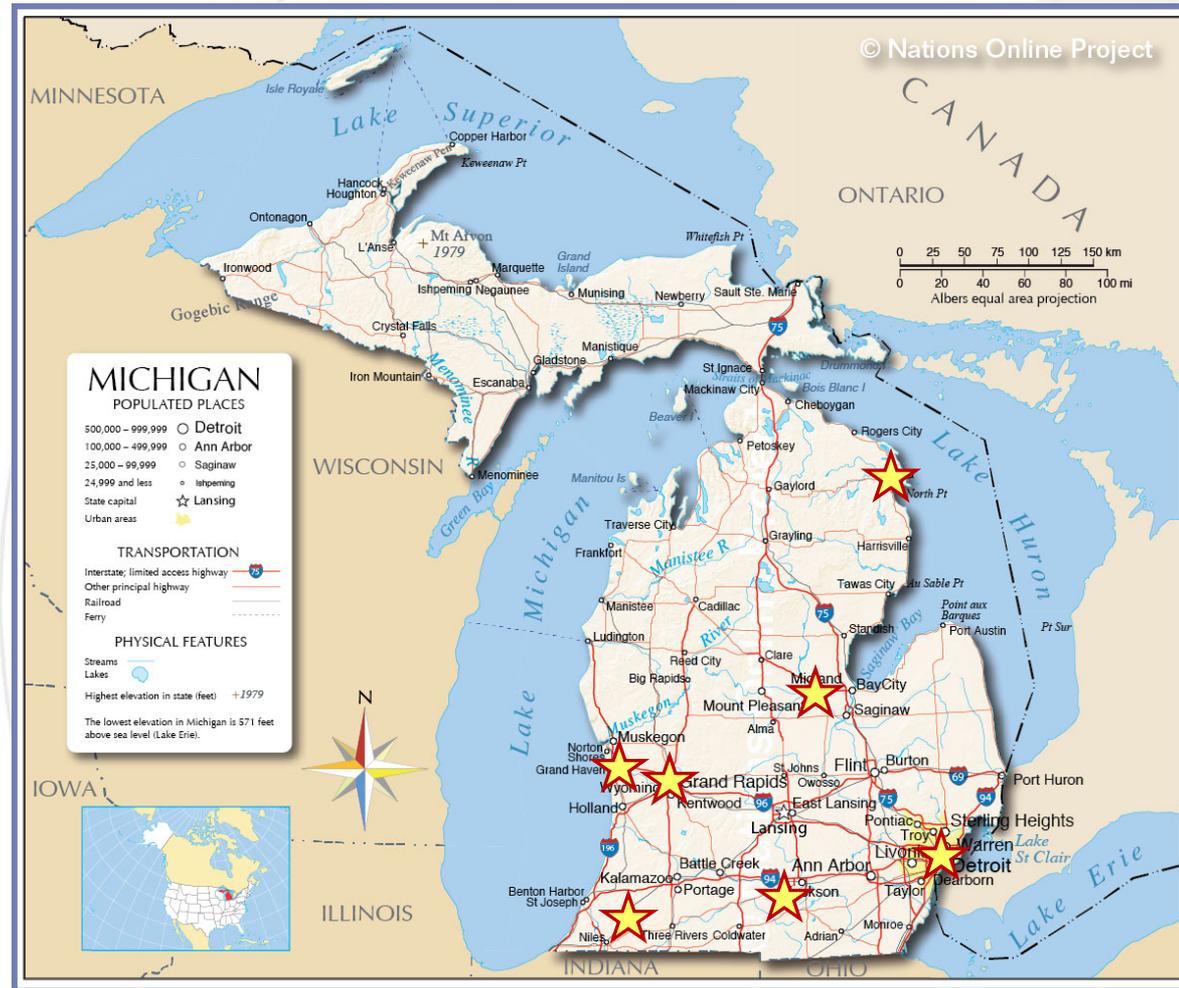
Particleboard Industry – A Story of Regional Imbalance:

In '000 m3



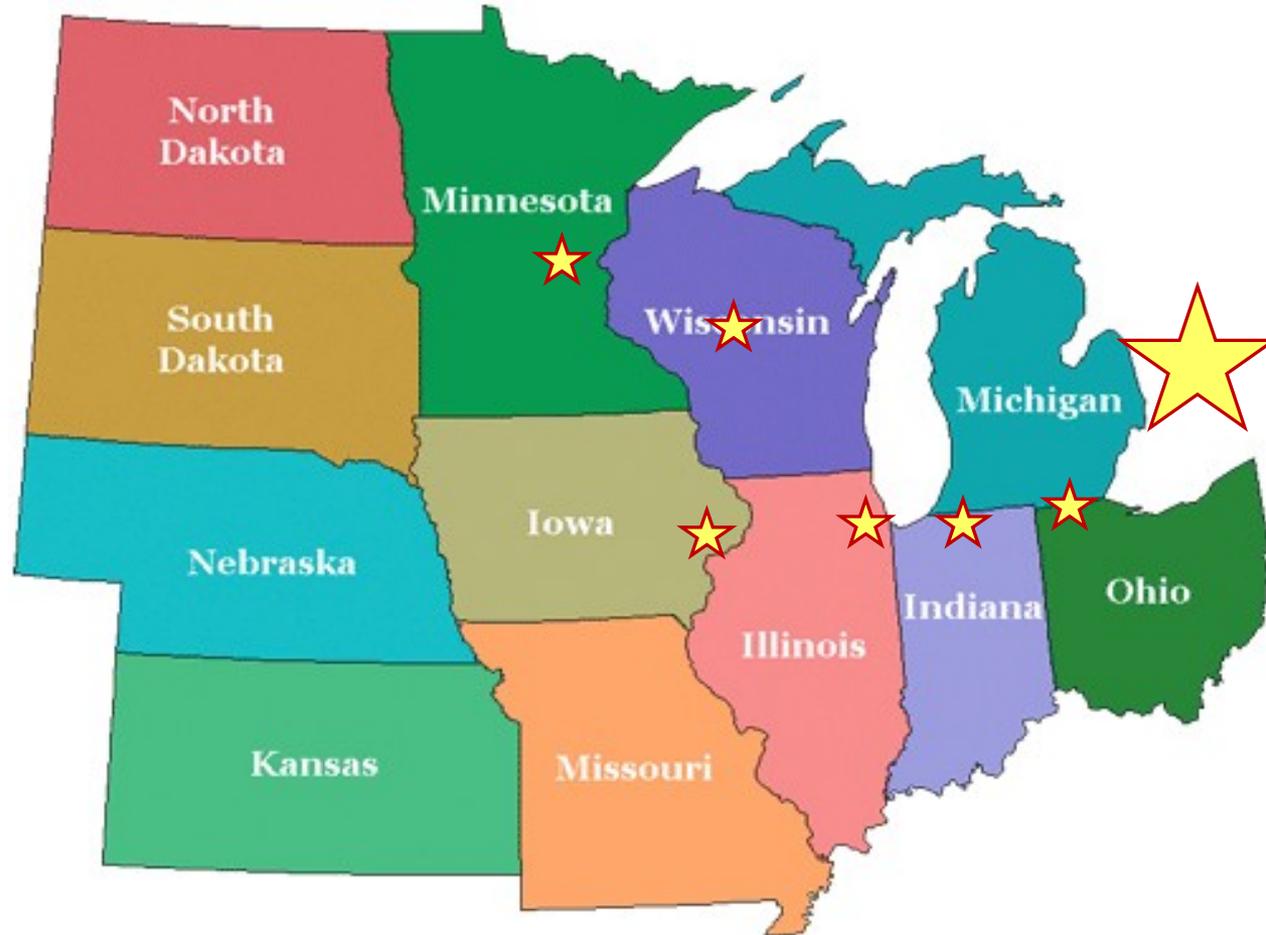
Michigan – Important Customers in Close Proximity

- Office Furniture – Grand Rapids
- Ready to Assemble Furniture – Dowagiac
- Store Fixtures – Alpena, Coldwater, Grand Haven, Grand Rapids, Holland
- Commercial Fabrication & Cabinetry – Detroit, Holland, Roseville, Madison Heights, Midland, Rochester Hills
- Distributors – Detroit & throughout
- Door Manufacturer – Clinton



Midwest – Important Customers in Close Proximity

- Complimentary customers in important industries nearby:
- Ohio
 - Largest consumer of PB in North America
- Wisconsin
 - Largest assembled furniture manufacturer
- Indiana
 - Mobile homes, office furniture, door products, cabinets
- Iowa
 - Office furniture, countertops
- Illinois
 - Chicago is a major distribution hub
- Minnesota
 - Distribution
- Eastern Canada
 - Neighbor is the 2nd largest consuming region



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Integrated Product Offering on Site

A Recipe for Success!



ARAUCO.

PRISM

LOVE YOUR LAMINATES



**Integrated
approach on site**

Mezzo Castani



Innovation
& Design



Office Furniture



WF226 Zambukka



Home Office Furniture



Schedule

Why Michigan?

A Good Fit!

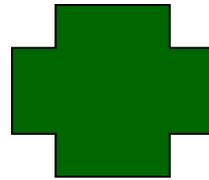
Integrated Product Offering on Site

A Recipe for Success!

A Recipe for Success!

Arauco's Strengths:

- Technological capability
- Value Add Strategy
- Experienced Management
- Long-term vision
- Commitment
- Financial depth



Michigan's Strengths:

- Wood availability
- Strong regional customer base
- Logistics advantage
- Local resin supply
- Large Industrial Energy Rate
- **Open for Business**

In Closing....

Thank you for your Michigan Welcome!!

Arauco North America

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