

## Chairman's statement



### CHAIRMAN'S STATEMENT .....



**Our Company has been changing, gaining more prominence in global markets and facing the great challenges of present times".**



#### Dear Shareholders:

This Annual Report aims to present an overview of what was the year 2018 for Empresas Copec, emphasizing the main initiatives in which our human team continued to work, the environment in which its operating and business activities were developed, financial results achieved, and, especially, new challenges and opportunities that we are facing in our permanent desire to advance the objectives of value creation and social welfare that we have set for ourselves.

In the financial area, Empresas Copec posted record a profit of US\$ 1,071 million last year, 67.5% more than in 2017; and an operating flow that also reached an all-time high of US\$ 2,767 million, an annual increase of almost 25%. A record year, supported by greater cash generation capacity in our activities, and which is also a natural consequence of long periods of well-focused investments, carefully designed business strategies, as well as the ongoing effort and commitment of our directors, executives and workers.

Our Company has been changing, gaining more prominence in global markets and facing the great challenges

of present times. Operations were developed last year in an international context marked by greater optimism, associated with progress in the process of economic, financial and monetary normalization in which the world has been embedded for a decade. Despite ongoing tensions between important global trading blocks, which has kept its opening in check, and growing public perception that modern political systems are dysfunctional, commodity prices have so far performed favorably, cutting across our export business, with more balanced supply and demand in pulp, panel, flour, and oil markets. It has been a more prosperous world, but subject to greater uncertainty.

At the regional level, we see more dynamic fuel markets, with higher volumes in all businesses, driven by growth in the vehicle fleet and greater market shares in liquefied petroleum gas, among other factors. In Chile, although activity has resumed a path of growth, along with improved expectations and strengthening confidence, there is still some way to go to restore a more favorable environment for entrepreneurial action, which strikes a balance between growth and well-being for all; globalization and local development; industrialization and environment, among other matters. All these are subjects that bring us together, shared

projects, in which broad and collective work is necessary and welcome.

The world changes faster and faster, and so does the role of companies. I take this opportunity, then, to appeal to all: we must not delay such badly needed reforms, which in addition must be conceived with flexibility at the core of their design, to enable the ongoing adaptation and change imposed by the present age.

Beyond 2018 impressive financial results, during the year we continue laying the foundations for future growth, guided by the long-term view that has been the axis of the way in which we conceive a company. Investment in 2018 totaled US\$ 2,221 million. Almost two thirds went overseas, with Chile followed by Colombia and the United States in importance; and the main businesses the forestry and fuel sectors— each concentrated more than 40% of these resources, an emphasis that confirms our ongoing focus on natural resources and energy.

Thus, over the years, we have been building a more balanced portfolio, less exposed to what happens in a particular geography or business. We remain focused on those activities where we can make a difference and take on long-term leadership positions, generating the greatest economic and social value for our shareholders, workers and communities that embrace us.

In summary, 2018 was a positive year, during which we took firm steps towards the consolidation as a multinational company, whose manufacturing presence now covers 16 countries, while making significant progress in major initiatives that we are carrying out in Chile.

The Modernization and Expansion of Arauco Mill project, MAPA, is aimed at increasing the production capacity of this complex to 2.1 million tons of pulp per year, with state-of-the-art environmental equipment. This is a work of extreme importance for our country and the Biobío Region, including US\$ 2,350 million in financing —the largest investment in the company's history—, and which injects dynamism and resources into the local economy. After an extensive process of dialogue and participation with the community, the affiliate Arauco gave green light and started the works, which will allow to renew and increase the efficiency and productivity of its oldest facilities, at the heart of our forestry activities.

In the same Region, the subsidiary initiated the Early Citizen Participation process for the future wind farm called Viento Sur. The initiative will require an investment of approximately US\$ 250 million and will allow Arauco operations to be supplied, injecting 180 MW of renewable, clean energy into the National Electric System (SEN), in harmony with the environment and respecting local flora and fauna. This initiative is in line with ongoing improvements made in its processes and in the way of relating to its environment, which also meant that Arauco achieved FSC® re-certification, which establishes stringent standards to validate an environmentally sound, socially beneficial and economically viable silviculture.

In Valdivia, Arauco started its dissolving pulp project, which will make the company the first in the country to produce this type of cellulose, used as a raw material to produce textile fibers, cellophane paper and filters, among other final products. Given the original design of this plant, transforming it to this new type of material can be done very efficiently, at a fraction of the cost of modifying any other facility in the industry and, in addition, with a production process even more environmentally friendly, and that will allow to inject an additional 30 MW of electric power to the SEN. Thanks to a US\$ 185 million investment, the facility will develop an innovative product with higher added value, diversifying Arauco's offering, and allowing it to enter a new and growing market. At the same time, conversion involves the entire value chain of local suppliers that participate in its development.

At the international level, Arauco continued to significantly strengthen its operational internationalization process during 2018. First, it made progress in the integration of the Ponta Grossa and Montenegro complexes, acquired from the Chilean company Masisa in Brazil in 2017. The purchase of Masisa's industrial assets in Mexico, also agreed in 2017, was approved by Mexican regulatory authorities in early 2019, and will allow adding, through a US\$ 160 million investment, the Durango and Zitácuaro industrial complexes, which together have three particleboard lines, one of MDF, melamine laminates and impregnation lines, and resins and formalin chemical plants, inputs needed for production. All these steps allow us to consolidate our competitive position in Latin America's two largest markets.

In the United States, Arauco made progress in the construction of its panel mill in Grayling, Michigan, which will

## Arauco

# 800 thousand $m^3$

Production capacity of the panels plant in Grayling, Michigan.

have a production capacity of 800,000  $m^3$  of wood panels per year and will be the most modern in that country. Investment reached US\$ 450 million, and its start-up began at the end of 2018, with full production expected by 2020. This project has been positively welcomed by local communities and the authority, which carried out a rigorous but speedy approval process. Thus, we are tackling in a good way the challenge of strengthening the already very important position of Arauco in one of the most competitive economies in the world.

Sustaining a long-term trajectory and, furthermore, growing in a challenging and continuously evolving environment, requires anticipating changes and having sufficient adaptive capacity to face them in time. In addition to developing and incorporating new capabilities, technologies, products and services into our activities, innovating also means opening the doors and multiplying the connectivity channels of companies with the rest of society. A true culture of change must encourage and know how to accept sometimes disruptive changes in structures, people, forms of collaboration and work centers. Everything can be done in a different way, but in line with the values that have always guided our actions.

In this line, to discover opportunities and adequately prepare for what the future offers us, Arauco signed an agreement with the MIT to be part of its "Industrial Liaison Program", a step that extends decades of experience of its cutting-edge Bioforest forest research center, and that inserts our affiliate into one of the world's most important innovation ecosystems. Thus, its desire to stay on the frontier of technological progress now follows Arauco's commercial leadership in the industry.

The same spirit is reflected in our affiliate Golden Omega, which was elected to the vice presidency of the Global Organization for EPA and DHA Omega-3, a group that seeks to enhance consumption of Omega-3 and define the highest ethical standards and quality for this type of products. This is an important recognition of the company's technological leadership, and that has also translated into new and sophisticated products that have been launched onto the market, such as the world's purest Omega-3 concentrate, as well as innovative applications to facilitate consumption by children.

Our fishing companies have been gaining greater share in the large protein market, raising the bar from their traditional commodity markets, to broader ones, which also include products for direct human consumption, functional foods, nutraceuticals and even pharmaceuticals. This same vision led Orizon to acquire in 2018 the representation for Chile of high pressure processed foods from the Mexican-American company Megamex and the national supply of the products from the North American company General Mills, including brands such as Nature Valley, Haagen-Dazs and Old El Paso, among others.

For its part, the affiliate Pesquera Iquique-Guanaye increased its stake in Orizon to 83.5% in December, after acquiring, together with the related company Eperva, full ownership held by Coloso in the company, for US\$ 20 millions.

Orizon, Golden Omega and Corpesca are focused today on becoming key players in the sophisticated world of nutrition, an extremely attractive and competitive market, driving us to go further and further, achieving new levels of efficiency and productivity, while contributing to face the global imperative of healthy diet.

As part of our challenges, we have to find new growth areas that fit into our range of activities, allow us to build on the competitive advantages valued by our customers, and capitalize on the knowledge gained in the numerous ventures we have developed. We look for opportunities that offer challenges similar to those we have already addressed, with financial profiles similar to those we master well, and that constitute, at the same time, sound exposures and interesting potential growth paths. We permanently evaluate projects in areas where we have the necessary skills to develop them, and where we can add value from our experience. A more extensive geo-

graphical presence also guides us towards the search for new partnerships, where there is compatibility of interest, skills that complement each other and a common vision. Because in an environment of accelerating changes, flexibility in a business has more value than ever and opening up options is key to continue growing efficiently.

This is the case of the metallic mining project Mina Justa being promoted by the affiliate Alxar, after purchasing for US\$ 168.5 million a 40% stake of the Peruvian company Cumbres Andinas, which owns 100% of the project. It is undoubtedly a world class project, which Alxar is developing together with a reputable local partner, Breca Group. This deposit has 432 million tons of high-grade copper, and the operation will enable production to exceed 100 thousand tons of fine copper per year. Mina Justa has been positively received by local communities and the authority, and its commercial operation is expected to last for at least 18 years. Its location, on the south coast of Peru, is logistically privileged, and has an attractive exploration potential for its future growth.

Mina Invierno, a related company, has become a key pillar in the supply of efficient, secure and storable primary energy, a condition that gives it a privileged position in the transition to more renewable sources. During the year, in addition to making progress in its operational optimization plan, necessary to recover productivity and allow its continuity, the company continued to supply energy to main national and foreign customers in a reliable, timely and competitive manner.

Anticipating the energy needs of its customers and adequately satisfying them is the philosophy of service that our fuel affiliates have been spreading through the different latitudes of the American continent in which they operate. Copec added 10 new service stations in Panama, 40 in Colombia, 42 in Ecuador and 8 in Peru, through Terpel, to the 8 stations incorporated to its network in Chile in 2018, in addition to the full revamp of 30 points of sale of Mapco in the United States. New convenience stores were also added under different formats: 8 in Chile, 9 in Colombia, 3 in Panama and 2 in Peru. Thus, Copec is deepening the internationalization of its value offer, based on a superior service, agile understanding of changes and the generation of the best consumer experience for each customer, based on the strength of each of its brands.

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It should be noted that during the year, the affiliate Terpel completed the implementation process of the regional agreement reached with ExxonMobil in 2016, based on a long and solid relationship between both companies dating back to 1959. The agreement includes, in addition to the production and distribution of Mobil lubricants in Chile, Colombia, Ecuador and Peru, the transfer of operation and marketing of aviation fuels in the regional hub of Lima, as well as ExxonMobil's fuel distribution business in Ecuador, both markets in which we already operated through Terpel. Most notably, the integration of the assets associated with the Mobil lubricants business in Colombia was completed during the year, adding a lubricant plant in Cartagena, together with the approval to distribute the entire portfolio of Mobil and Terpel products, with the exception of Maxter brands. This added to the incorporation of ExxonMobil's lubricant and fuel distribution activities in Peru and Ecuador, and the successful sale of the Colombian service stations network, also carried out during 2018. All this led to an extremely complex operation, including asset swaps, labor transfers, the intervention of an autonomous trust, as required by the Colombian regulatory authority, as well as the challenges involved in integrating two corporate cultures in four different countries. Copec thus consolidates as the major player in the liquid fuel and lubricant market in the Pacific coast of South America, a position that was highlighted by numerous awards and recognitions received during the year.

The various and simultaneous processes of disruptive innovation in forms of mobility and collaborative transportation technologies, as well as changes in user preferences, are creating an unprecedented scenario, posing deep challenges for Copec, but also very interesting opportunities. Against this backdrop, we recently launched the Copec Voltex network, which, with a coverage of more than 700 kilometers, has become South America's largest high-speed charging network. In this way, we are preparing for a new world, in which different technologies and preferences coexist, capitalizing on synergies, leading transformations, and remaining faithful to the traditional conviction that we must bring our clients the energy they prefer, whatever its form, and with the Copec quality of service seal.

The culture of innovation, which is part of the DNA of all our companies, is also reflected in Abastible and its liquefied petroleum gas affiliates, which were also distinguished during the year for their successful marketing campaigns and the preference ratified by its customers each year. During 2018, three innovative services were launched in Chile: a meter that delivers online data on the cylinder gas level; a telemetry technology that remotely measures the filling of bulk gas tanks; and a new function in its mobile application that allows real-time tracking of bulk orders. These are just a few examples of concrete innovations, supported by current technology, and at the service of customers.

Abastible also continued to develop in the region the infrastructure needed to provide its customers with an efficient, timely, innovative, secure service. Solgas made progress in the construction of a third liquefied petroleum gas storage tank in its Ventanilla bottling plant, located in the Callao Region, Peru, aimed at increasing capacity by 50%. This effort adds to the import terminal in Cartagena, which was inaugurated by Inversiones del Nordeste in 2017, together with other Colombian distributors; progress made by Duragas in strengthening its logistics in Ecuador; and the key role that the related company Gasmar has always had in the liquefied petroleum gas supply chain in Chile, ensuring secure and continuous supply, at minimum cost.

Abastible has been addressing the common challenges of its operations with a regional approach, which promotes collaborative work, based on multidisciplinary and empowered teams, supported by modern and flexible

technologies and methods. The "Regional Summits", which bring together all managers and executives from the four countries in which it operates, are the most visible sign of the multiple collective instances of exchange of best practices, innovations and experiences fostered by the company, and which seek to standardize policies and operating standards, also convening global experts in areas such as security, cybersecurity and risk management, among others. This enables each operation to access the know-how of the others, learning from each other and better adapting business models to the realities of each market. These instances also allow the culture of Empresas Copec to permeate all levels of the organization, raising standards in all latitudes. The same culture, in many companies. This way we are responding to the need to give good governance to our increasingly global companies. Additionally, and thanks to management improvements provided by Abastible, we can say today, for the first time and with pride, that each of our liquefied petroleum gas companies leads, in terms of market share, in the country in which it operates.

In the field of natural gas, Metrogas reported that it has consolidated its Gasification Plan in the Los Lagos Region, after the work to supply the first industrial client in Puerto Montt through virtual pipelines was completed at the beginning of 2018, consisting of trucks with permanent monitoring to transport liquefied natural gas from the Quintero LNG Terminal to satellite regasification plants, to be delivered to the different customers through a local

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supply grid. The first delivery in Puerto Varas is expected by the beginning of 2019. With regard to related company Aproveionadora Global de Energía, responsible for wholesale natural gas supply in the country, the first imports of Argentine gas were made in 2018 after supply from that country was cut more than a decade ago. Another sign of the uncertainties facing companies, in a world in which the only constant is change.

At Empresas Copec we feel part of the contemporary trend that requires private players to go beyond the responsibility of creating economic value. We have always understood that our distinct long-term vision cannot be independent of our environment. Company and society have always been closely linked, and that indissoluble link is now increasingly visible and indispensable. Our role is key to achieve the desired convergence of objectives and, through it, the elusive goal of development. For decades we have been expanding the boundaries of what has traditionally been considered doing business, broadening our field of action far beyond the immediate productive focus, taking the society main challenges as our own.

I strongly invite you to read, along with this Annual Report, the Annual Sustainability Report, published on the Company's website and which is annually produced under the GRI standard and is the result of an important effort to collect, consolidate and systematize the experience of all our affiliates in areas such as the relationship with all our partners and the society, environmental care and governance.

There you will find more details on the numerous initiatives in which we are engaged and that reflect our long-term vision, helping to face the great challenges that we have as a society, with financial resources, human capital, technology, innovative capacity and management. Permanent and significant contributions to education, innovation, culture, sports, social housing, among many others, which already extend for several decades, beyond fashions and with the profile that characterizes us. As an example, in the field of innovation I highlight the role of Fundación Copec UC and its Venture Capital Fund and, of course, the Anacleto Angelini UC Innovation Center, all of them promoters for years of ideas, talent enhancers, effort coordinators and catalysts of initiatives, with an impact far beyond the strict work of our companies. Or the enormous contribution that institutions such as Fundación Arauco, Belén Educa and Enseña Chile make in

the essential field of education. I also mention, in particular, Inmobiliaria Las Salinas, which this year submitted a new Environmental Impact Study, a unique example of perseverance in the face of the incomprehensible challenges that such a project, conceived under the highest standards, can face, and that seeks to give the city of Viña del Mar an environmentally unique space, an example of a sustainable neighborhood for the Region.

We believe that this long-term approach and deep connection with the environment is the basis for having been selected for the Dow Jones Sustainability Index, FTSE4Good Index and MSCI Sustainability Index, three of the main global sustainability and responsible investment indexes. It is these practices too that translate into the numerous recognitions that our companies receive year after year, in multiple dimensions, some of which I have already mentioned. Another key factor in these recognitions undoubtedly is our corporate governance structure, which seeks to guarantee an efficient and sustainable management of each of our areas of activity, in line with our values and principles of governance, whose entire strategic alignment has been in the hands of our team of directors.

In this regard, further progress has been made in adding independent directors with widely varying backgrounds in each business, favoring the operation of more specific committees, relying on training and external reviews, incorporating new, more effective control and risk management, as well as improving access and timely delivery of information and its transparency, among many other initiatives. We have also been opening the channels to make better use of the knowledge spread in our investor base, which are increasingly sophisticated and interconnected, and provide us with a critical view of what we do, in a constructive manner.

All these are elements of a way of doing business that also allows broad access to financial markets, which this year, among other things, made it easier for us to raise funds under very favorable conditions. Bonds placed by Empresas Copec, Arauco and Terpel, affiliate Copec international syndicated loan, and the Project Financing granted by government agencies and foreign banks to the Mina Justa project, among other operations, brought together credit funds for more than US\$ 3,000 million, and are concrete examples of investor confidence in the philosophy and principles that guide our management.

Ladies and gentlemen shareholders, this is the summary of 2018 financial year. How we have grown in recent years. How Empresas Copec has changed. None of this would have been possible without your permanent support, our shareholders, and also of all the directors, executives and workers, who do not hesitate to ratify their trust, accompanying us in this business management.

Empresas Copec continues to advance along a path of corporate expansion set decades ago, in line with a sustained strategy over time, which will continue to mark its path forward. Taking meaningful steps both in Chile and abroad, with a long-term view and a sustained effort to raise standards of our activities and generate maximum value for the societies in which we operate.

We are growing, and the multinational nature of Empresas Copec continues to strengthen. Territories and markets multiply, the scale of our operations increases, new communities embrace us. Our DNA is enriched by understanding and assimilating other cultures, other institutional arrangements, other ways of doing business.

Changes are accelerated, borders are blurred, uncertainties increase. It is only possible to face these challenges by placing our trust in a united team under a common vision, which is none other than to make a meaningful company, with purpose. We feel called, as the active, reliable participant for change that we are, to collaborate to lead the shifts that the social and political landscape is experiencing. Articulate everyone's dreams towards the common good, around shared principles and values, with confidence.

Because our biggest concern is the future. The future of everyone; the future of Empresas Copec.

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**ROBERTO ANGELINI**  
Chairman