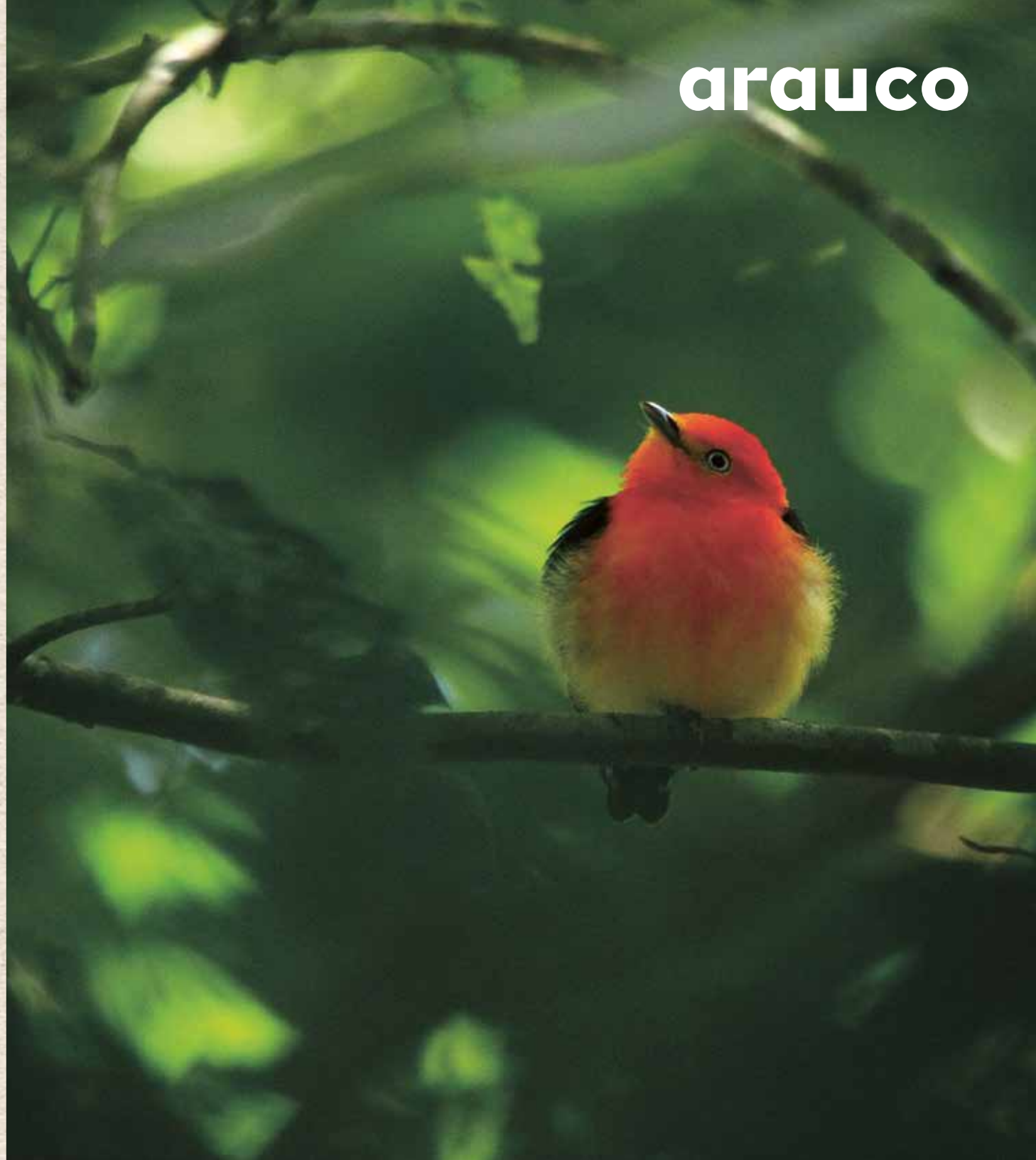


20

19

sustainable bond  
report



# con tents

1. **this is  
ARAUCO**

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2. **carbon neutral**

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3. **ARAUCO, the first forestry  
company in latin america to  
issue sustainable bonds**

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4. **framework  
categories**

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5. **KPIs**

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6. **figures  
summary**

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7. **categories**

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8. **sustainalytics  
opinion**

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Below is our annual report relating to the use of proceeds from the offering of US\$500 million in aggregate principal amount of 4.200% notes due 2030 and US\$500 million in aggregate principal amount of 5.150% notes due 2050 in October 2019.

1.

this is  
**ARAUCO**

We started out nearly 50 years ago in the south of Chile, developing products based on renewable forest resources which today allow us to offer a wide variety of sustainable quality solutions for the paper, construction, packaging, furniture and energy industries.

With our work and innovation, we develop products that inspire the creation of solutions aimed at improving the quality of life of millions of people around the world, with presence in the forestry, pulp, wood, panels and clean and renewable energy businesses.

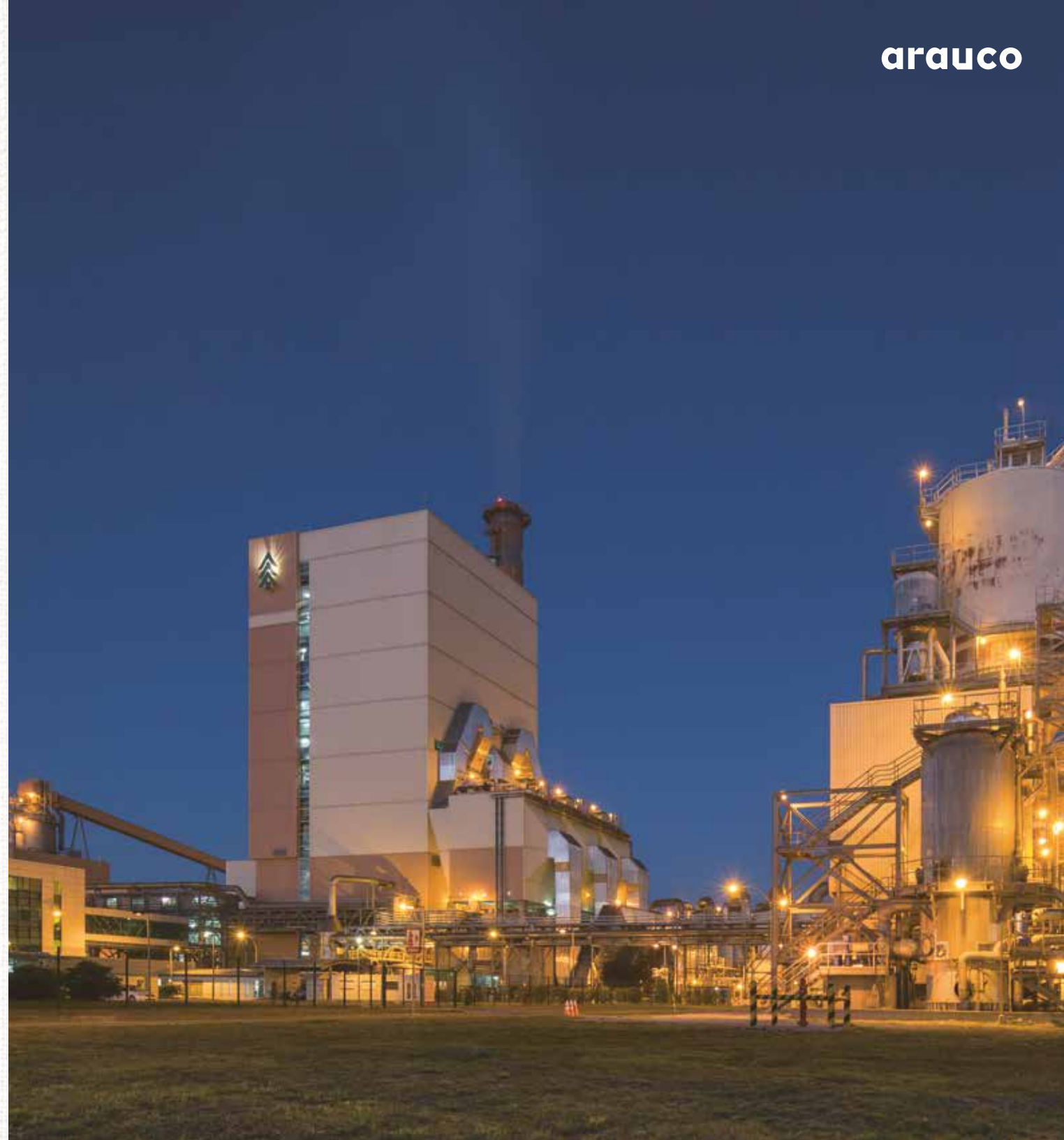


2.

**ARAUCO**

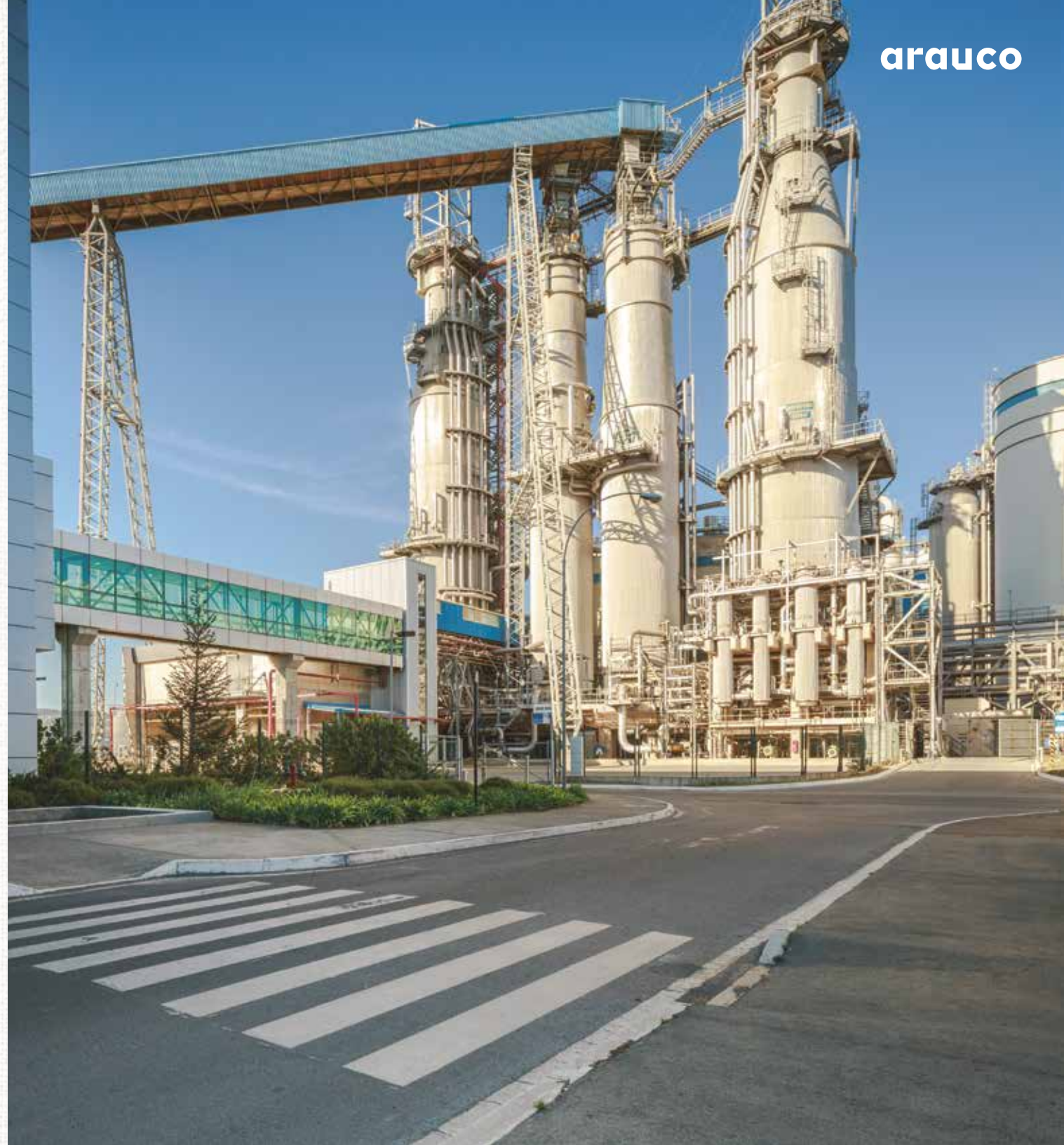
the first forestry

company in Latin  
America to issue  
Sustainable Bonds



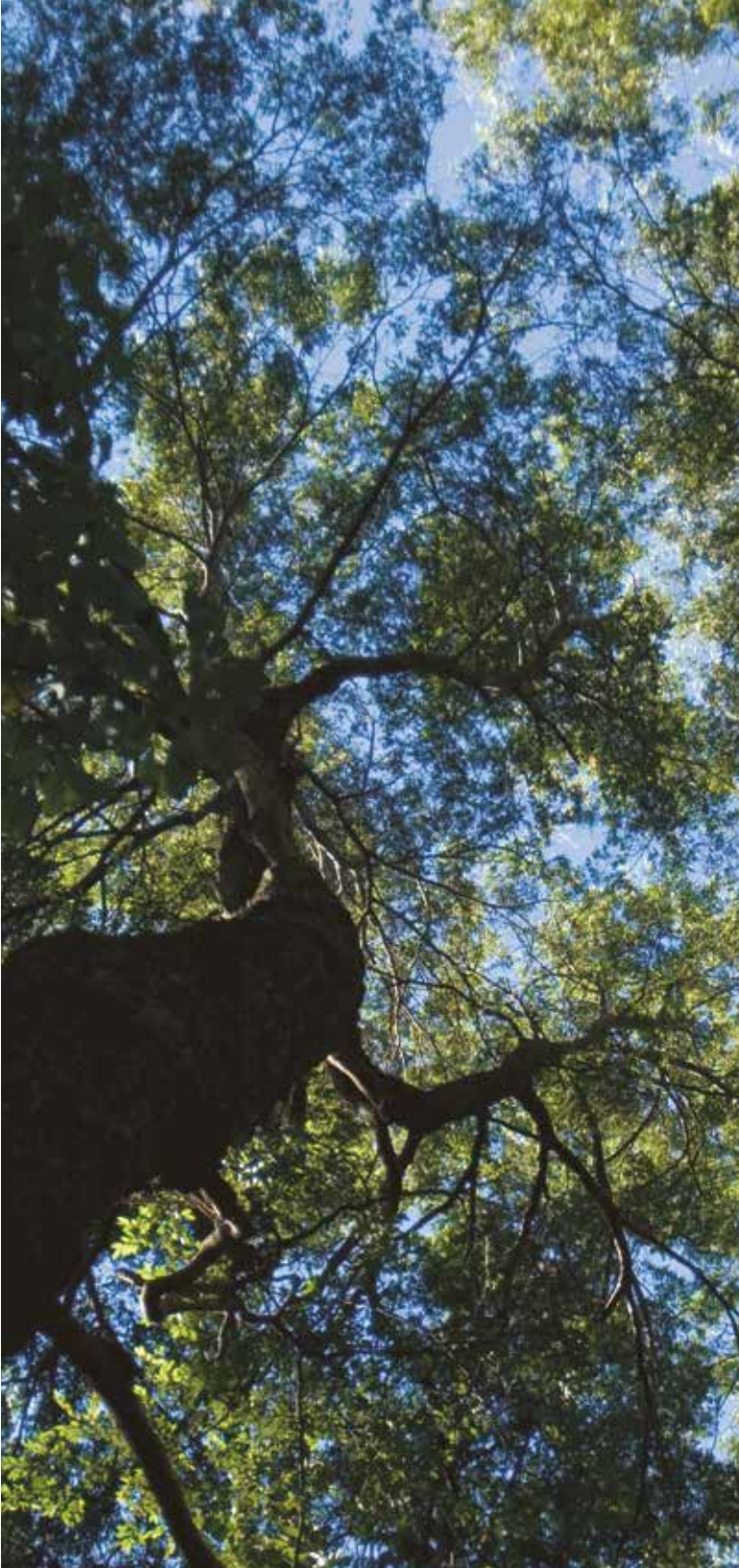
On October 24, 2019, ARAUCO completed an offering of US\$500 million in aggregate principal amount of 4.200% notes due 2030 and US\$500 million in aggregate principal amount of 5.150% notes due 2050. Both these bonds were issued in alignment with the four core components of the Green Bond Principles, 2018, and the Social Bond Principles, 2018, as administered by the International Capital Markets Association (ICMA). ARAUCO is the first forestry company in Latin America to ever issue sustainable bonds. We also achieved the lowest coupon rate in ARAUCO's history for a 30-year bond.

We have allocated an amount equal to the net proceeds from the sale of the notes to eligible green and social projects, as further described below. Pending allocation, we used an amount equal to the net proceeds of the offering of the notes (i) to finance part of the MAPA project, (ii) to pay the purchase price to holders of our notes due 2021 and 2022 that were validly tendered and accepted to be purchased by us pursuant to the terms of the cash tender offers conducted by us concurrently with the offering of our sustainable bonds and (iii) other capital management activities, with the remainder to be held in cash and/or cash equivalents and/or invested in other short-term liquid investments.



3.

carbon  
neutral



In September 2019, the company announced its commitment to certify carbon neutrality during 2020. A concrete step towards dealing with the climate crisis, which positions ARAUCO as the world's first forestry company to achieve this important goal. Towards this end, we are currently working with a third party that will allow us to certify that goal.

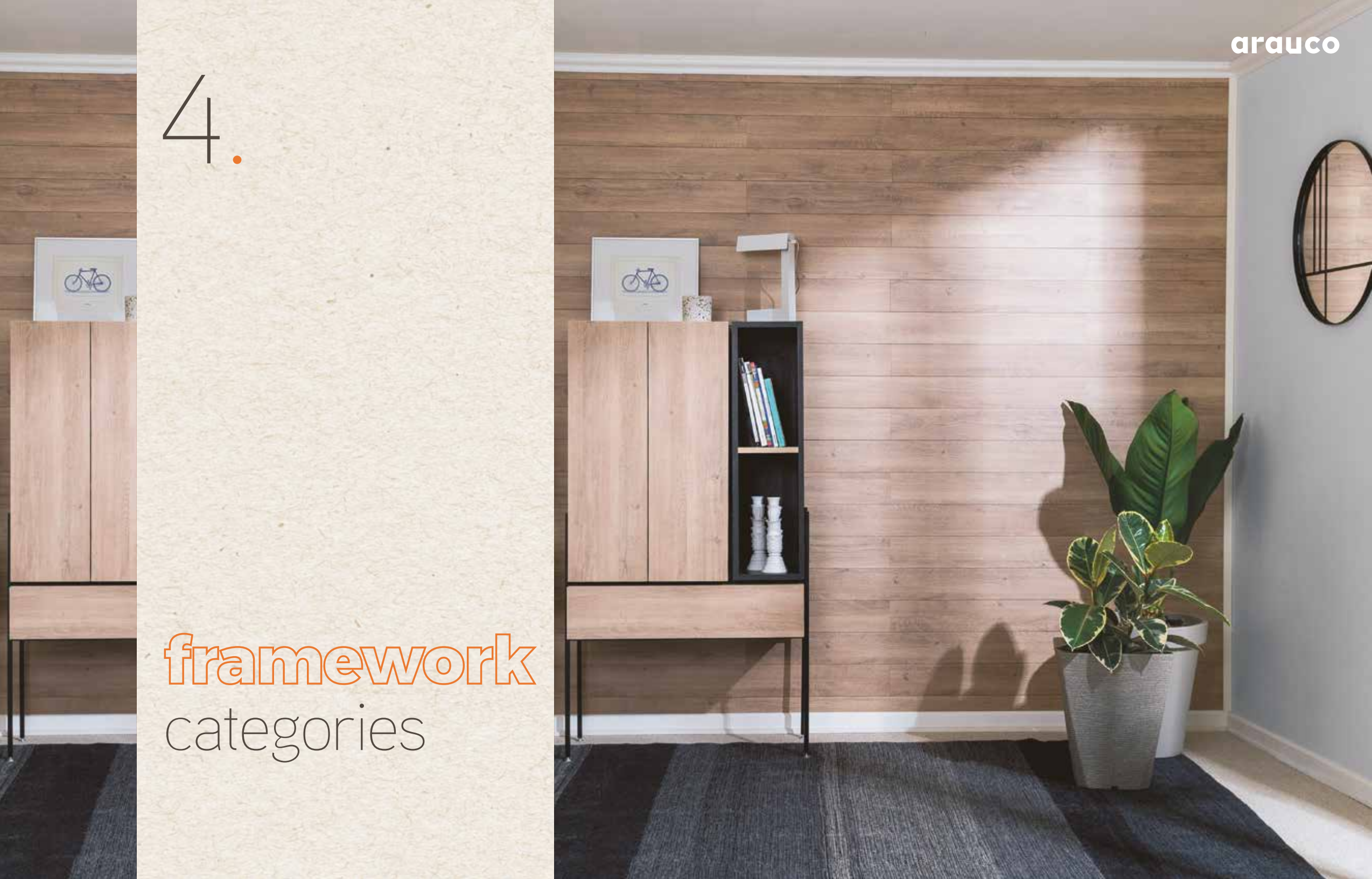
In addition, the company committed during 2020 its adherence to the Science Based Targets (SBT), a global initiative that aims for companies to adopt a path toward science-based emissions reduction and thus contribute towards curbing climate change. ARAUCO already sent a commitment letter and, from the date the commitment letter was sent, we have 24 months to work on such commitments and validate them.

Also during 2019, we measured our carbon footprint for the year 2018. We are currently measuring our carbon footprint for the year 2019.



4.

framework  
categories



Sustainability Bonds are bonds where the proceeds will be exclusively applied to finance or re-finance green projects, social projects or a combination thereof. The Sustainability Bond Guidelines (SBG) administered by the ICMA recommend alignment of Sustainability Bonds with the four core components of both the Green Bond Principles, 2018 (GBP) and Social Bond Principles, 2018 (SBP), collectively known as “The Principles”. The GBP and SBP outline eligible project categories for green and social projects, respectively. The Principles are voluntary process guidelines that recommend transparency, disclosure and promote integrity for best practices when issuing Green Bonds, Social Bonds and Sustainability Bonds. Our Sustainability Bond is aligned with the SBG. For more information please visit <https://www.icmagroup.org/green-social-and-sustainability-bonds/>

The GBP eligible green project categories, and the SBP eligible social project categories selected include:

**Green:**

- Sustainable Land Use and Forest Management
- Sustainable Water Management
- Pollution Prevention and Control
- Preservation of Natural Resources and Biodiversity
- Renewable Energy

**Social:**

- Affordable Housing
- Access to Essential Services
- Socioeconomic Advancement and Empowerment – Local Entrepreneurship



5.

KPIS



More than  
**200** th Ha.  
of land planted during 2017, 2018 and 2019

**39%** of the  
pulp non-  
hazardous  
waste  
revalued  
during 2019

**189** High Conservation  
Value Areas in  
Chile, Argentina  
and Brazil

More than  
**515** th Ha.  
of native forests as of 2019



More than  
**240** MW  
of mostly renewable energy capacity  
injected to the grid

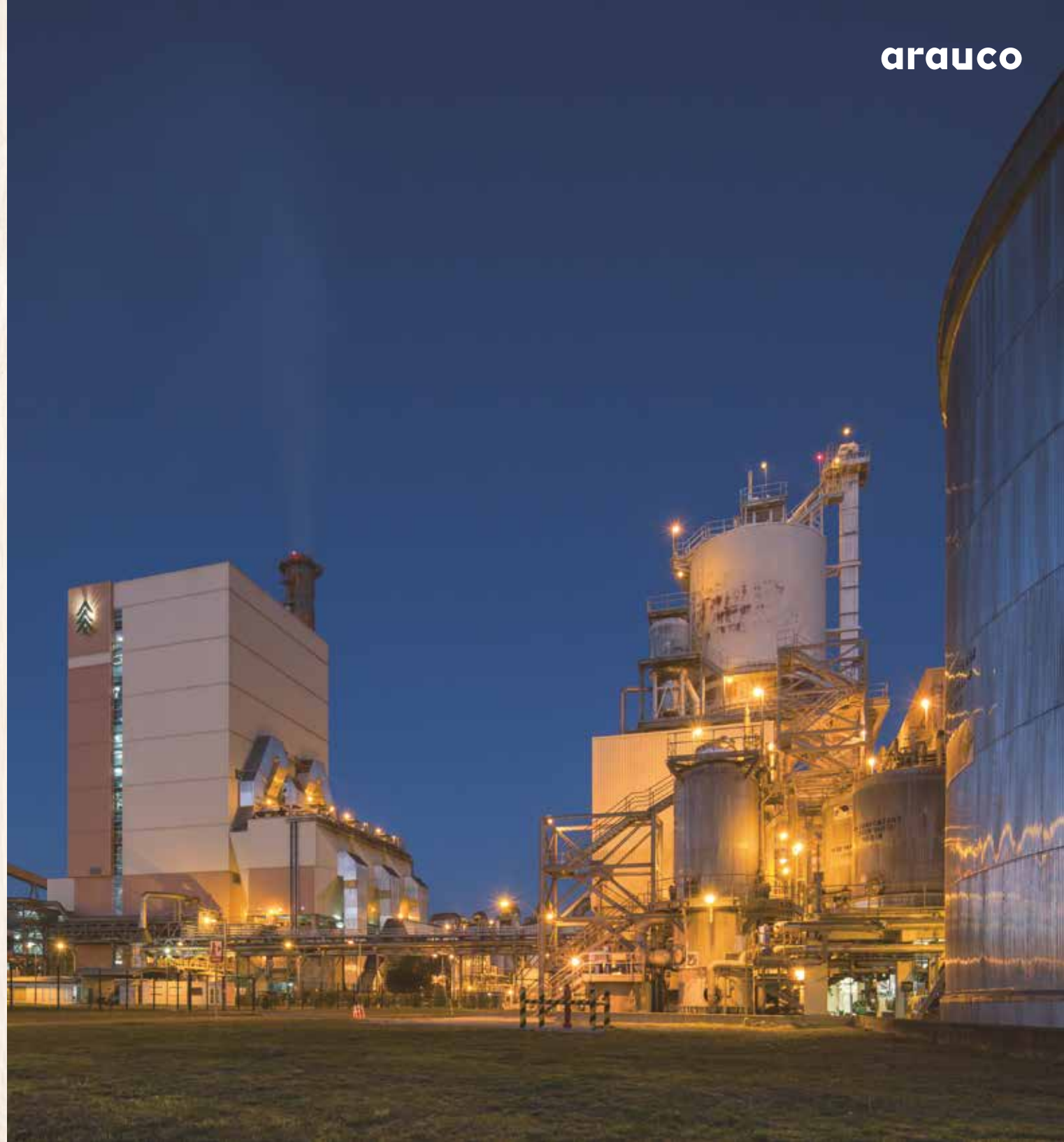
houses  
delivered  
during 2019 **216**

Impacted the education of more than  
**100**  
thousand children

More than  
**27,000**  
people benefitted with the Water Challenge

6.

figu  
res  
summary



The table below summarizes the amount allocated to eligible green and social projects, categorized as defined on our Sustainability Bond Framework<sup>1</sup>. Figures are in US Dollars.

US\$	2017	2018	2019	Total
<b>Sustainable Land Use and Forest Management</b>	<b>214.660.181</b>	<b>235.021.092</b>	<b>235.198.774</b>	<b>684.880.046</b>
Development and/or promotion of programs for fire prevention or control	57.235.557	64.941.733	65.951.597	188.128.887
Expenditures related to sustainable forest management plantations certified by FSC, CERTFOR (PEFC), or other similar certification	148.449.192	159.954.413	160.756.705	469.160.310
planting and maintenance of seedlings up to harvest and the development of species hybrids to improve the productivity of plantations	8.975.432	10.124.946	8.490.471	27.590.849
<b>Sustainable Water Management</b>	<b>59.331.803</b>	<b>25.173.266</b>	<b>6.059.184</b>	<b>90.564.252</b>
Development and implementation of plans for monitoring the quality of effluents and the quality of the waters of the receiving waters and their ecosystems	55.655.000	99.626	-	55.754.626
Expenditures related to sustainable water management, including the reduction of water consumption in industrial processes	1.364.803	-	951.748	2.316.550
Projects to improve the management and disposal of industrial waste	2.312.000	25.073.639	5.107.436	32.493.076
<b>Pollution Prevention and Control</b>	<b>69.185.876</b>	<b>56.415.546</b>	<b>34.105.945</b>	<b>159.707.366</b>
Expenditures related to pollution prevention or control, including projects that reduce GHG emissions and other atmospheric emissions	-	-	23.398.973	23.398.973
Increased capacity to contain spills through operational controls and/or infrastructure works	-	6.085	132.434	138.519
Plans for monitoring liquid effluents, atmospheric emissions (including sulfur gases), noise, air quality, water quality and ecosystems	68.143.820	-	-	68.143.820
Projects to improve the management and disposal of industrial waste	1.042.056	56.359.911	10.574.538	67.976.505
Rainwater control	-	49.550	-	49.550
<b>Preservation of Natural Resources and Biodiversity</b>	<b>4.256.293</b>	<b>3.988.142</b>	<b>3.611.373</b>	<b>11.855.808</b>
Expenditures related to the conservation or protection of natural resources or biodiversity	4.256.293	3.988.142	3.611.373	11.855.808
<b>Renewable Energy</b>	<b>10.326.088</b>	<b>6.467.420</b>	<b>15.570.222</b>	<b>32.363.729</b>
Expenditures related to the design, development, construction, operation, upgrade and/or maintenance of renewable energy, including infrastructure projects.	10.326.088	6.467.420	15.570.222	32.363.729
<b>Affordable Housing</b>	<b>168.353</b>	<b>1.112.013</b>	<b>284.306</b>	<b>1.564.672</b>
Expenditures related to the design, construction, development or promotion of affordable housing initiatives	168.353	1.112.013	284.306	1.564.672
<b>Access to Essential Services</b>	<b>11.400.633</b>	<b>10.378.671</b>	<b>7.843.341</b>	<b>29.622.646</b>
Access to Drinking Water	50.763	36.329	-	87.092
Community Development	434.273	592.555	771.756	1.798.584
Education	9.647.417	9.073.124	6.214.361	24.934.902
Essential Services	-	36.309	37.415	73.724
Health Programs	20.881	2.907	2.918	26.705
Healthcare Services	95.167	209.494	76.821	381.482
Job Training	-	-	47.993	47.993
Others	453.737	76.791	3.494	534.022
Projects to Expand Access to Drinking Water	26.101	74.078	157.001	257.180
Safety Services	40.843	-	-	40.843
Sports Programs	604.463	277.085	531.582	1.413.130
Access to Essential Services	26.989	-	-	26.989
<b>Socioeconomic Advancement and Empowerment – Local Entrepreneurship</b>	<b>531.067</b>	<b>909.219</b>	<b>28.410</b>	<b>1.468.697</b>
Promotion of local entrepreneurship initiatives, including programs to expand opportunities for ventures, employment and/or business development.	531.067	909.219	28.410	1.468.697
<b>TOTAL</b>	<b>369.860.294</b>	<b>339.465.368</b>	<b>302.701.555</b>	<b>1.012.027.218</b>

<sup>1</sup> Visit <https://www.arauco.cl/chile/wp-content/uploads/2019/10/Arauco-Sustainability-Bond-Framework.pdf>

7.

cate  
gories

Allocated amount during 2017, 2018 and 2019:

US\$684.9  
million

# sustainable land use and forest management

Expenditures related to sustainable forest management plantations certified by FSC, CERTFOR (PEFC), or other similar certification, including the acquisition, planting and maintenance of seedlings up to harvest and the development of species hybrids to improve the productivity of plantations, and the development and/or promotion of programs for fire prevention or control, including implementation of local education and other short-and long-term fire prevention programs.

Trees represent one of the strongest existing strategies to advance climate change mitigation and they are the foundation of all ARAUCO's business areas. The forestland in Chile, Argentina, Brazil, and Uruguay is managed under Responsible Forest Management practices and is primarily intended to meet the company's own industrial needs.

These forests are sustainably managed, and production processes are certified to the highest global standards. Native forests and high social and environmental value areas are duly protected.



Monito del Monte *Dromiciops gliroides*

More than

217

thousand hectares of responsibly managed forests were planted during 2017, 2018 and 2019 in Chile, Brazil, Argentina and Uruguay<sup>2</sup>.

<sup>2</sup> The figures for Uruguay consider only 50% of the hectares planted for such years by Montes del Plata, our joint venture with Stora Enso, given that ARAUCO maintains 50% of the property."



# sustainable water management

Allocated amount during 2017, 2018 and 2019:

**US\$90.6**  
million

Expenditures related to sustainable water management, including the reduction of water consumption in industrial processes, conducting studies relating to the development and implementation of systems facilitating reuse of water in industrial processes and innovation in connection with the reuse of wastewater, and/or the development and installation of technologies and systems to improve the quality of treated water and effluent; the reduction of organic content; the development and implementation of plans for monitoring the quality of effluents and the quality of the waters of the receiving waters and their ecosystems.

In a water scarcity scenario, continuous improvement and efficient use of water resources is a very important task for ARAUCO; in addition to monitoring the availability of water in the basins that supply the company, several initiatives to maximize the use of water, and studying the effects of climate change on the watersheds that are sources of supply.

## New Water Treatment Plant (Arauco Mill)

We have invested in a new water treatment plant in our Arauco mill which we expect will allow us to achieve significant reductions in water consumption and liquid effluent emissions. This treatment plant is already being used by Line 2, and will be used by Line 3 once the MAPA project is complete.

## New Effluents Treatment Plant

Arauco pulp mill's new effluents plant went into operation, which replaces the aeration tank with new activated sludge technology. This improves the treatment standards of the effluents of the current pulp mill, and also will those of Line 3 currently under construction (MAPA project).

**100%**

of wastewater from the drying process  
reused in our sawmills (without  
considering the Nueva Aldea sawmill)

In Brazil, the Pien panel mill reused

**3,480** m<sup>3</sup>

of treated effluents in the effluent  
treatment plant during 2019



# pollu tion preven tion and control

Allocated amount during 2017, 2018 and 2019:

**US\$159.7**  
million

Expenditures related to pollution prevention or control, including projects that reduce GHG emissions and other atmospheric emissions; projects to improve the treatment of liquid effluents and reduce atmospheric emissions; increased capacity to contain spills through operational controls and/or infrastructure works; rainwater control; projects to improve the management and disposal of industrial waste; plans for monitoring liquid effluents, atmospheric emissions (including sulfur gases), noise, air quality, water quality and ecosystems.

TRS gas emissions from the pulp mills are continuously monitored and the monitoring results are permanently reported to the authority in charge of environmental enforcement. In addition, operational controls are maintained to minimize odor incidents associated with TRS gas emissions into the atmosphere and to fully comply with current regulations on emission standards and the environmental qualification resolutions of each facility.

Particulate matter is controlled through mitigation equipment such as gas scrubbers and electrostatic precipitators with efficiency close to 100%. Fine wood-dust emissions from remanufacturing and sawing processes are reduced by using bag filters that collect the sawdust, which is used as biomass fuel.

In addition, within the framework of the MAPA project's socio-environmental measures, steps have been taken to reduce the emissions of particulate material generated in the use of wood for residential heating in Laraquete, a town near the Arauco Mill.



## New CNCG Gas Burner in Arauco mill's Recovery Boiler N°2

We installed a new Concentrated Non-Condensable Gas (CNCG) Burner in the recovery boiler N°2 of our Arauco mill, which allows us to reduce emissions.

## Revaluation of Waste

In the Pulp business, ARAUCO has established a short, mid, and long-term strategy for the revaluation of industrial waste. This involves several strategic alliances with different agencies, generating commercial agreements for different uses. Annual goals have been set for revaluation (38% for 2019 and 50% for 2020) and waste generation reduction.

Non-hazardous waste from the pulp industry consists mainly of ashes, sand, solid waste from the causticizing process, lime carbonate, sludge from effluent treatment plants, dirty bark, and others, which, even though disposal deliveries to the company's waste deposits are still carried out, to date 39% was valued through external agencies.

The main uses for valued waste or new sub-products are the manufacture of cast-concrete and cement; soil and PH improver at forestry and farming sites, and the production of fertilizers and micro fertilizers.

During 2019 we revalued, through external agencies, more than

**39%**

of the non-hazardous waste in our Pulp business division

# preservation of natural resources and biodiversity

Allocated amount during 2017, 2018 and 2019:

US\$11.9  
million

Expenditures related to the conservation or protection of natural resources or biodiversity, including the maintenance, restoration and/or development of High Conservation Value Areas and other conservation areas, the conservation of native forests and/or the protection or identification of endangered flora or fauna.

## High Conservation Value Areas

As of 2019, we maintain 189 areas of High Conservation Value (HCVA) in Chile, Argentina and Brazil of which approximately 33% correspond to areas with high biological conservation value, and approximately 67% to areas of high social, cultural or religious conservation value. The surface covered by these areas reaches approximately 125 thousand hectares.

## Native Forests

We also maintain more than 515 thousand hectares of native forests, which amount to approximately 29% of our forestry assets. Approximately 74 thousand hectares of native forests were added between 2018 and 2019.

ARAUCO continues to implement its native forest restoration plan in Chile, which considers over 25,000 hectares declared as converted after 1994, as well as other relevant areas of native vegetation and areas that have been affected by fires. The approach for these nearly 25,000 hectares has been to search for sites that will maximize the environmental and social contribution of restoration.

## Protection of Endangered Flora and Fauna

Ongoing efforts are made to monitor and identify the presence of threatened flora and fauna species in our forest plantations. Within our forestry assets, as of 2019 we have observed approximately 822 species of animals and 114 species of flora that belong to the IUCN red list of threatened species. Amongst these species we can find the Darwin's Frog (*rhinoderma darwini*), Darwin's Fox (*lycalopex fulvipes*) and the "Chaura de Laraquete" (*gaultheria renjifoana*), all of which are endangered or critically endangered species. When these species are seen or found in these areas, specific protective measures are taken.

More than

515

thousand hectares of native forests as of 2019

More than

800

species of fauna and

110

of flora identified and monitored at our forestry assets that belong to the IUCN red list of threatened species

# renewable energy

Allocated amount during 2017, 2018 and 2019:

**US\$32.4**  
million

Expenditures related to the design, development, construction, operation, upgrade and/or maintenance of renewable energy, including infrastructure projects (including projects related to biomass, wind and/or solar power generation); and the development, construction, operation upgrade or maintenance of transmission lines to connect renewable energy to our infrastructure and the national grid.

ARAUCO has historically contributed in the fight against climate change, certifying emission reductions from residual forestry biomass-based cogeneration projects in five power plants in Chile and one in Uruguay (a Joint venture with Stora Enso). These power plants are registered under internationally recognized standards such as the Clean Development Mechanism (CDM), and we have issued a yearly average (for the 2017-2019 period) of approximately 271,580 thousand Certified Emission Reduction (CER) Certificates, each equivalent to 1 tonne of CO2 emissions<sup>3</sup>.

**243mw**

of energy available to be delivered to the national grids of Chile, Argentina and Uruguay

ARAUCO generated

**8%**

of the total worldwide CDM issuance for the 2007-2019 period

# affordable housing

Allocated amount during 2017, 2018 and 2019:

US\$1.6  
million

Expenditures related to the design, construction, development and/or promotion of affordable housing initiatives, including for the benefit of employees and/or members of the communities neighboring the company's operations.

We promote access to affordable housing through our Housing Program (*Programa Vivienda*) in Chile by counseling our employees, suppliers and their families in applying for public housing subsidies and by assisting them in finding and evaluating adequate housing. Since its inception, our *Programa Vivienda* program has supported the construction of more than 1,700 new housing units to the program's beneficiaries. During 2019, 216 houses were delivered and 714 houses initiated construction.



216

houses delivered during 2019

1,754

houses delivered since 2010

# access to essen tial services

Allocated amount during 2017, 2018 and 2019:

US\$29.6  
million

Expenditures related to community development and/or access to essential services, including investments in health programs and healthcare services; safety services; projects to expand access to drinking water, sanitation sewage treatment systems, transportation, waste management, development of green areas and coastal waterfront, economic development, education, job training, vocational services and sports programs, among others.

For over thirty years the ARAUCO Educational Foundation (Fundación Educacional Arauco) in Chile has contributed to the widespread improvement of the quality of local education by strengthening the core competencies and teaching skills of school principals and teachers in hundreds of schools serving thousands of young students. As of 2019, the Foundation has carried out 79 education programs assisting 101,940 children and 5,141 teachers in 34 municipalities and 575 schools.

During 2019, the foundation continued to participate at the Education roundtable of the Compromiso País initiative, which seeks to develop joint work between the public sector, academics, civil society, the private sector and citizens to address one of the 16 issues raised by the Ministry of Social Development in the 2018 Vulnerability Map.

Since 1981, ARAUCO has financially supported three schools, Arauco, Constitución and Cholguán, which combined have over 1,200 students. The three establishments are recognized for their levels of academic excellence and their achievements in the comprehensive development of their students.

Campus ARAUCO combines education and practical training in the workplace through a strategic alliance between ARAUCO and Duoc UC. This initiative aims to generate options for technical and professional education. Approximately 160 students are admitted annually to this program.

Water Challenge program provides neighbors with a specialized team to develop water projects for human consumption with the purpose of contributing to improve the living conditions of neighboring communities, generating solutions to facilitate access to water. To date, 131 projects have been developed, including improvements in drinking water systems for communities and schools, engineering designs, hydrogeological studies, etc. These projects have benefitted 27,000 people in 44 municipalities.

ARAUCO Cultural Circuit Program in Brazil provides opportunities for children in public elementary schools and the community to gain access to culture, knowledge, and art, by developing programs in nine municipalities where ARAUCO operates. In 2019, 8,700 students and community members participated; 32 students were awarded school materials in the design contest.

ARAUCO Environmental Education Program in Brazil aims to foster and promote environmental awareness and transformation among the fourth-grade municipal school community where ARAUCO operates. The program was developed in 6 municipalities during 2019, with the participation of 650 students of the municipal education network.

Forestry World – Travelling Van in Argentina was created to participate in the main celebrations, fairs and events of communities where the company maintains

operations, the travelling van provides a didactic and entertaining experience for neighbors to learn about the characteristics of the forestry activity through the latest technology.

101,940

children have been supported by the Educational Foundation since its creation in 1989

160

students admitted annually into the Campus Arauco

# socio economic advance ment and empowerment – local entrepreneurship

Allocated amount during 2017, 2018 and 2019:

**US\$1.5**  
million

Expenditures related to the promotion of local entrepreneurship initiatives, including programs to expand opportunities for ventures, employment and/or business development.

The Program for Forest Gatherers impacts more than 400 gatherers of nontimber forest products (NTFP) in 20 communes across five regions in Chile. It aims to drive, disseminate and promote forest gathering as a professional, sustainable and responsible economic activity, through associative work articulated by different actors, strengthening skills, installing capacities and providing tools for entrepreneurship and innovation in production processes, thus contributing to the local development of 24 gatherers' associations.

In 2019, the Acerca Redes Foundation impacted 45 communes through 14 programs, projects and initiatives that are part of the company's national entrepreneurship and social innovation strategy for local development.



More than

**400**

gatherers benefited through  
the Program for Forest  
Gatherers

## Disclaimer

Readers are referred to the documents filed by ARAUCO with the United States Securities and Exchange Commission, including its most recent filing on Form 20-F that identifies important risk factors that could cause actual results to differ from those contained in any forward-looking statements, and also to our Sustainability Report (available on our website). All forward-looking statements are based on information available to ARAUCO on the date hereof and ARAUCO does not assume any obligation to update such statements. References herein to "U.S.\$" are to United States dollars. Discrepancies in any table between totals and sums of the amounts listed are due to rounding. This report is unaudited.

Forward-looking statements involve inherent risks and uncertainties. These forward-looking statements are based on current plans, estimates and projections; therefore, readers should not place undue reliance on them. Actual results could differ materially from those projected in such forward-looking statements because of various factors that may be beyond our control, including but not limited to our ability to service our debt, fund our working capital requirements, comply with financial covenants in certain of our debt instruments, fund and implement our capital expenditure programs and maintain our relationships with customers, as well as the effects on us from competition, future worldwide

demand for forestry and wood products we produce in the different countries in which we have industrial operations, international prices for forestry and sawn timber, the condition of our forests, possible shortages of energy, including electricity, the state of the economies in the main countries we operate and the world economy generally, the effects of a pandemic or epidemic and any subsequent mandatory regulatory restrictions or containment measures, the relative value of the local currencies in the countries we run manufacturing operations compared to other currencies, inflation, increases in interest rates, the effects of earthquakes, floods, tsunamis or other catastrophic events and changes in our regulatory environment, including our ability to comply with new or stricter environmental regulations and to resolve environmental liabilities. Forward-looking statements in this annual report speak only as of their dates, and we do not undertake any obligation to update or revise any of them, whether as a result of new information, future events or otherwise.

## Contact:

For further information, please contact:

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

### Marcelo Bennett

Treasurer

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

Phone: +56 2 2461 7309

### Gonzalo Jofré

Investor Relations

[gonzalo.jofre@arauco.com](mailto:gonzalo.jofre@arauco.com)

Phone: +56 2 2461 7494



# Celulosa Arauco y Constitución S.A.

**Type of Engagement:** Annual Review

**Date:** October 8, 2020

**Engagement Team:**

Jonathan Laski, [jonathan.laski@sustainalytics.com](mailto:jonathan.laski@sustainalytics.com), (+1) 647 264 6640

Daniel Sanchez, [daniel.sanchez@sustainalytics.com](mailto:daniel.sanchez@sustainalytics.com), (+1) 647 264 6644

## Introduction

In 2019, Celulosa Arauco y Constitución S.A. ("ARAUCO" or the "Issuer") issued two sustainability bonds aimed at financing projects that advance sustainable management of natural resources and that contribute to the development of local communities. In September 2020, ARAUCO engaged Sustainalytics to review the projects funded through the issued sustainability bonds and to provide an assessment as to whether the projects met the Use of Proceeds criteria and the Reporting commitments outlined in the ARAUCO Sustainability Bond Framework.<sup>1</sup>

## Evaluation Criteria

Sustainalytics evaluated the projects and assets funded between 2017 and 2020 based on whether the projects and programmes:

1. Met the Use of Proceeds and Eligibility Criteria outlined in the ARAUCO Sustainability Bond Framework; and
2. Reported on at least one of the Key Performance Indicators (KPIs) for each Use of Proceeds criteria outlined in the ARAUCO Sustainability Bond Framework.

Table 1 lists the Use of Proceeds Categories, Eligibility Criteria, and associated KPIs.

**Table 1: Use of Proceeds, Eligibility Criteria, and associated KPIs**

Use of Proceeds Category	Eligibility Criteria	Examples Key performance indicators (KPIs)
<b>Sustainable Land Use and Forest Management</b>	Expenditures related to sustainable forest management plantations certified by FSC, CERTFOR (PEFC), or other similar certification, including the acquisition, planting and maintenance of seedlings up to harvest and the development of species hybrids to improve the productivity of plantations, and the development and/or promotion of programs for fire prevention or control, including implementation of local education and other short-and long-term fire prevention programs.	<ul style="list-style-type: none"> <li>• Carbon sequestration</li> <li>• GHG emissions reduced/avoided</li> <li>• Increased GHG emission efficiency</li> <li>• Hectares of land afforested/revegetated</li> <li>• Reduced Emissions from Deforestation and Degradation (REDD)</li> <li>• Certified forest area: Hectares of land that has been planted or replanted</li> <li>• Certified third-party forest area: Hectares of wood suppliers' land that has been certified</li> </ul>
<b>Sustainable Water Management</b>	Expenditures related to sustainable water management, including the reduction of water consumption in industrial processes, conducting studies relating to the development and implementation of systems	<ul style="list-style-type: none"> <li>• Cubic meters per tonne of water saved/reduced</li> <li>• Cubic meters per tonne of recycled water used</li> </ul>

<sup>1</sup> ARAUCO, "Sustainability Bond Framework", (2019), at: <https://www.arauco.cl/wp-content/uploads/2019/10/Arauco-Sustainability-Bond-Framework.pdf>.

	facilitating reuse of water in industrial processes and innovation in connection with the reuse of wastewater, and/or the development and installation of technologies and systems to improve the quality of treated water and effluent; the reduction of organic content; the development and implementation of plans for monitoring the quality of effluents and the quality of the waters of the receiving waters and their ecosystems.	<ul style="list-style-type: none"> <li>• Cubic meters per tonne of water (provided/cleaned)</li> </ul>
<b>Pollution Prevention and Control</b>	Expenditures related to pollution prevention or control, including projects that reduce GHG emissions and other atmospheric emissions; projects to improve the treatment of liquid effluents and reduce atmospheric emissions; increased capacity to contain spills through operational controls and/or infrastructure works; rainwater control; projects to improve the management and disposal of industrial waste; plans for monitoring liquid effluents, atmospheric emissions (including sulfur gases), noise, air quality, water quality and ecosystems.	<ul style="list-style-type: none"> <li>• GHG emissions reduced/avoided</li> </ul>
<b>Preservation of Natural Resources and Biodiversity</b>	Expenditures related to the conservation or protection of natural resources or biodiversity, including the maintenance, restoration and/or development of High Conservation Value Areas and other conservation areas, the conservation of native forests and/or the protection or identification of endangered flora or fauna.	<ul style="list-style-type: none"> <li>• Area of land conserved in hectares</li> <li>• Threatened species protected or conserved</li> </ul>
<b>Renewable Energy</b>	Expenditures related to the design, development, construction, operation, upgrade and/or maintenance of renewable energy, including infrastructure projects (including projects related to biomass, wind and/or solar power generation); and the development, construction, operation upgrade or maintenance of transmission lines to connect renewable energy to our infrastructure and the national grid.	<ul style="list-style-type: none"> <li>• Annual GHG emissions reduced/avoided in tonnes of CO2 equivalent</li> <li>• Annual renewable energy generation in MWh (electricity) and GJ (other energy)</li> <li>• Capacity of renewable energy plant(s) constructed or rehabilitated in MW</li> </ul>
<b>Affordable Housing</b>	Expenditures related to the design, construction, development and/or promotion of affordable housing initiatives, including for the benefit of employees and/or members of the communities neighboring the Company's operations.	<ul style="list-style-type: none"> <li>• Number of individuals that received housing</li> <li>• Number of housing units constructed/preserve</li> </ul>
<b>Access to Essential Services</b>	Expenditures related to community development and/or access to essential services, including investments in health programs and healthcare services; safety services; projects to expand access to drinking water, sanitation sewage treatment systems, transportation, waste management, development of green areas and coastal waterfront, economic development, education, job training, vocational services and sports programs, among others.	<ul style="list-style-type: none"> <li>• Number/volume of loans provided to target group</li> <li>• Number of new businesses created in low income areas</li> <li>• Number of hours in education/training</li> <li>• Number of people who received education/training</li> </ul>

		<ul style="list-style-type: none"> <li>Percentage of students placed in jobs after training</li> <li>Number of people benefiting from local community development measures</li> </ul>
<b>Socioeconomic Advancement and Empowerment – Local Entrepreneurship</b>	Expenditures related to the promotion of local entrepreneurship initiatives, including programs to expand opportunities for ventures, employment and/or business development.	<ul style="list-style-type: none"> <li>Number of new businesses created</li> <li>Number of beneficiaries</li> </ul>

### Issuing Entity's Responsibility

ARAUCO is responsible for providing accurate information and documentation relating to the details of the projects that have been funded, including description of projects, estimated and realized costs of projects, and project impact.

### Independence and Quality Control

Sustainalytics, a leading provider of ESG and corporate governance research and ratings to investors, conducted the verification of ARAUCO's Sustainability Bond Use of Proceeds. The work undertaken as part of this engagement included collection of documentation from ARAUCO employees and review of documentation to confirm the conformance with the ARAUCO Sustainability Bond Framework.

Sustainalytics has relied on the information and the facts presented by ARAUCO with respect to the Nominated Projects. Sustainalytics is not responsible nor shall it be held liable if any of the opinions, findings, or conclusions it has set forth herein are not correct due to incorrect or incomplete data provided by ARAUCO.

Sustainalytics made all efforts to ensure the highest quality and rigor during its assessment process and enlisted its Sustainability Bonds Review Committee to provide oversight over the assessment of the review.

### Conclusion

Based on the limited assurance procedures conducted,<sup>2</sup> nothing has come to Sustainalytics' attention that causes us to believe that, in all material respects, the reviewed bond projects, funded through proceeds of ARAUCO's sustainability bonds, are not in conformance with the Use of Proceeds and Reporting Criteria outlined in the ARAUCO Sustainability Bond Framework. ARAUCO has disclosed to Sustainalytics that the proceeds of the sustainability bond were fully allocated as of October 2020.

<sup>2</sup> Sustainalytics limited assurance process includes reviewing the documentation relating to the details of the projects that have been funded, including description of projects, estimated and realized costs of projects, and project impact, which were provided by the Issuer. The Issuer is responsible for providing accurate information. Sustainalytics has not conducted on-site visits to projects.

## Detailed Findings

Table 3: Detailed Findings

Eligibility Criteria	Procedure Performed	Factual Findings	Error or Exceptions Identified
<b>Use of Proceeds Criteria</b>	Verification of the projects funded by the sustainability bonds between 2017 and 2020 to determine if projects aligned with the Use of Proceeds Criteria outlined in the ARAUCO Sustainability Bond Framework and above in Table 1.	All projects reviewed complied with the Use of Proceeds criteria. Sustainalytics is aware that a very small portion (<1%) of the bond proceeds were spent by the Arauco Foundation in the form of charitable giving. ARAUCO's Framework does not specify that some proceeds may be allocated through its charitable foundation. Given that the percentage is very small, Sustainalytics does not consider this to be an error or exception but nonetheless encourages the Company to identify charitable donations explicitly in its impact reporting.	None
<b>Reporting Criteria</b>	Verification of the projects funded by the sustainability bonds between 2017 and 2020 to determine if impact of projects was reported in line with the KPIs outlined in the ARAUCO Sustainability Bond Framework and above in Table 1. For a list of KPIs reported please refer to Appendix 1.	All projects reviewed reported on at least one KPI per Use of Proceeds criteria.	None

## Appendices

### Appendix 1: Impact Reporting by Eligibility Criteria

Table 4: Reporting criteria for green project categories

Green Project Category	Type of Project	KPI	Calculation methodology
<b>Sustainable Land Use and Forest Management</b>	Certified Forest Area: Hectares of land planted or replanted with Pine and Eucalyptus	217,986 hectares	Total land area that has been planted or replanted from 2017 to 2019 in Chile, Argentina, Brazil and Uruguay
<b>Sustainable Water Management</b>	Recycled water as a percentage of total water consumed in a tonne of sawn timber (% and m <sup>3</sup> )	100%	This includes all wastewater from the drying process in sawmills in Chile (except for Nueva Aldea)
	Water recycled in Brazil's Pien mill	3,480 m	Water recycled in 2019
<b>Pollution Prevention and Control</b>	Improvement of management or disposal of industrial waste	39%	Percentage of non-hazardous waste from the pulp business that has been valued and repurposed for sale to third parties. <sup>3</sup>
<b>Preservation of Natural Resources and Biodiversity</b>	Preservation of High Conservation Value Areas (HCVAs) <sup>4</sup>	125,000 hectares	Consisting of 189 HCVAs in Chile, Argentina and Brazil as of 2019 (33% correspond to areas with biological conservation value and 67% of social value)
	Area of native forests conserved	515,000 hectares	Conserved native forests account for 29% of ARAUCOS total forestry assets totaling 1,758,186 ha as of 2019
	Threatened species protected or conserved	822 species of fauna and 114 species of flora	This list comprises species sighted within ARAUCO's forestry assets that are identified on the IUCN red list of threatened species
<b>Renewable Energy</b>	Certified emission reduction (CERs) through the UN Framework Convention on Climate Change	271,580 tonnes of CO <sub>2</sub> e	Yearly average GHG emission reduction through residual biomass-based energy generation projects
	Maximum power generation capacity	618 MW	From biomass-based energy generation projects
	Power injection capacity to grid	243 MW	From biomass-based energy generation projects

<sup>3</sup> This percentage does not account for waste biomass that has been reused by ARAUCO for its biomass-based energy generation projects.

<sup>4</sup> ARAUCO has identified High Conservation Value Areas according to FSC Principle 09: High Conservation Values and the PROFORST Guide.

Table 5: Reporting criteria for social project categories

Social Project Category	Type of Project	KPI	Calculation methodology
<b>Affordable Housing</b>	Support for the delivery of houses via public housing programs	216 people	Number of individuals who received housing during 2019 <sup>5</sup>
<b>Access to Essential Services</b>	Students of ARAUCO Educational Foundation	101,940 children and 5,141 teachers	Number of children who received education/training; number of teachers benefiting from the program
	Students at ARAUCO's three schools: Arauco, Constitución and Cholguán	1,200 students	Number of students who received education/training per year in Chile
	Annual admission to Campus ARAUCO <sup>6</sup>	160 people	Annual students admitted to the Campus Arauco
	Water Challenge – program to develop water projects for human consumption	27,000 people	Number of people benefiting from the Water Challenge across 44 municipalities in Chile
	Cultural Circuit Program in Brazil	8,700 students	Number of students benefiting from local community development measures
	Environmental Education Program in Brazil <sup>7</sup>	650 students	Number of students benefiting from local community development measures
<b>Socioeconomic Advancement and Empowerment</b>	Program for Forest Gatherers <sup>8</sup>	400 people	Number of people benefiting from local community development measures

<sup>5</sup> ARAUCO has provided housing to a total of 1,7496 people from 2010 to 2019.

<sup>6</sup> An education center that combines education and practical training in the workplace through a strategic alliance between ARAUCO and Duoc UC.

<sup>7</sup> The program aims to foster and promote environmental awareness and transformation among fourth-grade students in the municipal school of the community where ARAUCO operates in Brazil.

<sup>8</sup> The Program for Forest Gatherers aims to drive, disseminate and promote forest gathering as a professional, sustainable and responsible economic activity, through associative work articulated by different actors, strengthening skills, installing capacities and providing tools for entrepreneurship and innovation in production processes.

## Appendix 2: Sustainability bond proceeds allocation by project category

Project Category	Net bond proceeds allocation (USD)
Sustainable Land Use and Forest Management	\$684,880,046
Sustainable Water Management	\$90,564,252
Pollution Prevention and Control	\$159,707,366
Preservation of Natural Resources and Biodiversity	\$11,855,808
Renewable Energy	\$32,363,729
Affordable Housing	\$1,564,672
Access to Essential Services	\$29,622,646
Socioeconomic Advancement and Empowerment-Local Entrepreneurship	\$1,468,697
<b>Total:</b>	<b>\$1,012,027,218<sup>9</sup></b>

<sup>9</sup> Sustainalytics notes that ARAUCO issued two sustainability bonds totalling USD 1 billion (\$500,000,000 each). ARAUCO has communicated to Sustainalytics that the reporting total exceeds the net bonds proceeds as it is reporting the full project cost for projects that have received bond allocations.

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