

Sustainability Bond Framework



October 15, 2019

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1. Introduction

ARAUCO is a global, diversified forestry company offering a wide variety of sustainable, quality products for the paper, construction, packaging, furniture and energy industries. Along with our work and innovation, we develop products based on renewable forest resources, which inspire us to create 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.

We have close to 17,000 employees, 1.8 million hectares of forestland in South America, production facilities located in 11 countries and over 4,400 customers in 5 continents.

Our forestland and industrial facilities are certified to national and international standards related to the management of aspects of the environment, quality, health and safety protection and responsible forest management.

2. Approach to Sustainability

On the understanding that the foundation of ARAUCO's business is the production and management of renewable forest resources to develop products that improve the quality of life of millions of people around the world, caring for the environment and its natural resources is highly important. Planning the forestry cycle is the cornerstone of the Company's operational activities, the sustainable management of its operations and the creation of a maximum value from our forestland.

In addition, environmental management in industrial processes is fundamental for ARAUCO. The Company centers its activities around environmental monitoring, regulatory compliance and ongoing improvement, including with respect to monitoring and control of air emissions, odors and liquid and solid waste, segregation and recovery of solid waste, and conducting studies to determine potential impacts on operations from climate change and studies relating to the increase of the reuse and recycling of water.

ARAUCO manages its forestland in adherence to responsible forest management, committing its operation to high international standards on environmental, safety and social matters, in order to be a positive actor in the areas where it maintains operations and become an active agent for social and economic development.

One of ARAUCO's goals is to make full and responsible use of available forest resources. ARAUCO has committed to non-conversion of its native forests and does not use genetically modified trees in any of its products. ARAUCO is also committed to the protection of native forests on its land, understanding that the sustainability of its production processes is closely tied to the biodiversity and ecosystems found on such land. Many of ARAUCO'S native forests are under the category of High Conservation Value Areas (HCVAs) and are protected through conservation plans whose goal is the maintenance of their long-term high value.

ARAUCO's forestland fulfills the natural function of carbon storage, sequestering CO₂ from the atmosphere and releasing oxygen into the air, thus contributing to reduce greenhouse gases and their effects.

The Company recently announced its goal to achieve carbon neutrality by 2020, which means that the Company aims to capture more greenhouse gases than its emissions at a global level, which would position ARAUCO as the world's first forestry company to achieve this important goal. In addition, the

Company recently announced it intends to join the Science Based Targets, a global initiative for companies to reduce their greenhouse gas emissions based on climate science, to limit the planet's increase in temperature.

The Company also actively participates on scientific research programs in joint efforts with universities, public institutions and NGOs, promoting innovation through project development and management of environmental monitoring activities related to biodiversity, air emissions, water basins and water bodies, and develops research programs related to environmental commitments. In 1990, ARAUCO created Bio forest, a scientific studies center established with the purpose of studying the development and application of technologies to maximize sustainable production, the achievement of environmental goals and the protection of biodiversity in the Company's native forests, among others.

In addition, ARAUCO's Local Development Strategy aims to contribute to the development of local communities through programs that generate shared value, using a model based on dialogue and participation, the development of projects with high standards and technical excellence, collaboration and development of alliances, working from and for the territory. The Company implements programs that are categorized into work areas defined according to the reality of each country where it operates, pursuing and fostering instances of transparent and honest communication with relevant stakeholders. These programs include community relations, education and training, infrastructure and quality of life, promotion of production and social initiative, among others. The Company maintains ongoing dialogue with its neighbors to identify and reduce possible negative impacts derived from its operations.

Because ARAUCO's forests and plantations are generators of several different ecosystem services and one of the most important ecosystem services for communities is water supply, the Company has developed a water management strategy based on three pillars:

- Knowledge and information, as the foundation to understand the phenomena and interactions that occur in the basins where forestry activities take place.
- Preventive planning, consisting of forestland management with the goal of preventing and mitigating possible operational impacts and monitoring the water supply/demand ratio water in the basins.
- Work with the Company's communities through actions aimed at finding solutions for the lack of water availability.

With respect to energy consumption, by using biomass in its generation boilers, ARAUCO provides energy for its own industrial needs and contributes an energy surplus to Chile's power grid. In addition to energy generation, the Company's recovery boilers recover inorganic compounds during the generation process minimizing the use of natural resources. ARAUCO seeks greater efficiency in its processes to reduce energy consumption and improve environmental performance.

3. Rationale for Issuing a Sustainability Bond

ARAUCO recognizes the important role that the diversified forestry products industry can contribute to sustainability. ARAUCO hopes to continue to broaden its investor base by attracting like-minded investors that seek to manage their investments in a responsible manner by prioritizing screening criteria which value environmental and social priorities and align with the Sustainability Bond Guidelines, 2018, administered by the International Capital Markets Association.

4. Alignment with the Sustainability Bond Guidelines



The Sustainable Development Goals aim to officially implement the UN 2030 Agenda for Sustainable Development. This agenda encourages countries and businesses to initiate efforts to achieve the 17 Sustainable Development Goals (SDGs) in the next 11 years. ARAUCO, through its many sustainability initiatives, has identified opportunities to increase its contribution to the SDGs, integrating this challenge into the Company's sustainability strategy.








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 International Capital Markets Association (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. Links <https://www.icmagroup.org/green-social-and-sustainability-bonds/>







4.1 Use of Proceeds

ARAUCO intends to allocate an amount equal to the net proceeds from its Sustainability Bonds to finance or refinance, in whole or in part, existing or future investments in eligible green projects and/or eligible social projects (together, the **Eligible Projects**) which include investments made by ARAUCO or any of its subsidiaries within the period beginning 36 months before the issuance of its Sustainability Bonds and ending on the final maturity date of such Sustainability Bonds, and which generally meet one or more of the Eligibility Criteria below:

Project Eligibility Criteria:

GBP Eligible Green Project Category	Eligibility Criteria for Investments and Examples	Environmental Objective	Alignment with UN SDGs
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.	Climate change mitigation Natural resource conservation	 

GBP Eligible Green Project Category	Eligibility Criteria for Investments and Examples	Environmental Objective	Alignment with UN SDGs
Sustainable Water Management	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.	Climate change mitigation Natural resource conservation	  
Pollution Prevention and Control	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.	Pollution prevention and control	
Preservation of Natural Resources and Biodiversity	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.	Climate change mitigation Biodiversity conservation	
Renewable Energy	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.	Climate change mitigation	 

SBP Eligible Social Project Category	Eligibility Criteria for Investments and Examples	Social Objective	Alignment with UN SDGs
Affordable Housing	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.	Target population: homeless people (including workers)	
Access to Essential Services	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.	Target population: Local community, underserved, owing to a lack of quality access to essential goods and services Target population: Undereducated	   
Socioeconomic Advancement and Empowerment - Local Entrepreneurship	Expenditures related to the promotion of local entrepreneurship initiatives, including programs to expand opportunities for ventures, employment and/or business development.	Target population: Local community, underserved, owing to a lack of quality access to opportunities of employment and entrepreneurship	

Note: For the avoidance of doubt, it is acknowledged that the definition of target population can vary depending on local contexts and that, in some cases, such target population(s) may also be served by addressing the general public. (Reference: <https://www.icmagroup.org/green-social-and-sustainability-bonds/social-bond-principles-sbp>).

4.2 Process for Project Evaluation and Selection

A Sustainable Bond coordination group, comprised of members of different business units of the Company (including the Finance Department and Corporate Affairs, among others), will evaluate potential Eligible Projects and meet on an annual basis to select them. The Finance Department of the Company will approve such selection and oversee internal tracking systems to manage the allocation of an amount equal to the net proceeds from the Company's Sustainability Bonds to Eligible Projects.

4.3 Management of Proceeds

Prior to allocation of an amount equal to the net proceeds to Eligible Projects, the net proceeds of the sales of the Sustainability Bonds (i) will be initially used for liability management purposes, and (ii) for 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.

4.4 Reporting

Annually, until all the net proceeds have been allocated, ARAUCO will publish updates on its website (www.Arauco.cl) that are expected to include (i) the amount of net proceeds of the Sustainability Bonds allocated to each Eligible Project category, (ii) expected or estimated key performance indicators (KPIs) (qualitative and quantitative), in each case to the extent ARAUCO deems feasible and (iii) the outstanding amount of net proceeds yet to be allocated to Eligible Projects at the end of the reporting period. ARAUCO also expects to retain an independent third party to review the amount of net proceeds of the Sustainability Bonds allocated to each Eligibility Project category.

Examples of performance indicators include:

GBP Eligible Green Project Category	Eligibility Criteria for Investments and Examples	Examples of performance indicators that may be included are:
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.	<ul style="list-style-type: none"> • Carbon sequestration • GHG emissions reduced/avoided • Increased GHG emission efficiency • Hectares of land afforested/revegetated • Reduced Emissions from Deforestation and Degradation (REDD) • Certified forest area: Hectares of land that has been planted or replanted • Certified third-party forest area: Hectares of wood suppliers' land that has been certified
Sustainable Water Management	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	<ul style="list-style-type: none"> • Cubic meters per tonne of water saved/reduced • Cubic meters per tonne of recycled water used • Cubic meters per tonne of water (provided/cleaned)

GBP Eligible Green Project Category	Eligibility Criteria for Investments and Examples	Examples of performance indicators that may be included are:
	<p>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.</p>	
<p>Pollution Prevention and Control</p>	<p>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.</p>	<ul style="list-style-type: none"> • GHG emissions reduced/avoided
<p>Preservation of Natural Resources and Biodiversity</p>	<p>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.</p>	<ul style="list-style-type: none"> • Area of land conserved in hectares • Threatened species protected or conserved
<p>Renewable Energy</p>	<p>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.</p>	<ul style="list-style-type: none"> • Annual GHG emissions reduced/avoided in tonnes of CO2 equivalent • Annual renewable energy generation in MWh (electricity) and GJ (other energy) <p>Capacity of renewable energy plant(s) constructed or rehabilitated in MW</p>

SBP Eligible Social Project Category	Eligibility Criteria for Investments and Examples	Examples of performance indicators that may be included are:
Affordable Housing	Expenditures related to the design, construction, development 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"> • Number of individuals that received housing • Number of housing units constructed/preserved
Access to Essential Services	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"> • Number/volume of loans provided to target group • Number of new businesses created in low income areas • Number of hours in education/training • Number of people who received education/training • Percentage of students placed in jobs after training • Number of people benefiting from local community development measures
Socioeconomic Advancement and Empowerment-Local Entrepreneurship	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"> • Number of new businesses created • Number of beneficiaries

5. Second Party Opinion

ARAUCO has retained an environmental consultant with experience in environmental and social governance research to provide a Second Party Opinion (SPO) on the environmental and social benefits of ARAUCO's Sustainability Bond Framework as well as the alignment to the SBG and the Principles.

Disclaimer

The information and opinions contained in this ARAUCO Sustainability Bond Framework (the Framework) are provided as at the date of this Framework and are subject to change without notice. None of ARAUCO or any of its affiliates assume any responsibility or obligation to update or revise such statements, regardless of whether those statements are affected by the results of new information, future events or otherwise. This Framework represents current ARAUCO policy and intent, is subject to change in ARAUCO's sole discretion at any time and is not intended to, nor can it be relied on, to create any legal relations, rights or obligations.

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No representation is made as to the suitability of any bonds to fulfil environmental and sustainability criteria required by prospective investors. Each potential purchaser of bonds should determine for itself the relevance of the information contained or referred to in this Framework or the relevant bond documentation for such bonds regarding the use of proceeds and its purchase of bonds should be based upon such investigation as it deems necessary. ARAUCO has set out its intended policy and actions in this Framework in respect of use of proceeds, project evaluation and selection, management of proceeds and reporting, in connection with the ARAUCO Sustainability Bonds. However, it will not be an event of default or breach of any contractual obligations under the terms and conditions of any such bonds if ARAUCO fails to adhere to this Framework in any respect, whether by failing to fund or complete Eligible Projects or by failing to ensure that proceeds do not contribute directly or indirectly to the financing of the activities specified in this Framework, or by failing (due to a lack of reliable information and/or data or otherwise) to provide investors with reports on uses of proceeds and environmental impacts as currently contemplated by this Framework, or otherwise.

In addition, it should be noted that all of the expected benefits of the Eligible Projects as described in this Framework may not be achieved. Factors including (but not limited to) market, political and economic conditions, changes in government policy (whether with a continuity of the government or on a change in the composition of the government), changes in laws, rules or regulations, the lack of available Eligible Projects being initiated, failure to complete or

implement projects and other challenges, could limit the ability to achieve some or all of the expected benefits of these initiatives, including the funding and completion of Eligible Projects. Each environmentally focused potential investor should be aware that Eligible Projects may not deliver the environmental or sustainability benefits anticipated, and may result in adverse impacts.

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