

Second-Party Opinion

ARAUCO Sustainability Bond Framework



Evaluation Summary

Sustainalytics is of the opinion that the ARAUCO Sustainability Bond Framework is credible and impactful, and aligns with the Sustainability Bond Guidelines 2018. This assessment is based on the following:



USE OF PROCEEDS The five green and three social eligible categories for the use of proceeds are aligned with those recognized by both the Green Bond Principles and Social Bond Principles. Sustainalytics considers that the intended Framework investments will have positive environmental and/or social impacts across ARAUCO's operations and will advance the UN Sustainable Development Goals, in particular goals 4, 6, 7, 8, 11, 12 and 15.



PROJECT EVALUATION / SELECTION ARAUCO has established a Sustainable Bond Coordination Group, responsible for the identification and selection of eligible projects. The Company's Finance Department will be charged with approving selected projects. This is in line with market practice.



MANAGEMENT OF PROCEEDS The Company will implement internal tracking systems for the management of proceeds, overseen by its Finance Department. Pending allocation, proceeds may be used to repurchase outstanding indebtedness or be held in cash, cash equivalents and other liquid short-term investments. This is in line with market practice.



REPORTING ARAUCO intends to report annually on impact and allocation. Allocation reporting will be made available at the category level, while impact metrics, where feasible, will be selected from a list of relevant key performance indicators. This is in line with market practice.

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Introduction

Celulosa Arauco y Constitución S.A. (“ARAUCO” or the “Company”) is a diversified forestry company operating globally and across the forestry products value chain. The Company sells forest, wood and pulp products in more than 80 countries and manages approximately 1.8 million hectares of forest in South America.

The Company has developed the ARAUCO Sustainability Bond Framework (the “Framework”) under which it intends to issue sustainability bonds and use the proceeds to finance or refinance, in whole or in part, existing and/or future projects that address sustainability issues related to ARAUCO’s operations. The Framework defines eligibility criteria in five green areas and three social areas:

Green areas:

1. Sustainable Land Use and Forest Management
2. Sustainable Water Management
3. Pollution, Prevention and Control
4. Preservation of Natural Resources and Biodiversity
5. Renewable Energy

Social areas:

1. Affordable Housing
2. Access to Essential Services
3. Socioeconomic advancement and empowerment - Local Entrepreneurship

ARAUCO engaged Sustainalytics to review the ARAUCO Sustainability Bond Framework, dated October 2019, and provide a second-party opinion on the Framework’s environmental and social credentials and its alignment with the Sustainability Bond Guidelines 2018 (SBG).¹ This Framework has been published in a separate document.²

As part of this engagement, Sustainalytics held conversations with various members of the Company’s management team to understand the sustainability impact of their business processes and planned use of proceeds, as well as management of proceeds and reporting aspects of ARAUCO’s Sustainability Bond Framework. Sustainalytics also reviewed relevant public documents and non-public information.

This document contains Sustainalytics’ opinion of the ARAUCO Sustainability Bond Framework and should be read in conjunction with that Framework.

¹ The Sustainability Bond Guidelines are administered by the International Capital Market Association and are available at <https://www.icmagroup.org/green-social-and-sustainability-bonds/sustainability-bond-guidelines-sbg/>.

² The ARAUCO Sustainability Bond Framework will be made available on ARAUCO’s website.

Sustainalytics' Opinion

Section 1: Sustainalytics' Opinion on the ARAUCO Sustainability Bond Framework

Summary

Sustainalytics is of the opinion that the Framework is credible and impactful, and aligns with the four core components of the Green Bond Principles 2018 (the "GBP") and Social Bond Principles 2018 (the "SBP"). Sustainalytics highlights the following key strengths of ARAUCO's Framework:

- Use of Proceeds:
 - The five green use of proceeds categories and three social use of proceeds categories are recognized as impactful by the GBP and SBP, respectively.
 - ARAUCO will use third-party certification, such as FSC and CERTFOR (affiliated with PEFC) to assess sustainable land use and forest management eligibility, which Sustainalytics views positively. Refer to Appendix 1 for Sustainalytics' full assessment of the FSC and PEFC schemes.
 - The Framework defines eligible expenditures in the area of sustainable water management, such as the implementation of projects to reduce water use in industrial processes and/or improve the quality of effluents as well as the study of methods and technologies to achieve these outcomes. Sustainalytics views positively the objectives of these projects, noting that although ARAUCO has not established definitive quantitative thresholds for eligibility or defined specific projects types which will be included, the Framework specifies a number of relevant quantitative key performance indicators that may be used as part of impact reporting.
 - The Framework includes investment in pollution prevention and control for ARAUCO's facilities, including the abatement of both GHG and non-GHG pollutants. ARAUCO has additionally disclosed that, other than select industrial processes such as boiler contingency,³ that none of these investments are expected to be related to fossil fuel technology. Sustainalytics views positively the Company's ongoing investments in cleaner technology for its facilities.
 - Within the area of renewable energy, eligible expenditures include those in wind and biomass projects, as well as associated transmission infrastructure. Sustainalytics considers wind power to be a well-established category for green investment. ARAUCO expects all feedstock for its biomass energy projects will be wood residuals;⁴ Sustainalytics therefore views positively this use of proceeds.
 - ARAUCO may invest in affordable housing projects, including initiatives for the benefit of employees and/or members of the communities neighboring ARAUCO's operations, and has defined the target population as those who would be homeless, including workers. Sustainalytics considers favourably the objectives of this programme.
 - The Framework specifies that ARAUCO may invest in various projects which support access to essential services, which may include education, healthcare, public safety, drinking water and sanitation, transportation, job training, waste management, and various other services and infrastructure projects. These investments are targeted to local communities in which ARAUCO operates. These projects are an integral part of ARAUCO's overall business activities, as strong engagement with local communities as well as the advancement of these communities supports the Company's ability to deliver shared value and operate effectively in these areas. In this context, Sustainalytics views positively the objectives of this use of proceeds category, while highlighting the broad nature of the eligible investments and encouraging detailed project-level reporting in order to provide transparency to investors,
 - The Framework defines as eligible expenditures to promote local entrepreneurship, with the goal of supporting underserved members of local communities that lack access or opportunities to employment. Sustainalytics views positively the goals expressed by this use of proceeds

³ Boiler contingency refers to the use of fossil fuels when there are contingencies in the boilers (in particular the heading of the boilers), and situations in which the biomass has a high humidity content, in which cases it is necessary to use fossil fuels to achieve the required temperature for the operations of the boilers.

⁴ The use of forestry residues as a biomass energy feedstock is generally anticipated to deliver energy with a lifecycle emissions intensity of less than 100 gCO₂e/kWh.

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category, while noting that the Framework does not precisely define the programs and investments which will be eligible.

- Project Evaluation and Selection:
 - ARAUCO has established a Sustainable Bond Coordination Group, with representation from relevant business groups, to meet annually to select eligible projects. The Finance Department will approve the selected projects and carry out the allocation.
 - Based on the formation of a formal committee with interdepartmental membership, Sustainalytics considers this to be in line with market practice.
- Management of Proceeds:
 - ARAUCO's Finance Department will use internal tracking systems to manage the proceeds of its sustainability bonds and will allocate an amount equal to the net proceeds to eligible projects.
 - Pending allocation, proceeds may be used to repurchase outstanding indebtedness or be held in cash, cash equivalents and other liquid short-term investments. ARAUCO has specified a 36-month lookback period for the refinancing of existing projects, this is in line with market practice.
 - Sustainalytics considers the management system described in the Framework, including the disclosure of temporary investments, to be in line with market practice.
- Reporting:
 - ARAUCO will report annually until full allocation on both allocations, at the category or project levels, as well impacts where feasible. The Framework specifies a number of quantitative key performance indicators that may be used as part of impact reporting.
 - Sustainalytics considers this reporting to be in line with market practice, and views favourably the definition of relevant quantitative impact indicators.

Alignment with Sustainability Bond Guidelines 2018

Sustainalytics has determined that ARAUCO's Sustainability Bond Framework aligns to the four core components of the Green Bond Principles 2018 and Social Bond Principles 2018. For detailed information please refer to Appendix 2: Sustainability Bond/ Sustainability Bond Programme External Review Form.

Section 2: Sustainability Performance of the Company

Contribution of Framework to ARAUCO's sustainability strategy

ARAUCO has incorporated sustainability practices in its operations as it continues to work towards its goal of achieving high sustainability standards. Most recently, the Company has announced its goal of achieving carbon neutrality by 2020⁵ and its intention to align with the "Science Based Targets"^{6,7}. To meet these targets, ARAUCO has focused for many years on increasing the production of clean and renewable energy from forest biomass following the provisions of the Clean Development Mechanism (CDM) of the Kyoto Protocol. ARAUCO has also identified opportunities to contribute towards achieving the 2030 Agenda for Sustainable Development, and it has implemented key initiatives to support the Sustainable Development Goals (refer to Section 3 for further discussion).

In terms of making its direct operations more sustainable, ARAUCO has focused on the optimization of hydrologic resources, clean energy and carbon credits, as well as reducing GHG emissions and achieving environmental certification for various projects. The Company is now able to meet its own energy needs from renewable energy while supplying surplus energy to local power grids where it operates. As an example of the progress in achieving these goals, ARAUCO has certified emission reduction schemes from residual forestry biomass-based cogeneration in five power mills in Chile and one in Uruguay, which are registered under standards such as the Clean Development Mechanism (CDM). Furthermore, operations in Chile, Argentina, Brazil and North America were recertified under ISO 14001:2015 ("Environmental Management").

As part of the Company's commitment to protecting biodiversity, ARAUCO has identified High Conservation Value Areas (HCVAs) following the methodology and premise of FSC Principle 09 (High Conservation Values)

⁵ ARAUCO, "Arauco announces carbon neutrality by 2020 and becomes the world's first forestry company to achieve this goal", at:

<https://www.arauco.cl/na/arauco-announces-carbon-neutrality-by-2020-and-becomes-the-worlds-first-forestry-company-to-achieve-this-goal/>.

⁶ Science Based Targets are goals adopted by companies that are in line with what the latest climate science says its necessary to meet the goals of the Paris Agreement. At: <https://sciencebasedtargets.org/what-is-a-science-based-target/>.

⁷ CNN, "Charles Kimber y la carbono neutralidad de Arauco: Es importante para la sustentabilidad de nuestro propio negocio", at: https://www.cnnchile.com/lodijeronencnn/charles-kimber-carbono-neutralidad-arauco-sustentabilidad-negocio_20190927/.

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and the PROFOREST Guidelines.⁸ ARAUCO has also committed to non-conversion of its native forests and a restoration program to protect biodiversity. ARAUCO manages the native forests that it owns through HCVAs which are protected against illegal activities and prevention of wildfires, in addition to being managed for research and monitoring of flora and fauna. ARAUCO owns approximately 434,000 hectares of native forests of which 124,000 hectares are managed through HCVAs in Chile, Argentina and Brazil.⁹

In addition, the Company has focused on developing technologies and process optimization to further its social agenda and environmental sustainability. ARAUCO's commitment to the protection of biodiversity and sustainable forest management is further demonstrated by its leadership in the area of forest fire prevention, including its development and implementation of local education and other short- and long-term fire prevention programs. The Company has also developed a scientific and technological research center, Bioforest, specializing in developing technologies to maximize industrial resources. Some of the forestry programs include Knowledge of Soils, Nanocellulose, a Biotechnology Lab and Captive breeding of Darwin's Frog, an IUCN-listed endangered species.^{10, 11}

Based on the above, Sustainalytics is of the opinion that ARAUCO's sustainability strategy and actions demonstrate its commitment to achieving positive environmental and social impacts. Sustainalytics also believes that the issuance of sustainability bonds under the Framework will support the Company's overall sustainability strategy.

Well positioned to address common environmental and social risks associated with the projects

Although the eligible projects to be financed by the sustainability bonds are anticipated to deliver net-positive environmental and social benefits, it is important to ensure that common environmental and social risks are mitigated to minimize any potential adverse effects. Based on the use of proceeds categories, the most significant risks include potential impact on biodiversity, land-use change, and worker health and safety.

Arauco's corporate policies require that its projects and operations be subject, at a minimum, to the rules of protection of the environment, biodiversity, territorial planning and occupational health and safety.¹² As part of its commitment to improving worker health and safety, ARAUCO has implemented strategies to reduce the number and severity of accidents, which have yielded positive results. Some examples of these strategies include the use of "Safety Cards" in its timber, pulp and energy business areas to identify critical risks; the Company has integrated Human Resources and Occupational Health and Safety management levels in the timber and forestry businesses; and, the creation of the Environment, Occupational Health and Safety (EOHS) technical management tasked with transferring good practices, standardize and incorporate new technologies in occupational health and safety management. Overall, ARAUCO reduced the accident frequency rate in 2018 by 27% and accident severity rate by 55% compared to 2017.¹³

Overall, ultimate responsibility for risk mitigation rests with Senior Management to oversee the implementation of actions relating to the economic, social and environmental performance of the Company. All directors and employees of the company and its subsidiaries are bound by ARAUCO's commitments and guidelines, such as its Code of Ethics and the Environmental, Health and Safety Policy (which includes following FSC and CERTFOR standards).¹⁴ Based on the policies, procedures and certifications described above, Sustainalytics is of the opinion that ARAUCO has robust and credible risk mitigation measures and, as such, that ARAUCO is well-positioned to address the potential environmental and social risks stemming from the initiatives financed by its sustainability bonds.

Section 3: Impact of Use of Proceeds

⁸ Proforest, "Good practice for the identification and management of High Conservation Values (HCVs), and HCV forests and areas", at: <https://www.proforest.net/en/publications/publications-pdfs/good-practice-guidelines-for-high-conservation-value-assessments-a-practical-guide-for-practitioners-and-auditors>.

⁹ ARAUCO, "2018 Sustainability Report", at: https://www.arauco.cl/na/wp-content/uploads/sites/23/2017/07/REPORTE_SUSTENTABILIDAD_2018_INGLES.pdf.

¹⁰ ARAUCO, "Research", at: <https://www.arauco.cl/na/investigacion/investigacion/>

¹¹ IUCN, "Darwin's Frog", at: <https://www.iucnredlist.org/species/19513/79809372>.

¹² ARAUCO's policies and programmes include, but are not limited to formulated a Risk Management Policy, a Corporate Risk Management Framework and a Corporate Risk Matrix containing policies and procedures all based on international risk management standards such as ISO 31000 ("Risk Management") and COSO Enterprise Risk Management (ERM), and the Company's business continuity plan is based on standard ISO 22301 ("Societal security"). These policies address a broad set of objectives, some of which are unrelated to risks associated with the sustainability bond projects.

¹³ ARAUCO, "2018 Sustainability Report", at: https://www.arauco.cl/na/wp-content/uploads/sites/23/2017/07/REPORTE_SUSTENTABILIDAD_2018_INGLES.pdf.

¹⁴ ARAUCO, "Política de Medio Ambiente, Calidad, Seguridad y Salud Ocupacional", at: https://www.arauco.cl/chile/wp-content/uploads/sites/14/2017/07/Politica_MACSSO_Forestal_firmada_vfinal.pdf

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All five green use of proceeds categories and three social use of proceeds categories are recognized as impactful by the Green Bond Principles 2018 and Social Bond Principles 2018. Sustainalytics has focused below on how the impact is specifically relevant in the local context.

Impact of ARAUCO's forest management, and preservation of natural resources and biodiversity

Forests hold a third of all land biodiversity while providing essential resources for socio-economic development.¹⁵ ARAUCO recognizes the importance of maintaining biodiversity and its native forests, and has incorporated them in its sustainability strategy. Some of the actions performed at protecting its native forests and biodiversity include sustainable forest management plantations and the creation of High Conservation Value Areas (HCVAs) for the conservation and protection of biodiversity. This adds value to national deforestation prevention strategies in countries where it operates contributing to protecting forests. As an example, Chile has now 19% of its national territory protected under the National System of Protected Wild Areas of the State (*Sistema Nacional de Areas Silvestres Protegidas del Estado*).¹⁶ Although the Latin American region has seen an overall fall in deforestation, there is still great variation between countries, and governments face challenges to enforce regulation and protect forests.

The Food and Agricultural Organization of the UN (FAO) has recognized sustainable forest management as a positive activity that can help address deforestation while having a greater societal impact.¹⁷ In South America, Chile and Uruguay were the only two countries which saw a rise in forest area over the period 2010-2015. In terms of deforestation magnitude, Brazil is followed by Argentina as the countries in the region with the highest deforestation rates.¹⁸ South America has also seen a steady rise in wood pulp production with an increasing number of new pulp mills built in Brazil, Chile and Uruguay between 2012 and 2016; these three countries now account for 15% of global wood pulp production and 33% of exports.¹⁹ Sustainalytics notes that by financing eligible projects under the Framework, ARAUCO's activities will make important contributions towards preserving biodiversity and for the sustainable management of forests.

Importance of technology development and implementation

Technological advances have a key role to play in sustainable forest management and products. The projects that will be financed through the sustainability bond will help make processes more efficient by reducing water consumption per tonne in industrial processes, and for pollution prevention and control. Projects such as monitoring of atmospheric emissions, noise, air quality and water quality and ecosystems can have positive impacts for the environment as they support assessments of the effectiveness of new technologies and changes in the environment. Furthermore, by making its facilities more efficient, ARAUCO will be able to better manage its resources. A current example is ARAUCO's Modernization and Extension of Arauco Mill project (MAPA for its acronym in Spanish). MAPA will allow the company to generate more renewable energy from forest biomass utilizing a new cogeneration boiler, with the surplus energy feeding into the National Electrical Grid. The project also contemplates a new wastewater treatment system to service the current and future facilities of the project, as well as modernizing its existing facilities to meet the most up-to-date environmental standards.

Other technological developments include Biopanel research into optimizing the different production processes for manufacturing boards and improving the physical and mechanical properties, as well as for the development of new adhesives. Biocel is a research unit that focuses on the optimization of production processes, and to develop pulp products and technologies for the treatment and transformation of waste into byproducts.²⁰ As such, Sustainalytics is of the opinion that ARAUCO's investments into operational improvements align with the Company's sustainability strategy and will have significant positive environmental impacts across multiple environmental dimensions.

Impact of social projects (affordable housing, access to essential services, and local entrepreneurship)

ARAUCO states in its 2018 Sustainability Report²¹ that it is an active agent for social development and how through its "Local Development Strategy" it aims to contribute to the development of local communities. Some of the projects that ARAUCO has sponsored include an education center that combines education and practical training (Campus ARAUCO), the strengthening of skills and work placements of practicing teachers, which ultimately leads to an improvement in student learning (ARAUCO Educational Foundation – Chile), supporting youth education through programs that include tutors for scholarship holders (Scholarship Program - Argentina), and improving student learning by strengthening the competencies and practices of teachers

¹⁵ FAO, "El Estado de los Bosque del Mundo", at: <http://www.fao.org/3/I9535ES/i9535es.pdf>.

¹⁶ CONAF, "Proteger las áreas silvestres protegidas del Estado contra el fuego, es una prioridad para CONAF", at: <http://www.conaf.cl/incendios-forestales/prevencion/proteccion-snaspe/>.

¹⁷ FAO, "Sustainable forest management in Latin American and the Caribbean", at: <http://www.fao.org/americas/prioridades/bosques/en/>.

¹⁸ FAO, "The State of the Forest Sector in the Region". At: <http://www.fao.org/3/a-bt191e.pdf>.

¹⁹ FAO, "Global Forest Productions Facts and Figures 2016", at : <http://www.fao.org/3/i7034en/i7034en.pdf>.

²⁰ ARAUCO, "Research", at: <https://www.arauco.cl/na/investigacion/investigacion/>.

²¹ ARAUCO, "2018 Sustainability Report", at: https://www.arauco.cl/na/wp-content/uploads/sites/23/2017/07/REPORTE_SUSTENTABILIDAD_2018_INGLES.pdf.

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(Ongoing Teacher Training Program – Brazil). These programs can have positive impacts to overcome critical obstacles for inclusive social development in the region, as identified in a report made by the Economic Commission for Latin America and the Caribbean, as the “gaps in human capacity-development -relating to education, health, nutrition- and access to basic services”.²²

The Framework specifies that the sustainability bond proceeds may be directed to projects, such as those mentioned above, that will target underserved local populations who lack quality access to essential goods and services and quality access opportunities of employment, addressing a key challenge to social development in the region.

Alignment with/contribution to SDGs

The Sustainable Development Goals (SDGs) were set in September 2015 and form an agenda for achieving sustainable development by the year 2030. This sustainability bond advances the following SDG goals and targets:

Use of Proceeds Category	SDG	SDG target
Pollution Prevention & Control	12. Responsible Consumption and Production	12.5 By 2030, substantially reduce waste generation through prevention, reduction, recycling and reuse
Sustainable Water Management	6. Clean water and sanitation	6.3 By 2030, improve water quality by reducing pollution, eliminating dumping and minimizing release of hazardous chemicals and materials, halving the proportion of untreated wastewater and substantially increasing recycling and safe reuse globally
Renewable Energy	7. Affordable and Clean Energy	7.2 By 2030, increase substantially the share of renewable energy in the global energy mix
Affordable Housing	11. Sustainable Cities and Communities	11.2 By 2030, ensure access for all to adequate, safe and affordable housing and basic services and upgrade slums
Access to Essential Services	4. Quality Education	4.4 By 2030, substantially increase the number of youth and adults who have relevant skills, including technical and vocational skills, for employment, decent jobs and entrepreneurship
Sustainable Land Use and Forest Management	15. Life on Land	15.1 By 2020, ensure the conservation, restoration and sustainable use of terrestrial and inland freshwater ecosystems and their services, in particular forests, wetlands, mountains and drylands, in line with obligations under international agreements
Preservation of Natural Resources and Biodiversity	15. Life on Land	15.2 By 2020, promote the implementation of sustainable management of all types of forests, halt deforestation, restore degraded forests and substantially increase afforestation and reforestation globally
Socioeconomic Advancement and Empowerment – Local Entrepreneurship	8. Decent Work and Economic Growth	8.5 By 2030, achieve full and productive employment and decent work for all women and men, including for young people and persons with disabilities, and equal pay for work of equal value

Conclusion

ARAUCO has developed its Sustainability Bond Framework to finance and/or refinance, in whole or in part, existing and/or future projects pertaining to sustainability issues related to the Company’s operations. Sustainalytics believes that the projects to be funded by the sustainability bonds will deliver environmental and/or social benefits and are aligned with ARAUCO’s overall sustainability strategy. Additionally, by financing

²² CEPAL, “Critical obstacles to inclusive social development in Latin America and the Caribbean”, at: https://repositorio.cepal.org/bitstream/handle/11362/44844/1/S1900578_en.pdf.

both green and social projects, ARAUCO is advancing a number of Sustainable Development Goals, in particular goals 4, 6, 7, 8, 11, 12 and 15.

Based on the above, Sustainalytics considers the ARAUCO Sustainability Bond Framework to be robust, credible and transparent, to be in alignment with the Green Bond Principles 2018 and Social Bond Principles, and that ARAUCO is well-positioned to issue sustainability bonds.

Appendices

Appendix 1: Sustainalytics' Analysis of FSC and PEFC Certifications

	FSC	PEFC
Background	Founded in 1993 after the 1992 Earth Summit in Rio failed to produce any international agreements to fight against deforestation, FSC aims to promote sustainable forest management practice.	PEFC was founded in 1999 in response to the specific requirements of small- and family forest owners as an international umbrella organization providing independent assessment, endorsement and recognition of national forest certification systems.
Basic Principles	<ul style="list-style-type: none"> • Compliance with laws and FSC principles • Tenure and use rights and responsibilities • Indigenous peoples' rights • Community relations and workers' rights • Benefits from the forests • Environmental impact • Management plans • Monitoring and assessment • Special sites – high conservation value forests (HCVF) • Plantations 	<ul style="list-style-type: none"> • Maintenance and appropriate enhancement of forest resources and their contribution to the global carbon cycle • Maintenance and enhancement of forest ecosystem health and vitality • Maintenance and encouragement of productive functions of forests (wood and no-wood) • Maintenance, conservation and appropriate enhancement of biological diversity in forest ecosystems • Maintenance and appropriate enhancement of protective functions in forest management (notably soil and water) • Maintenance of socioeconomic functions and conditions • Compliance with legal requirements
Governance	<p>The General Assembly, consisting of all FSC members, constitutes the highest decision-making body.</p> <p>At the General Assembly, motions are proposed by one member, seconded by two more, and deliberated and voted on by all members. Members are entitled to vote to amend the bylaws, initiate new policies, and clarify, amend or overturn a policy decision by the board.</p> <p>Members apply to join one of three chambers – environmental, social, or economic – that are further divided into northern and southern sub-chambers.</p> <p>Each chamber holds 33.3% of the weight in votes, and within each chamber the votes are weighted so that the North and South hold an equal portion of authority, to ensure influence is shared equitably between interest groups and countries with different levels of economic development.</p> <p>The votes of all individual members in each sub-chamber represent 10% of the total vote of the sub-chamber, while the votes of organizational members make up the other 90%.</p>	<p>PEFC's governance structure is formed by the General Assembly (GA) which is the highest authority and decision-making body. It is made up of all PEFC members, including national and international stakeholders.</p> <p>Members vote on key decisions including endorsements, international standards, new members, statutes and budgets. All national members have between one and seven votes, depending on membership fees, while international stakeholder members have one vote each.</p> <p>The Board of Directors supports the work of the GA and together the GA and the Board make the formal approval of final draft standards. Standards are developed by working groups.</p> <p>In general, PEFC's governance structure is more representative of industry and government stakeholders than of social or environmental groups, which gives industry and governments more influence in the decision-making process. However, the organization does include stakeholders from all sectors.</p>

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	The members vote for the board of directors, which is accountable to the members. There is an international board elected by all members and a US board, elected by the US-based members.	
Scope	FSC is a global, multi-stakeholder owned system. All FSC standards and policies are set by a consultative process. There is an FSC Global standard and for certain countries FSC National standards. Economic, social, and environmental interests have equal weight in the standard setting process. FSC follows the ISEAL Code of Good Practice for Setting Social and Environmental Standards.	Multi-stakeholder participation is required in the governance of national schemes as well as in the standard-setting process. Standards and normative documents are reviewed periodically at intervals that do not exceed five years. The PEFC Standard Setting standard is based on ISO/IEC Code for good practice for standardization (Guide 59) ²³ and the ISEAL Code of Good Practice for Setting Social and Environmental Standards.
Chain-of-Custody	<ul style="list-style-type: none"> • The Chain-of-Custody (CoC) standard is evaluated by a third-party body that is accredited by FSC and compliant with international standards. • CoC standard includes procedures for tracking wood origin. • CoC standard includes specifications for the physical separation of certified and non-certified wood, and for the percentage of mixed content (certified and non-certified) of products. • CoC certificates state the geographical location of the producer and the standards against which the process was evaluated. Certificates also state the starting and finishing point of the CoC. 	<ul style="list-style-type: none"> • Quality or environmental management systems (ISO 9001:2008 or ISO 14001:2004 respectively) may be used to implement the minimum requirements for chain-of-custody management systems required by PEFC. • Only accredited certification bodies can undertake certification. • CoC requirements include specifications for physical separation of wood and percentage-based methods for products with mixed content. • The CoC standard includes specifications for tracking and collecting and maintaining documentation about the origin of the materials. • The CoC standard includes specifications for the physical separation of certified and non-certified wood. • The CoC standard includes specifications about procedures for dealing with complains related to participant's chain of custody.
Non-certified wood sources	<p>FSC's Controlled Wood Standard establishes requirements to participants to establish supply-chain control systems, and documentation to avoid sourcing materials from controversial sources, including:</p> <ol style="list-style-type: none"> a. Illegally harvested wood, including wood that is harvested without legal authorization, from protected areas, without payment of appropriate taxes and fees, using fraudulent papers and mechanisms, in violation of CITES requirements, and others, b. Wood harvested in violation of traditional and civil rights, c. Wood harvested in forests where high conservation values are threatened by management activities, 	<p>The PEFC's Due Diligence System requires participants to establish systems to minimize the risk of sourcing raw materials from:</p> <ol style="list-style-type: none"> a. forest management activities that do not comply with local, national or international laws related to: <ul style="list-style-type: none"> ○ operations and harvesting, including land use conversion, ○ management of areas with designated high environmental and cultural values, ○ protected and endangered species, including CITES species, ○ health and labor issues, ○ indigenous peoples' property, tenure and use rights,

²³ ISO, "ISO/IEC Guide 59:2019", (2019), at: <https://www.iso.org/standard/23390.html>.

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	<ul style="list-style-type: none"> d. Wood harvested in forests being converted from forests and other wooded ecosystems to plantations or non-forest uses, e. Wood from management units in which genetically modified trees are planted. 	<ul style="list-style-type: none"> o payment of royalties and taxes. b. genetically modified organisms, c. forest conversion, including conversion of primary forests to forest plantations.
Accreditation/verification	<p>FSC-accredited Certification Bodies (CB) conduct an initial assessment, upon successful completion companies are granted a 5-year certificate. Companies must undergo an annual audit every year and a reassessment audit every 5 years. Certification Bodies undergo annual audits from Accreditation Services International (ASI) to ensure conformance with ISO standard requirements.</p>	<p>Accreditation is carried out by an accreditation body (AB). Like a certification body checks that a company meets the PEFC standard, the accreditation body checks that a certification body meets specific PEFC and ISO requirements. Through the accreditation process PEFC has assurance that certification bodies are independent and impartial, that they follow PEFC certification procedures.</p> <p>PEFC does not have their own accreditation body. Like with the majority of ISO based certifications, PEFC relies on national ABs under the umbrella of the International Accreditation Forum (IAF). National ABs need to be a member of the IAF, which means they must follow IAF's rules and regulations.</p>
Conclusion	<p>Sustainalytics views both FSC and PEFC as being robust, credible standards that are based on comprehensive principles and criteria that are aligned with ISO. Both schemes have received praise for their contribution to sustainable forest management practices²⁴ and both have also faced criticism from civil society actors.^{25,26} In certain instances, these standards go above and beyond national regulation and are capable of providing a high level of assurance that sustainable forest management practices are in place. However, in other cases, the standards are similar or equal to national legislation and provide little additional assurance. Ultimately, the level of assurance that can be provided by either scheme is contingent upon several factors including the certification bodies conducting audits, national regulations and local context.</p>	

²⁴ FESPA, "FSC, PEFC and ISO 38200", (2018), at: <https://www.fespa.com/en/news-media/blog/fsc-pefc-and-iso-38200>.

²⁵ Yale Environment 360, "Greenwashed Timber: How Sustainable Forest Certification Has Failed", (2018), at:

<https://e360.yale.edu/features/greenwashed-timber-how-sustainable-forest-certification-has-failed>.

²⁶ EIA, "PEFC: A Fig Leaf for Stolen Timber", (2017), at: <https://eia-global.org/blog-posts/PEFC-fig-leaf-for-stolen-timber>.

Appendix 2: Sustainability Bond / Sustainability Bond Programme - External Review Form

Section 1. Basic Information

Issuer name:	Celulosa Arauco y Constitución S.A.
Sustainability Bond ISIN or Issuer Sustainability Bond Framework Name, if applicable: [specify as appropriate]	ARAUCO Sustainability Bond
Review provider's name:	Sustainalytics
Completion date of this form:	October 15, 2019
Publication date of review publication: [where appropriate, specify if it is an update and add reference to earlier relevant review]	

Section 2. Review overview

SCOPE OF REVIEW

The following may be used or adapted, where appropriate, to summarise the scope of the review.

The review assessed the following elements and confirmed their alignment with the GBPs and SBPs:

- | | |
|--|--|
| <input checked="" type="checkbox"/> Use of Proceeds | <input checked="" type="checkbox"/> Process for Project Evaluation and Selection |
| <input checked="" type="checkbox"/> Management of Proceeds | <input checked="" type="checkbox"/> Reporting |

ROLE(S) OF REVIEW PROVIDER

- | | |
|---|--|
| <input checked="" type="checkbox"/> Consultancy (incl. 2 nd opinion) | <input type="checkbox"/> Certification |
| <input type="checkbox"/> Verification | <input type="checkbox"/> Rating |
| <input type="checkbox"/> Other (please specify): | |

Note: In case of multiple reviews / different providers, please provide separate forms for each review.

EXECUTIVE SUMMARY OF REVIEW and/or LINK TO FULL REVIEW (if applicable)

Please refer to Evaluation Summary above.

Section 3. Detailed review

Reviewers are encouraged to provide the information below to the extent possible and use the comment section to explain the scope of their review.

1. USE OF PROCEEDS

Overall comment on section (*if applicable*):

The five green and three social eligible categories for the use of proceeds are aligned with those recognized by both the Green Bond Principles and Social Bond Principles. Sustainalytics considers that the investments contemplated by the Framework across ARAUCO's operations will have positive environmental and/or social impacts and will advance the UN Sustainable Development Goals, in particular goals 4, 6, 7, 8, 11, 12 and 15.

Use of proceeds categories as per GBP:

- | | |
|--|---|
| <input checked="" type="checkbox"/> Renewable energy | <input type="checkbox"/> Energy efficiency |
| <input checked="" type="checkbox"/> Pollution prevention and control | <input checked="" type="checkbox"/> Environmentally sustainable management of living natural resources and land use |
| <input checked="" type="checkbox"/> Terrestrial and aquatic biodiversity conservation | <input type="checkbox"/> Clean transportation |
| <input checked="" type="checkbox"/> Sustainable water and wastewater management | <input type="checkbox"/> Climate change adaptation |
| <input type="checkbox"/> Eco-efficient and/or circular economy adapted products, production technologies and processes | <input type="checkbox"/> Green buildings |
| <input type="checkbox"/> Unknown at issuance but currently expected to conform with GBP categories, or other eligible areas not yet stated in GBPs | <input checked="" type="checkbox"/> Other (<i>please specify</i>):

Affordable housing, access to essential services, socioeconomic advancement and empowerment |

If applicable please specify the environmental taxonomy, if other than GBPs:

2. PROCESS FOR PROJECT EVALUATION AND SELECTION

Overall comment on section (*if applicable*):

ARAUCO has established a Sustainable Bond Coordination Group, responsible for the identification and selection of eligible projects. The Company's Finance Department will be charged with approving selected projects. This is in line with market practice.

Evaluation and selection

- | | |
|--|---|
| <input checked="" type="checkbox"/> Credentials on the issuer's environmental sustainability objectives | <input checked="" type="checkbox"/> Documented process to determine that projects fit within defined categories |
| <input checked="" type="checkbox"/> Defined and transparent criteria for projects eligible for Green Bond proceeds | <input checked="" type="checkbox"/> Documented process to identify and manage potential ESG risks associated with the project |

ARAUCO Sustainability Bond Framework

- Summary criteria for project evaluation and selection publicly available
 Other (*please specify*):

Information on Responsibilities and Accountability

- Evaluation / Selection criteria subject to external advice or verification
 In-house assessment
- Other (*please specify*):

3. MANAGEMENT OF PROCEEDS

Overall comment on section (*if applicable*):

The Company will implement internal tracking systems for the management of proceeds, overseen by its Finance Department. Pending allocation, proceeds may be used to repurchase outstanding indebtedness or be held in cash, cash equivalents and other liquid short-term investments. This is in line with market practice.

Tracking of proceeds:

- Green Bond proceeds segregated or tracked by the issuer in an appropriate manner
- Disclosure of intended types of temporary investment instruments for unallocated proceeds
- Other (*please specify*):

Additional disclosure:

- Allocations to future investments only
 Allocations to both existing and future investments
- Allocation to individual disbursements
 Allocation to a portfolio of disbursements
- Disclosure of portfolio balance of unallocated proceeds
 Other (*please specify*):

4. REPORTING

Overall comment on section (*if applicable*):

ARAUCO intends to report annually on impact and allocation. Allocation reporting will be made available at the category level, while impact metrics, where feasible, will be selected from a list of relevant key performance indicators. This is in line with market practice.

Use of proceeds reporting:

- Project-by-project
 On a project portfolio basis

- Linkage to individual bond(s) Other (please specify):

Information reported:

- Allocated amounts Green Bond financed share of total investment

- Other (please specify):

Frequency:

- Annual Semi-annual

- Other (please specify):

Impact reporting:

- Project-by-project On a project portfolio basis

- Linkage to individual bond(s) Other (please specify):

Frequency:

- Annual Semi-annual

- Other (please specify):

Information reported (expected or ex-post):

- GHG Emissions / Savings Energy Savings
 Decrease in water use Other ESG indicators (please specify):

Hectares of land afforested/revegetated, threatened species protected or conserved, number of individuals that received housing, number of new businesses created in low income areas, number of hours in education/training, number of beneficiaries.

Means of Disclosure

- Information published in financial report Information published in sustainability report
 Information published in ad hoc documents Other (please specify): website
 Reporting reviewed (if yes, please specify which parts of the reporting are subject to external review):

Where appropriate, please specify name and date of publication in the useful links section.

USEFUL LINKS (e.g. to review provider methodology or credentials, to issuer's documentation, etc.)

ARAUCO will publish updates on its website (www.Arauco.cl)

SPECIFY OTHER EXTERNAL REVIEWS AVAILABLE, IF APPROPRIATE

Type(s) of Review provided:

- | | |
|--|--|
| <input type="checkbox"/> Consultancy (incl. 2 nd opinion) | <input type="checkbox"/> Certification |
| <input type="checkbox"/> Verification / Audit: | <input type="checkbox"/> Rating |
| <input type="checkbox"/> Other (<i>please specify</i>): | |

Review provider(s):

Date of publication:

ABOUT ROLE(S) OF REVIEW PROVIDERS AS DEFINED BY THE GBP AND THE SBP

- i. **Second Party Opinion:** An institution with sustainability expertise that is independent from the issuer may provide a Second Party Opinion. The institution should be independent from the issuer's adviser for its Sustainability Bond framework, or appropriate procedures such as information barriers will have been implemented within the institution to ensure the independence of the Second Party Opinion. It normally entails an assessment of the alignment with the Principles. In particular, it can include an assessment of the issuer's overarching objectives, strategy, policy, and/or processes relating to sustainability and an evaluation of the environmental and social features of the type of Projects intended for the Use of Proceeds.
- ii. **Verification:** An issuer can obtain independent verification against a designated set of criteria, typically pertaining to business processes and/or sustainability criteria. Verification may focus on alignment with internal or external standards or claims made by the issuer. Also, evaluation of the environmentally or socially sustainable features of underlying assets may be termed verification and may reference external criteria. Assurance or attestation regarding an issuer's internal tracking method for use of proceeds, allocation of funds from Sustainability Bond proceeds, statement of environmental or social impact or alignment of reporting with the Principles may also be termed verification.
- iii. **Certification:** An issuer can have its Sustainability Bond or associated Sustainability Bond framework or Use of Proceeds certified against a recognised external sustainability standard or label. A standard or label defines specific criteria, and alignment with such criteria is normally tested by qualified, accredited third parties, which may verify consistency with the certification criteria.
- iv. **Green, Social and Sustainability Bond Scoring/Rating:** An issuer can have its Sustainability Bond, associated Sustainability Bond framework or a key feature such as Use of Proceeds evaluated or assessed by qualified third parties, such as specialised research providers or rating agencies, according to an established scoring/rating methodology. The output may include a focus on environmental and/or social performance data, process relative to the Principles, or another benchmark, such as a 2-degree climate change scenario. Such scoring/rating is distinct from credit ratings, which may nonetheless reflect material sustainability risks.

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Sustainalytics

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For more information, visit www.sustainalytics.com

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