

# Celulosa Arauco y Constitución S.A.

**Type of Engagement:** Annual Review

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## 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 CO<sub>2</sub> equivalent</li> <li>• Annual renewable energy generation in MWh (electricity) and GJ (other energy)</li> </ul> <p>Capacity of renewable energy plant(s) constructed or rehabilitated in MW</p>
<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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