

Second-Party Opinion

ARAUCO Sustainable Financing Framework

Evaluation Summary

Sustainalytics is of the opinion that the ARAUCO Sustainable Financing Framework is credible, impactful and aligned with the Sustainability Bond Guidelines 2021, Green Bond Principles 2021, Social Bond Principles 2023, Green Loan Principles 2023 and Social Loan Principles 2023. This assessment is based on the following:



USE OF PROCEEDS The eligible categories¹ for the use of proceeds include nine green and three social categories that are aligned with those recognized by the Green Bond Principles, Social Bond Principles, Green Loan Principles and Social Loan Principles. Sustainalytics considers that investments in the eligible categories will lead to positive environmental or social impacts and advance the UN Sustainable Development Goals, specifically SDGs 3, 4, 6, 7, 8, 9, 11, 12, 14 and 15.



PROJECT EVALUATION AND SELECTION ARAUCO has established a Sustainable Finance Coordination Group that will review and select the projects in line with the Framework’s eligibility and exclusionary criteria. ARAUCO’s CFO is the chair of the group, which also comprises members from the Company’s Finance, Sustainability, Environment and Legal departments. ARAUCO’s Finance Department will ultimately approve the final allocation of all proceeds. The Company’s internal policies and due diligence processes will be used to evaluate and address environmental and social risks commonly associated with the financed projects. This is in line with market practice.



MANAGEMENT OF PROCEEDS ARAUCO’s Finance Department will oversee the management of proceeds, and an equal amount to the net proceeds will be tracked using internal systems, which will contain a database of relevant project information. ARAUCO commits to complete allocation within 60 months of issuance. Pending allocation, proceeds will be temporarily invested in cash, cash equivalents or other capital management activities in accordance with ARAUCO’s investment policies or used to repay a portion of outstanding debt. Sustainalytics considers this to be in line with market practice.



REPORTING ARAUCO commits to report annually on the allocation of the net proceeds of all issuances, as well as the corresponding impact of the financed projects, in a Sustainable Instrument Financing Report on ARAUCO’s website. This is in line with market practice.



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Report Sections

Introduction.....	2
Sustainalytics’ Opinion	3

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¹ Eligible green and social categories are defined under the Framework as: Environmentally Sustainable Management of Living Natural Resources and Land Use; Terrestrial and Aquatic Biodiversity Protection; Energy Efficiency; Sustainable Water and Wastewater Management; Pollution Prevention and Control; Renewable Energy; Clean Transportation; Eco-efficient and Circular Economy Adapted Products, Production Technologies and Processes; Climate Change Adaption; Affordable Housing; Access to Essential Services; and Socioeconomic Advancement and Empowerment.

Introduction

Celulosa ARAUCO y Constitución SA (“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 40 countries and manages approximately 1.7 million ha of owned land, including approximately 973,000 ha of forest planted in South America.² Headquartered in Santiago, Chile, the Company had approximately 19,000 direct employees as of December 2023.³

ARAUCO has developed the ARAUCO Sustainable Financing Framework dated November 2024 (the “Framework”) under which it intends to issue sustainability bonds (notes),⁴ debentures, private placements,⁵ commercial paper⁶ and loans, including revolving credit facilities, term loans, contingent facilities and multi-tranche loan facilities,⁷ and use the proceeds to finance and refinance, in whole or in part, existing and future projects intended to contribute to achieving positive environmental and social impacts. The Framework defines eligibility criteria in twelve areas:

The Framework defines eligibility criteria under the following environmental categories:

1. Environmentally Sustainable Management of Living Natural Resources and Land Use
2. Terrestrial and Aquatic Biodiversity Protection
3. Energy Efficiency
4. Sustainable Water and Wastewater Management
5. Pollution, Prevention and Control
6. Renewable Energy
7. Clean Transportation
8. Eco-efficient and/or Circular Economy Adapted Products, Production Technologies and Processes
9. Climate Change Adaptation

The Framework defines eligibility criteria under the following social categories:

1. Affordable Housing
2. Access to Essential Services
3. Socioeconomic Advancement and Empowerment

ARAUCO engaged Sustainalytics to review the Framework and provide a Second-Party Opinion on the Framework’s environmental and social credentials and its alignment with the Sustainability Bond Guidelines 2021 (SBG), Green Bond Principles 2021 (GBP), Social Bond Principles 2023 (SBP),⁸ Green Loan Principles 2023 (GLP) and Social Loan Principles 2023 (SLP)⁹. The Framework has been published in a separate document.¹⁰

Scope of work and limitations of Sustainalytics’ Second-Party Opinion

Sustainalytics’ Second-Party Opinion reflects Sustainalytics’ independent¹¹ opinion on the alignment of the reviewed Framework with current market standards and the extent to which the eligible project categories are credible and impactful.

As part of the Second-Party Opinion, Sustainalytics assessed the following:

² ARAUCO, “Corporate Presentation Q1 2023”, (2023), at: <https://www.arauco.cl/wp-content/uploads/2023/06/2023.03-Corporate-Presentation-VF.pdf>

³ ARAUCO, “Integrated Report 2023”, at: <https://arauco.com/mo/wp-content/uploads/sites/25/2024/07/ARAUCO-INTEGRATED-REPORT-2023-2.pdf>

⁴ Notes may include convertible notes. Sustainalytics’ opinion is only valid until the time of conversion.

⁵ Private placements may include debt-like instruments including preferred stocks and mezzanine debt.

⁶ ARAUCO will only utilize commercial paper with a maturity longer than one year.

⁷ For multi-tranche facilities with non-green tranches, ARAUCO has communicated to Sustainalytics that it will consider only those tranches under the Framework that are dedicated to financing eligible green projects.

⁸ The Sustainability Bond Guidelines, Green Bond Principles and Social Bond Principles are administered by the International Capital Market Association and are available at <https://www.icmagroup.org/sustainable-finance/the-principles-guidelines-and-handbooks/>

⁹ The Green Loan Principles and Social Loan Principles are administered by the Loan Market Association, Asia Pacific Loan Market Association and Loan Syndications and Trading Association and are available at: <https://www.lsta.org/content/green-loan-principles/#> and <https://www.lsta.org/content/social-loan-principles-slp/>

¹⁰ The Arauco Sustainable Financing Framework is available on Arauco’s website at: www.arauco.com

¹¹ When operating multiple lines of business that serve a variety of client types, objective research is a cornerstone of Sustainalytics and ensuring analyst independence is paramount to producing objective, actionable research. Sustainalytics has therefore put in place a robust conflict management framework that specifically addresses the need for analyst independence, consistency of process, structural separation of commercial and research (and engagement) teams, data protection and systems separation. Last but not the least, analyst compensation is not directly tied to specific commercial outcomes. One of Sustainalytics’ hallmarks is integrity, another is transparency.

- The Framework's alignment with the Sustainability Bond Guidelines 2021, Green Bond Principles 2021, and Social Bond Principles 2023, as administered by ICMA, and the Green Loan Principles 2023 and Social Loan Principles 2023, as administered by LMA, APLMA, and LSTA;
- The credibility and anticipated positive impacts of the use of proceeds; and
- The alignment of the issuer's sustainability strategy and performance and sustainability risk management in relation to the use of proceeds.

For the use of proceeds assessment, Sustainalytics relied on its internal taxonomy, version 1.17, which is informed by market practice and Sustainalytics' expertise as an ESG research provider.

As part of this engagement, Sustainalytics held conversations with various members of ARAUCO'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 the Framework. ARAUCO representatives have confirmed (1) they understand it is the sole responsibility of ARAUCO to ensure that the information provided is complete, accurate and up to date; (2) that they have provided Sustainalytics with all relevant information and (3) that any provided material information has been duly disclosed in a timely manner. Sustainalytics also reviewed relevant public documents and non-public information.

This document contains Sustainalytics' opinion of the Framework and should be read in conjunction with that Framework. Any update of the present Second-Party Opinion will be conducted according to the agreed engagement conditions between Sustainalytics and ARAUCO.

Sustainalytics' Second-Party Opinion, while reflecting on the alignment of the Framework with market standards, is no guarantee of alignment nor warrants any alignment with future versions of relevant market standards. Furthermore, Sustainalytics' Second-Party Opinion addresses the anticipated impacts of eligible projects expected to be financed with bond and loan proceeds but does not measure the actual impact. The measurement and reporting of the impact achieved through projects financed under the Framework is the responsibility of the Framework owner.

In addition, the Second-Party Opinion opines on the potential allocation of proceeds but does not guarantee the realised allocation of the bond and loan proceeds towards eligible activities.

No information provided by Sustainalytics under the present Second-Party Opinion shall be considered as being a statement, representation, warrant or argument, either in favour or against the truthfulness, reliability or completeness of any facts or statements and related surrounding circumstances that ARAUCO has made available to Sustainalytics for the purpose of this Second-Party Opinion.

Sustainalytics' Opinion

Section 1: Sustainalytics' Opinion on the ARAUCO Sustainable Financing Framework

Sustainalytics considers the ARAUCO Sustainable Financing Framework to be credible, impactful and aligned with the four core components of the GBP, SBP, GLP and SLP. Sustainalytics highlights the following elements of the Framework:

- Use of Proceeds:
 - The eligible categories are aligned with those recognized by the GBP, SBP, GLP, and SLP. The eligible categories are: Environmentally Sustainable Management of Living Natural Resources and Land Use; Terrestrial and Aquatic Biodiversity Protection; Energy Efficiency; Sustainable Water and Wastewater Management; Pollution, Prevention and Control; Renewable Energy; Clean Transportation; Eco-efficient and/or Circular Economy Adapted Products; Production Technologies and Processes; Climate Change Adaptation; Affordable Housing; Access to Essential Services; Socioeconomic Advancement and Empowerment.
 - The Framework has defined a look-back period of 24 months preceding the issuance date for the refinancing of eligible projects, which Sustainalytics considers to be aligned with market practice.
 - Under the Framework, ARAUCO may finance or invest in pure play companies that derive more than 90% of their revenue from activities that comply with the eligibility criteria in the Framework. Sustainalytics believes that, while project- and activity-based lending generally results in more

direct environmental and social benefits and ensures compliance with eligibility criteria of the Framework, the financing of general purpose loans or equity investment into pure play companies through green bond proceeds is a commonly accepted approach, which is likely to generate positive impacts, through supporting activities of the pure play companies.

- Under the Environmentally Sustainable Management of Living Natural Resources and Land Use category, ARAUCO may finance or refinance forestry activities, including new planting and replanting activities in owned and third-party areas, that meet the following criteria:
 - Expenditures related to financing the acquisition, maintenance and management of eucalyptus and pine forests that are certified under the Forest Stewardship Council (FSC)¹² or the Programme for the Endorsement of Forest Certification (PEFC).¹³
 - ARAUCO has confirmed with Sustainalytics that: i) for expenditures related to procurement of forestry equipment, only equipment within the boundary of the certified units will be eligible; ii) vehicles for the transportation of produce from the forestry units will be excluded from financing.
 - Eligible projects associated with new planting and replanting activities include: production and acquisition of eucalyptus and pine seedlings; preparation of soil for the plantation of seedlings, including subsoiling and harrowing activities; planting of seedlings; protection and maintenance of planted seedlings up until harvest; development of species hybrids to improve the productivity of eucalyptus and pine plantations while reducing water consumption, increasing CO₂ capture and optimizing soil use; implementation of techniques such as mosaic planting, biological control and minimum tillage that result in the conservation of native vegetation and watersheds and improved soil quality; afforestation or transformation of land use from non-forest to forest through the Company's Sustainable Forest Management; activities and services required to assess practices and implement appropriate measures in small and medium-sized rural producers' planted areas for FSC certification.
 - The development of hybrid plants will exclude those with transgenic manipulation.
 - ARAUCO's Sustainable Forest Management ensures that i) afforestation projects will be certified under the FSC or PEFC and ii) only tree species that are well adapted to site conditions will be used for both planted and native forests.
 - The Company's forest expansion plan considers well-adapted species for both planted and native forests.
 - Sustainalytics considers investments in these activities to be aligned with market expectation.
- Under the Terrestrial and Aquatic Biodiversity Production category, ARAUCO may finance or refinance restoration and conservation projects related to the maintenance, protection and identification of endangered flora and fauna, preservation of high conservation value forests, conservation of fauna, and protection and oversight of roadkill hotspots. Eligible projects and activities financed under this category will adhere to the following criteria:
 - Projects associated with acquisition of native seedlings for reforestation practices in own and third-party properties for existing forest management; labour costs associated with planting native seedlings, pest management and construction of fences combined with infrastructure, such as fauna underpasses for fauna protection, and creation and maintenance of ecological corridors and mosaics in non-native plantations; costs of legalization and environmental licensing related to developing new conservation areas on owned and leased lands; and specialized facilities and services to study and monitor the restored areas, such as GIS analysis,¹⁴ satellite data collection and data analysis. The Company has communicated to Sustainalytics that the pest management activities will exclude the use of agrochemicals, and practices such as hunting, trapping and poisoning of vertebrate animals.

¹² FSC: <https://ca.fsc.org/ca-en/what-is-fsc/fsc-certified-forests>

¹³ PEFC: <https://www.pefc.org/standards-implementation>

¹⁴ A geographic information system (GIS) is a system that creates, manages, analyzes, and maps all types of data. GIS connects data to a map, integrating location data with all types of descriptive information.

- Sustainalytics notes that reforestation projects financed under the Framework will be limited to those tree species that are well-adapted to the site-conditions. Additionally, ARAUCO has confirmed with Sustainalytics that these activities are accompanied with sustainable management plans, such as FSC or PEFC.
 - Sustainalytics notes the Framework-level exclusion of financing for inorganic or synthetic fertilizers, pesticides and herbicides.
- Expenditures related to the conservation of fauna, including specialized facilities and services related to studying and monitoring animal behavior, labour costs associated with dedicated staff, including a biologist and a veterinarian, and costs related to rewilding, treatment and accommodation of extirpated and threatened native fauna species. The Company has communicated to Sustainalytics that such activities are conducted by trained external and internal professionals.
- Projects related to the protection and oversight of roadkill hotspots to expand areas of pass-through corridors that facilitate animal migration and connect fragmented habitats with high biodiversity, including: i) implementation of wildlife underpasses to connect biodiversity sections: ii) retrofitting existing water culverts: iii) implementation of non-electric wildlife fencing to support canopy bridges and other infrastructure to support habitat connection and limit roadkill: and iv) implementation of wildlife passages.
- Under the Energy Efficiency category, ARAUCO may finance or refinance energy efficiency projects that, on a best effort basis, result in at least 30% energy efficiency improvement. Eligible projects may include:
 - Studies and expenditures related to electrically powered machinery or incorporation of energy-saving technologies, such as LED lighting technology; energy storage systems that are electrochemical and battery storage connected to renewables only, energy-efficient heating, ventilation, air conditioning (HVAC) and electrical equipment; acquisition of energy-efficient electric engines, valves and pumps; and optimization projects in ARAUCO's plants.
 - ARAUCO has confirmed that energy efficiency technologies that are designed or intended for processes that are inherently carbon intensive or are primarily powered by fossil fuels are excluded from financing under this category.
 - Sustainalytics views positively the inclusion of a defined energy efficiency threshold for the installation of energy-efficient systems equipment and technologies.
- Sustainalytics considers investments in these activities to be in line with market practice. Under the Sustainable Water and Wastewater Management category, ARAUCO may finance or refinance water management projects related to operations that are powered by renewable energy sources. Eligible projects may include:
 - i) Reduction of water consumption in industrial processes and related equipment at the Company's own operations; ii) systems facilitating the reuse of water in industrial processes; iii) implementation of technologies and systems that improve the quality of treated water and effluents; iv) development and implementation of plans for monitoring the quality of effluents and receiving waters and their ecosystems; v) monitoring of water flows in forest water basins; vi) development of methods to measure water flows close to the Company's neighbours' catchment areas; and vii) and studies to identify or implement new water supply systems.
 - ARAUCO has confirmed with Sustainalytics that projects under this category exclude the following: i) landscaping projects that include invasive species and drought-tolerant species as a result of modified genetics; ii) equipment and methods dependent on fossil fuels; and iii) systems and measures to provide water for fossil fuel operations, such as fracking and mining.
 - The Company has also confirmed that the treatment of wastewater from fossil fuel operations and facilities dedicated to controversial activities such as industrial livestock farming are excluded under the Framework.
 - Sustainalytics considers investments in these activities to be aligned with market expectation.

- Under the Pollution Prevention and Control category, ARAUCO may finance or refinance projects related to waste reduction and management according to the following criteria:
 - Expenditures for the reduction of emissions and solid waste, including organic and non-organic waste.
 - Grinding equipment or services for organic waste and classification equipment for non-organic waste.
 - Equipment to reduce chemical usage and waste generation in the wood cooking process, recover fibre wastes (which are reused as biomass) and minimize fibre waste.
 - Projects or equipment to recover fibre waste from the pulp production process.
 - Projects and equipment, including precipitators, for the reduction in air emissions, such as NO_x, SO₂, and particulate matter. Sustainalytics notes that the Framework excludes all fossil fuel powered equipment and projects that are related to fossil fuel operations or other carbon intensive activities.
 - Projects to reuse waste in processes.
 - Transformation of solid biowaste from industrial process into sub-products to use as soil correctives, agrochemicals and fertilizers.
 - Projects to improve the treatment of liquid effluents.
 - Projects to increase capacity to contain spills through operational controls or infrastructure works.
 - Rainwater control projects.¹⁵
 - Development of hazardous and non-hazardous waste collection infrastructure¹⁶ and initiatives that supports the source segregation of materials for recycling and reuse from such waste streams. This may also include related R&D expenditures carried out in partnership with startups, universities and research centres.
 - Plans for monitoring liquid effluents, atmospheric emissions (including sulphur gases), noise, air quality, water quality and ecosystems.
 - Projects to study or implement fossil fuel replacement or the use of cleaner fuels, such as biogas or biofuels.¹⁷
 - Expenditures related to R&D for projects aiming to reduce air emissions and GHG control, such as R&D and other capital expenditures for carbon capture, use and storage and CO₂ removal projects, such as point source capture, direct air capture, e-fuels, synthetic fuels, addition of biochar to soils, and bioenergy and carbon capture and storage (BECCS), which will include nature-based solutions.¹⁸
 - ARAUCO has confirmed to Sustainalytics that bio-feedstock for e-fuel and synthetic fuel production will be sourced from certified sustainable sources, and that hydrogen-based fuels will comply with the green hydrogen criteria specified in the Framework.

¹⁵ For projects that include flood mitigation, the Company has communicated to Sustainalytics that vulnerability assessment plans will be carried out to understand climate risks and impacts, and adaptation plans will be incorporated.

¹⁶ The financing of waste collection vehicles will be excluded unless the vehicles comply with the Clean Transportation criteria of the Framework.

¹⁷ Sustainalytics notes that ARAUCO will adhere to the following criteria for biomass projects: i) facilities operate above 80% of GHG emissions reduction in relation to the relative fossil fuel comparator; and ii) activities demonstrate woody carbon stocks maintained or enhanced; iii) for installations that produce electricity from biomass or biofuel, the electricity generated must have GHG emissions not exceeding 100 gCO₂e/kWh; and iv) where the installations rely on anaerobic digestion of organic material, the production of the digestate meets the criteria for anaerobic digestion of sewage sludge from ARAUCO's operations.

For electricity generation installations with a total rated thermal input of 50 - 100 MW, the activity applies high-efficiency cogeneration technology, or, for electricity-only installations, the activity meets an energy efficiency level associated with the best available techniques (BAT-AEL) ranges set out in the latest relevant best available techniques (BAT) conclusions, including the best available techniques (BAT) conclusions for large combustion plants.

For electricity generation installations with a total rated thermal input above 100 MW, the activity complies with one or more of the following criteria: i) attains electrical efficiency of at least 36%; ii) applies highly efficient CHP (combined heat and power) technology or iii) uses carbon capture and storage technology where the CO₂ that would otherwise be emitted from the electricity generation process is captured for the purpose of underground storage, and the CO₂ is transported and stored underground.

For biomass projects, the feedstock will not be procured from land that was deemed to have high biodiversity and a high level of carbon stock in the past 10 years.

¹⁸ For nature-based reforestation/afforestation solutions, the Company has confirmed that tree species that are well-adapted to the site conditions will be used and a sustainable management plan will be in place.

Sustainalytics encourages ARAUCO to report on the sustainable feedstock certifications it intends to utilize.

- Commercial BECCS projects shall meet the following criteria: i) must be below an emissions intensity threshold of 100 gCO₂e/kWh; ii) utilize waste feedstock; and iii) permanently store all captured carbon.
 - Sustainalytics considers the investments in these activities to be in line with market practice.
 - Under the Renewable Energy category, ARAUCO may finance or refinance the design, development, construction, expansion, operation, upgrade or maintenance of renewable energy projects meeting one of the following criteria:
 - Solar power, including photovoltaic and concentrated solar power plants where at least 85% of the electricity generated is from solar sources.
 - Onshore and offshore wind power.
 - Biomass, biofuel and biogas projects and assets that meet the following criteria:
 - Biomass recovery boilers and related facilities utilizing wood waste (such as twigs, scraps and bark) and black liquor from FSC- or PEFC-certified forests and mill residues as feedstock.
 - The use in kilns of green hydrogen that meets one of the following threshold: i) electricity to be produced by electrolysis and powered 100% by renewable energy sources; ii) direct CO₂ emissions from manufacturing of hydrogen is 0.95 tCO₂e/tonne of hydrogen or less, or iii) average carbon intensity of the electricity produced that is used for hydrogen manufacturing is at or below 100 gCO₂e/kWh.
 - R&D of bioenergy production (biogas and biofuels) and transformation of biogas to hydrogen, which meet the same criteria described under the Pollution Prevention and Control category under the Framework.
 - Electricity and combined heat and power (CHP) from forestry residues.
 - Sustainalytics notes that ARAUCO will not use feedstock from palm oil operations.
 - Transmission and distribution (T&D) infrastructure dedicated to renewable energy for the Company's consumption and export of excess renewable energy.
 - Purchase of renewable energy from the following sources pursuant to power purchase agreements (PPAs) that have a long-term agreement of at least five years:
 - Wind.
 - Solar facilities that meets the same eligibility criteria of solar power plants defined in this category under the Framework.
 - Hydroelectric power facilities meeting the following criteria:
 - A hydropower facility in operation before 2020 has: i) a power density of more than 5W/m²; or ii) GHG emissions intensity lower than 100g CO₂e/kWh.
 - A hydropower facility in operation during or after 2020 has: i) a power density of more than 10W/m²; or ii) GHG emissions intensity lower than 50g CO₂e/kWh.
 - Sustainalytics considers investments in these activities to be in line with market practice.
 - Under the Clean Transportation category, ARAUCO may finance or refinance the installation, acquisition, modernization and maintenance of transport fleet and associated infrastructure that meet the following criteria:
 - Electric passenger, commercial and heavy-duty road vehicles with zero direct GHG emissions.
 - Purchase of biofuels for use in vehicle fleets. Eligible biofuels may be derived from both waste and non-waste feedstock.
 - Biofuels derived from non-waste feedstock will have lifecycle emissions intensities of 94gCO₂e/MJ¹⁹ or lower, and will be certified by a credible third-party scheme, such as RSB, ISCC Plus or BONSUCRO.

¹⁹ The equivalent of 65% lower than the fossil fuel baseline for transportation as the end use.

- Biofuels from waste feedstock will exclude animal waste from industrial-scale livestock operations and waste from non-RSPO certified palm oil operations.
 - Hybrid vehicles and EVs meeting the following criteria:
 - Vehicles with an emissions intensity of: i) up to 50 gCO₂/km until 2025; or ii) 0 gCO₂e/km from 2026 onwards.
 - Vehicles including heavy trucks with emissions intensity of: i) up to 25 gCO₂/km until 2025; or ii) 0 gCO₂e/km from 2026 onwards.
 - The tailpipe emissions intensity thresholds for hybrid vehicles will be based on the World Harmonized Light-Duty Vehicle Test.²⁰ For heavy trucks, the threshold will be based on the World Harmonized Heavy-Duty Vehicle Test.²¹
 - Electric heavy mobile construction equipment with zero direct emissions.
 - Associated infrastructure that enables and supports the above eligible vehicles, including. Sustainalytics notes that the Framework excludes the financing of parking facilities.
 - Modernization and upgrades on existing locomotives and acquisition of new locomotives and train wagons that meet the following criteria:
 - Fully electric locomotives and train wagons with zero missions.
 - Hybrid freight locomotives and train wagons with emissions intensity of up to 25gCO₂e/tkm.
 - Expansion of railway network that supports eligible locomotives under the Framework and only transports the Company's pulp production.
 - Sustainalytics notes the Framework excludes the transportation of fossil fuels, including blended fuels.
 - New equipment for railroad maintenance serving eligible locomotives under the Framework, including lighting systems, remote-controlled or autonomous maintenance systems, and advanced diagnostics systems. Parking facilities for locomotives are excluded from the Framework.
 - Sustainalytics considers investments in these activities to be in line with market practice.
- Under the Eco-efficient and Circular Economy Adapted Products, Production Technologies and Processes category, ARAUCO may finance or refinance R&D projects, product development, and acquisition and investment in pure-play companies according to the following criteria:
- Investment in ARAUCO's Research Centres for the following R&D projects:
 - Enablement of operational eco-efficiency improvements for pulp lines, such as increasing forest productivity index, reducing raw materials, reducing weight per unit and replacing polyethylene and other fossil fuel-based material.
 - Development of 100% bio-based products and technologies, such as multiple use of wood components.
 - Development of next-generation biochemicals and biofuels from wood waste (such as twigs, scraps, bark and saw dust), black liquor from FSC or PEFC certified forests and other mill residues.
 - Development and introduction of FSC certified products, resource-efficient packaging and distribution products, which may include the following:
 - Development of sustainable construction materials based on wood structures and solutions and bioproducts.
 - Sustainalytics notes that products will be certified by the FSC Chain of Custody and final products will receive an additional eco-label or environmental certification. Sustainalytics encourages ARAUCO to report on any eco-label or environmental certification it intends to utilize.
 - Acquisitions and investments in companies that derive a minimum of 90% of revenue from activities aligned with the category criteria under the Framework.

²⁰ WLTP FACTS, "What is WLTP And How Does It Work?", at: <https://www.wltpfacts.eu/what-is-wltp-how-will-it-work/>

²¹ United Nations, "Development of a Worldwide Harmonised Heavy-duty Engine Emissions Test Cycle", (2001), at: <https://unece.org/DAM/trans/doc/2001/wp29grpe/TRANS-WP29-GRPE-42-inf02.pdf>

- For acquisitions, ARAUCO has confirmed with Sustainalytics that the financed amount will be equal to the net asset value of credible assets of the acquired company, excluding goodwill.
 - Sustainalytics considers investments under this category to be aligned with market expectation.
- Under the Climate Change Adaptation category, ARAUCO may finance or refinance projects related to assessing the Company's climate vulnerabilities and opportunities, and implementing a forest fire prevention and control strategy.
 - Regarding projects related to improving the resilience of forestry, industrial and logistic operations facing climate change, ARAUCO follows local legislation and FSC recommendations on the prohibition of chemical and biological inputs.
 - ARAUCO has confirmed with Sustainalytics that vulnerability assessment plans will be carried out at the chosen sites to understand climate risks and impacts, and that adaptation plans will be subsequently incorporated for investments under this category.
 - ARAUCO envisions the projects that are related to preventive operations and innovations in planting methods to reduce the risk of forest fires within its FSC-certified forests, including the following:
 - i) Implementation of local education and other short- and long-term fire prevention programmes, as well as self-protected forests in own plantations and third-party plantations; ii) design of programmes to reduce the occurrence of fires; iii) training to firefighters; iv) improvements in the monitoring tower system, with the inclusion of automatic fire outbreak detection systems and warnings of outbreaks via satellite; v) and investments in the expansion of firefighting equipment, such as water trucks, skidders and helicopters to be used in the management of FSC-certified forests.
 - Sustainalytics considers investments in these activities to be aligned with market expectation.
- Under the Affordable Housing category, ARAUCO may finance expenditures related to the design, construction, development and promotion of affordable housing under the Habitabilidad y Territorio programme.²²
 - ARAUCO has confirmed to Sustainalytics that affordability is ensured based on a 95% subsidy that is provided by the Government of Chile on the market value of the home.
 - Beneficiaries will comprise low-income populations,²³ which may include ARAUCO's employees and members of communities neighbouring its operations. In addition, the target population will qualify under at least one of the below:
 - Women
 - Rural population²⁴
 - Elderly people who are 65 years and older
 - Vulnerable populations as a result of natural disaster²⁵
 - Underserved population
 - Sustainalytics views expenditures under the category to be socially impactful in the Chilean context.
- Under the Access to Essential Services category, ARAUCO may finance expenditures supporting healthcare, water and sanitation, transportation, recreational infrastructure, and training and development programmes.
 - Regarding healthcare expenditures, ARAUCO may finance equipment for hospitals and other healthcare centres. ARAUCO also intends to provide sponsorship to healthcare

²² Under the Habitabilidad y Territorio programme in Chile, the construction of affordable houses and provision of minimum equipment for neighbourhoods, such as green areas and lighting, is funded as per the Chilean local standards. ARAUCO, "Programa Habitabilidad y Territorio", at: <https://www.arauco.cl/chile/sostenibilidad/programa-habitabilidad-y-territorio/>

²³ Populations belonging to the bottom two quintiles group (Section 1 and Section 2 represent the bottom 50% of households) of Chile's Socioeconomic Classification (CSE) system. The Chile's Social Registry for Households defines the eligibility of the low-income population. Registro Social de Hogares, "¿Qué es el Registro Social de Hogares?", at: <https://registrosocial.gob.cl/que-es#top>

²⁴ The rural population is defined as those who are low-income, based on Chile's Socioeconomic Classification system (Section 1 and 2) and they belonging to: i) secondary cities and smaller towns (population under 150,000); ii) urban districts that have a majority of the population within the bottom two quintiles; or iii) areas of low population density, such as rural towns and settlements (even with populations below 150).

²⁵ The vulnerable target population is limited to the low-income population as per Chile's Social Registry for Households as defined above or individuals with disabilities affected by events that have caused large numbers of victims and fatalities or overwhelming property damage, as a result of floods, volcanic eruptions, earthquakes, landslides, droughts, heat waves, tsunamis, tidal waves, cyclones, hurricanes, storms, tornadoes, tropical storms, typhoons, wildfires, insect infestations and epidemics.

- foundations and finance health organizations dedicated: to i) disease prevention; ii) providing support to families of individuals with illnesses such as cancer, heart conditions or childhood diseases; or iii) education and research of various diseases.
- ARAUCO has confirmed that the healthcare services provided by the above facilities will be accessible to all regardless of their ability to pay.
 - Sustainalytics views expenditures under this activity to be socially impactful in the Chilean context.
- Regarding water and sanitation, expenditures may include those related to drinking water infrastructure and sewage treatment systems.
 - ARAUCO has confirmed to Sustainalytics that it will exclude the financing of desalination plants.
 - Sustainalytics considers these expenditures to be socially impactful in the Chilean context.
 - Regarding transportation, expenditures may include the financing of transportation services to improve access and connection of urban centres with rural and peripheral areas.
 - ARAUCO has confirmed to Sustainalytics that transportation services will be provided free of cost and will meet the eligibility criteria established in the Clean Transportation category of the Framework.
 - Sustainalytics is of the opinion that the transportation services can be expected to improve connectivity between rural and urban centres in Chile and considers the expenditures to be socially impactful.
 - Regarding recreational infrastructure, expenditures may include those related to the development of publicly accessible green spaces, including those in coastal waterfront areas.
 - ARAUCO has confirmed with Sustainalytics that such infrastructure will be publicly accessible.
 - Sustainalytics considers the expenditures to be socially impactful in the Chilean context.
 - Regarding training and development, expenditures may include those related to education, job training, vocational services and sports programmes, targeted at low-income and vulnerable populations.^{26,27}
 - ARAUCO has confirmed to Sustainalytics that such programmes will be accessible to all regardless of ability to pay.
 - Sustainalytics considers these expenditures to be socially impactful in the Chilean context.
- Under the Socioeconomic Advancement and Empowerment category, ARAUCO may fund expenditures to support small and medium-sized enterprises, diversity and inclusion programmes, and employment programmes.
- Regarding SME enterprise financing, eligible expenditures will provide support to SMEs²⁸ in Chile that fulfil at least one of the below criteria:
 - Located in underdeveloped and disadvantaged regions where ARAUCO operates.
 - Majority owned by members of historically marginalized and disadvantaged groups where ARAUCO operates.
 - Faced a significant adversity as a result of a natural disaster or a pandemic.
 - Sustainalytics considers expenditures related to SME financing to be socially impactful in the Chilean context.
 - Regarding diversity and inclusion programmes, expenditures may include financing the below programmes designed to advance ARAUCO's diversity and inclusion agenda:

²⁶ The vulnerable target population is limited to the low-income population as per Chile's Social Registry for Households as defined above or individuals with disabilities affected by events that have caused large numbers of victims and fatalities or overwhelming property damage, as a result of floods, volcanic eruptions, earthquakes, landslides, droughts, heat waves, tsunamis, tidal waves, cyclones, hurricanes, storms, tornadoes, tropical storms, typhoons, wildfires, insect infestations and epidemics.

²⁷ Populations belonging to the bottom two quintiles group (Section 1 and Section 2 represent the bottom 50% of households) of Chile's Socioeconomic Classification (CSE) system. The Chile's Social Registry for Households defines the eligibility of the low-income population. Registro Social de Hogares, "¿Qué es el Registro Social de Hogares?", at: <https://registrosocial.gob.cl/que-es#top>

²⁸ SMEs are defined as small enterprises with a revenue size ranging from CLF 2,400 to CLF 25,000 (USD 99,000 to USD 1 million), and medium-sized enterprise with a revenue size ranging from CLF 25,000 to CLF 100,000 (USD 1 million to USD 4.1 million) per year. ARAUCO follows the Servicio de Impuestos Internos' SME definition. Servicio de Impuestos Internos, "Contribuyentes", at: https://www.sii.cl/contribuyentes/empresas_por_tamano/pymes.pdf

- Recruiting programmes specially designed for people with disabilities
 - Training programmes focused on gender and disability issues.
 - Infrastructure such as breastfeeding rooms for women and ramps for individuals with limited mobility.
 - Mentorship programmes, leadership training, childcare support and scholarship and educational support for low-income women²⁹ to increase the participation of women in leadership positions and selection processes for women.
- ARAUCO has confirmed to Sustainalytics that financing for such programmes will be limited to 10% of the net proceeds.
- Sustainalytics considers expenditures under this activity to be socially impactful in the Chilean context.
- Regarding employment programmes, financed programmes may include those designed to prevent or alleviate unemployment derived from socioeconomic crises stemming from a state of catastrophe defined by the national authorities, including pandemics and earthquakes. The employment generation programmes targeting low-income population³⁰ include:
 - Job-retraining programmes
 - Small-business support
 - Youth employment programmes
 - Digital skills training
- Sustainalytics considers financing employment generation programmes as credible social investments expected to improve employment opportunities for the low-income population in Chile.
- Additional Considerations on Use of Proceeds:
 - Sustainalytics notes that a significant portion of the proceeds raised under the Framework will be directed to finance projects and assets relating to the Company's pulp and wood production businesses, which utilized approximately 90% renewable energy³¹ from biomass sources in 2022.³² Sustainalytics encourages ARAUCO to report on the overall emissions intensity of its pulp and wood production operations.
 - Sustainalytics notes further that ARAUCO intends to define underserved populations as a target group for its social use of proceeds expenditures using the Alkire-Foster method, in alignment with Chile's Ministry of Social Development, to measure multidimensional poverty.^{33,34} While acknowledging that this methodology for defining target populations for the social use of proceeds is in alignment with expectations of the Government of Chile, Sustainalytics further encourages ARAUCO to prioritize financing for low-income individuals.
 - ARAUCO will exclude financing the following activities under the Framework: i) activities involving the exploitation of human rights; ii) modern slavery, such as forced labour or human trafficking; iii) child labour; iv) alcohol; v) tobacco; vi) weapons and arms trade; vii) gambling; viii) nuclear energy; ix) inorganic or synthetic fertilizers, pesticides or herbicides; x) palm oil; xi) activities in protected areas or activities that violate Indigenous peoples' rights; and xii) fossil fuel-related operations and carbon-intensive activities.
- Project Evaluation and Selection:

²⁹ Women belonging to the bottom two quintiles group (Section 1 and Section 2 represent the bottom 50% of household) of Chile's CSE system. The Chile's Social Registry for Households defines the eligibility of the low-income population. Registro Social de Hogares, "¿Qué es el Registro Social de Hogares?", at: <https://registrosocial.gob.cl/que-es#top>

³⁰ Populations belonging to the bottom two quintiles group (Section 1 and Section 2 represent the bottom 50% of household) of Chile's CSE system. The Chile's Social Registry for Households which defines the eligibility of the low-income population can be assessed at: <https://registrosocial.gob.cl/que-es#top>

³¹ ARAUCO's biomass energy production is defined by local Chilean regulations as "non-conventional renewable energy". This energy is used by the Company for all its operations and surplus energy from the industrial mills is sold back into the national grids of Chile, Argentina and Uruguay.

³² ARAUCO "Integrated Report" (2022), at: https://na.Arauco.com/en/resources/download/2022_ARAUCO_Sustainability_Report

³³ Ministry of Social Development, Government of Chile, "Pobreza Multidimensional poverty in Chile: Una nueva mirada", (2014) at: <https://www.desarrollosocialyfamilia.gob.cl/btca/txtcompleto/midesocial/berner-pobrmultidimensional.pdf>

³⁴ The underserved population is defined as per the Alkire-Foster method which measures multidimensional poverty in Chile. Oxford Poverty and Human Development Initiative, "Policy and the Alkire-Foster method", at: [https://ophi.org.uk/policy/alkire-foster-methodology/#:~:text=The%20Alkire%20Foster%20\(AF\),used%20in%20several%20different%20ways](https://ophi.org.uk/policy/alkire-foster-methodology/#:~:text=The%20Alkire%20Foster%20(AF),used%20in%20several%20different%20ways)

- ARAUCO's Sustainable Finance Coordination Group will review and select the projects in line with the Framework's eligibility and exclusionary criteria. The group will meet at least once a year to review and monitor the projects against the eligibility criteria. ARAUCO's CFO is the chair of the group, which also comprises members from the Company's Finance, Sustainability, Environment and Legal departments.
- ARAUCO's Finance Department will ultimately approve the final allocation of all proceeds.
- ARAUCO has in place internal policies and due diligence processes to address environmental and social risks commonly associated with the financed projects, which are applicable to all allocation decisions made under the Framework. Sustainalytics considers these environmental and social risk management systems to be adequate. For additional detail see Section 2.2.
- Based on a well-defined process to select eligible projects and the presence of an environmental and social risk management process, Sustainalytics considers this to be in line with market expectation.
- Management of Proceeds:
 - ARAUCO's Finance Department will oversee the management of proceeds, and an equal amount to the net proceeds will be tracked using internal systems, which will contain a database of relevant project information.
 - ARAUCO commits to complete allocation of an amount equal to the net proceeds within 60 months of issuance, which is longer than what Sustainalytics considers to be good practice. Unallocated proceeds will be temporarily invested in cash, cash equivalents or other capital management activities in accordance with ARAUCO's investment policies or used to repay a portion of outstanding debt, which will exclude carbon-intensive activities. In addition, ARAUCO has established a look-back period of 24 months preceding the issuance date for the refinancing of eligible projects.
 - Based on the presence of an internal tracking system and the disclosure of the temporary use of proceeds, Sustainalytics considers this process to be in line with market practice.
- Reporting:
 - ARAUCO commits to report annually on the allocation of an amount equal to the net proceeds of all issuances, as well as the corresponding impact of the financed projects, in a Sustainable Instrument Financing Report on its website. For revolving credit facilities, the Company will report until the loan maturity. Allocation reporting will include the total amount of the net proceeds allocated to the portfolio, percentage of new financing and refinancing, a selection of brief project descriptions of the eligible projects and balance of unallocated proceeds.
 - Where feasible, impact reporting may include potential impact reporting data, such as annual carbon sequestration (in tCO₂e), annual GHG emissions reduced or avoided (in tCO₂e/ADT), land afforested or revegetated (in ha), area of land conserved (in ha), threatened species protected or conserved, cubic metres per tonne of water saved or reduced (in m³ or m³/ADT), total electricity generated from waste biomass at ARAUCO's facilities (in MWh or MWh/ADT), forest productivity (in m³/ha/year), number of individuals that received housing under the territorial programme, number or volume of loans provided to target groups and number of new businesses created.
 - Based on the commitment to allocation and impact reporting, Sustainalytics considers this process to be in line with market practice.

Alignment with Sustainability Bond Guidelines 2021

Sustainalytics has determined that the ARAUCO Sustainable Financing Framework aligns with the four core components of the GBP, SBP, GLP and SLP.

Section 2: Sustainability Performance of ARAUCO

Contribution to ARAUCO'S sustainability strategy

ARAUCO focuses on the following environmental and social areas in its sustainability strategy: i) people; ii) positive impact for the planet; and iii) renewables.³⁵

³⁵ ARAUCO, "Sustainability Report 2023", at: <https://arauco.com/mo/wp-content/uploads/sites/25/2024/07/ARAUCO-INTEGRATED-REPORT-2023-2.pdf>

To improve its environmental footprint, ARAUCO developed a Climate Action Plan in 2019 for its entire value chain with a focus on climate, biodiversity, circularity and water.³⁶ The action plan includes the following targets: i) reduce scope 1 and 2 emissions by 40.6% per bone dry tonne and scope 3 emissions³⁷ by 35.1% per bone dry tonne by 2030 compared to the 2019 baseline, which have been validated by SBTi as aligned with the 1.5°C scenario; ii) maintain 80% of purchases from SMEs in Chile in the five regions with industrial and forestry presence; iii) achieve a positive impact on biodiversity and restore 50,000 ha of forests by 2050; iv) maintain and expand a network of 157 high conservation value areas covering more than 133,000 ha; v) expand its Protected Productive Landscapes³⁸ (PPL) forest management model; vi) achieve zero non-hazardous solid waste sent to landfills by 2030; vii) measure water footprint in 2023 and expand the scope of its rural drinking water project, Desafío Agua (Water Challenge); and viii) implement an impact measurement system for its social programmes.³⁹ The Company has also committed to ensuring that 95.46% of suppliers and customers by emissions covering investments will have science-based targets by 2027.⁴⁰

To achieve its goals, ARAUCO maintains FSC- and PEFC-certified forests, which represent 93% of its owned and leased forests, and has been certified as carbon neutral since 2020.⁴¹ Regarding biodiversity, ARAUCO commits to maintaining a physical inventory and account for the natural capital of the Company's properties. ARAUCO has developed a strategy to manage its ecosystems through soil care, ecological conservation and restoration, and sustainable water use. The Company's biodiversity commitments include conserving over 500 ha of native forest and protection areas in Latin America, as well as protecting 1,234 threatened species of flora, fauna and fungi.⁴² ARAUCO implemented PPL in 2022 to enhance and preserve traditions and build alliances with its local stakeholders. Furthermore, ARAUCO has committed to investing USD 66 million to industrial environmental projects by 2033.⁴³ As a result of this investment, a new sustainable precision silviculture method was developed and allows the Company to more precisely manage aspects of its forestland.⁴⁴

To become a zero-waste company, ARAUCO recovers its non-hazardous industrial waste from the pulp division and transforms it for use in other products, such as base substrate for composting, soil improver, alkaline additives and filler material. The Company has also implemented a strategy to develop a co-processing or recovery treatment process for non-recyclable waste. ARAUCO also measures and monitors the water flows in its forest water basins.⁴⁵

ARAUCO also invested USD 16 million in programmes and projects for socioeconomic development in 2023.⁴⁶ In collaboration with local authorities and communities, ARAUCO's Desafío Agua programme supported the development of 104 rural drinking water projects, increasing accessibility of clean water to over 50,000 people.⁴⁷ Additionally, ARAUCO's educational foundation has supported 34 municipalities, trained more than 5,730 teachers, benefitted more than 650 schools and supported more than 120,000 children.⁴⁸ ARAUCO's housing and territorial programmes have delivered 2,460 houses and benefitted more than 2,400 families of its employees, subcontractors and neighbouring communities.

Sustainalytics is of the opinion that the ARAUCO Sustainable Financing Framework is aligned with the company's overall sustainability strategy and initiatives and will further the Company's action on its key environmental and social priorities.

Approach to managing environmental and social risks associated with the projects

Sustainalytics recognizes that the proceeds from the instruments issued under the Framework will be directed towards eligible projects that are expected to generate positive environmental and social impacts. However, Sustainalytics is aware that such eligible projects could also lead to negative environmental and social outcomes. Some key environmental and social risks potentially associated with the eligible projects include

³⁶ ARAUCO, "Climate Action Plan", at: <https://www.Arauco.cl/en/sostenibilidad/cambio-global/>

³⁷ ARAUCO's Scope 3 GHG emissions target covers the GHG emissions from the purchased goods and services, capital goods, fuel and energy related activities, upstream transportation and distribution, waste generated in operations, business travel, employee commuting and end of life treatment of sold products.

³⁸ Panorama "Protected Productive Landscape bringing production closer to nature", at: <https://panorama.solutions/en/solution/protected-productive-landscape-ppp-bringing-production-closer-nature>

³⁹ ARAUCO, "Sustainability Report 2023", at: <https://arauco.com/mo/wp-content/uploads/sites/25/2024/07/ARAUCO-INTEGRATED-REPORT-2023-2.pdf>

⁴⁰ SBTi, "Companies Taking Action", at: <https://sciencebasedtargets.org/companies-taking-action#dashboard>

⁴¹ Ibid.

⁴² Ibid.

⁴³ Ibid.

⁴⁴ ARAUCO, "Research and Innovation", at: <https://www.Arauco.cl/en/sostenibilidad/investigacion/>

⁴⁵ ARAUCO, "Sustainability Report 2023", at: <https://arauco.com/mo/wp-content/uploads/sites/25/2024/07/ARAUCO-INTEGRATED-REPORT-2023-2.pdf>

⁴⁶ Ibid.

⁴⁷ ARAUCO, "Climate Action Plan", at: <https://www.Arauco.cl/en/sostenibilidad/cambio-global/>

⁴⁸ "ARAUCO Educational Foundation", at: <https://arauco.com/en/sostenibilidad/conocimiento-de-suelos-2/>

issues related to land use and biodiversity, emissions and wastewater, waste management, occupational health and safety, supply chain management and community relations.

Sustainalytics is of the opinion that ARAUCO is able to manage or mitigate potential risks through implementation of the following:

- To address overall environmental and social risks, ARAUCO has in place a comprehensive Risk Management Policy, Corporate Framework and Corporate Risk Matrix of Greater Impact.⁴⁹ It has derived the policies from international standards, such as ISO 22301,⁵⁰ ISO 31000⁵¹ and COSO ERM Framework,⁵² which assist organizations in developing business continuity plans along with classifying identified risks into strategic, operational, financial reporting and compliance.
- Regarding land use and biodiversity, Arauco's Biodiversity and Ecosystems Services Policy establishes science and research-based measures to avoid, reduce and mitigate impacts of its forest operations on biodiversity, water resources and soil.⁵³
- Regarding risks of emissions, effluents and waste, ARAUCO carries out an environmental training programme for its operators and maintenance staff at the Company's effluent treatment mills. The training reinforces aspects of mill operations, legal issues and requirements, and any potential environmental impacts.⁵⁴ To further control and manage emissions related to business processes, ARAUCO engages in Environmental Audits.
- Regarding risks associated with health and safety, Arauco has an internal occupational health and safety programme applicable across all its countries of operations. Additionally, Arauco's operations in the US will comply with Occupational Safety and Health Administration (OSHA) regulations, the Federal Labor Standards Act (FLSA) and other legislation in the US, the Worksafe New Brunswick and Ontario Ministry of Labour regulations in Canada and local labour laws in Chile, Brazil and Mexico.⁵⁵
- For its Chilean operations, ARAUCO launched its Integrity Expectations policy for its suppliers, which consolidates the Company's policies and procedures and encourages compliance and disclosure from suppliers.⁵⁶ Additionally, each country maintains its own supplier regulation. Overall, ARAUCO carries out monthly risk assessments for suppliers associated with service contracts departments. These assessments cover sustainability risks and are rated from high to low. Following the assessments, monthly action plans are developed for each supplier.⁵⁷
- To manage risks associated with community relations, ARAUCO's Mapuche Community Engagement Policy and Mapuche Advisory Council stipulate how the Company commits to respecting Indigenous culture and engaging with local communities. The Company engages with communities through community consultation programs to meet its social and environmental objectives together with the local community. In addition, regular open houses are held to discuss forestry and industrial businesses and understand the interests and requirements of the communities.⁵⁸

Based on these policies, standards and assessments, Sustainalytics is of the opinion that ARAUCO has implemented adequate measures and is well positioned to manage and mitigate environmental and social risks commonly associated with the eligible categories.

Section 3: Impact of Use of Proceeds

All twelve use of proceeds categories are aligned with those recognized by the GBP, SBP, GLP or SLP. Sustainalytics has focused on two below where the impact is specifically relevant in the local context.

Importance of sustainable forestry in Chile

⁴⁹ ARAUCO, "Sustainability Report 2023", at: <https://arauco.com/mo/wp-content/uploads/sites/25/2024/07/ARAUCO-INTEGRATED-REPORT-2023-2.pdf>

⁵⁰ ISO, "ISO 22301:2019", at: <https://www.iso.org/standard/75106.html>

⁵¹ ISO, "Risk Management ISO 31000", at: <https://www.iso.org/files/live/sites/isoorg/files/store/en/PUB100426.pdf>

⁵² COSO, "COSO ERM Framework", at: <https://www.coso.org/erm-framework>

⁵³ Arauco, "Biodiversity and Ecosystem Services Policy", at: <https://arauco.com/mo/wp-content/uploads/sites/25/2024/06/BIODIVERSITY-AND-ECOSYSTEM.pdf>

⁵⁴ Ibid.

⁵⁵ Ibid.

⁵⁶ ARAUCO, "Integrity Expectations", at: https://na.arauco.com/en/resources/download/integrity_expectations

⁵⁷ Ibid.

⁵⁸ Ibid.

Forests are home to one third of all land biodiversity and provide essential resources for socio-economic development globally.⁵⁹ 57% of the world's primary forests are found in Latin America and the Caribbean, with these regions maintaining significant importance for biodiversity and ecological conservation.⁶⁰ The Food and Agricultural Organization of the United Nations (FAO) has recognized sustainable forest management as an activity that can contribute positively to both human community and environment, providing benefits for food security and forest ecosystems,⁶¹ and help address deforestation.⁶² This is particularly relevant in the case of Chile, where forests covered 19% of the land area as of 2021.⁶³

Chile experienced a loss of 58.3 kha of natural forest in 2023, which is equivalent to 57.5 Mt of sequestered CO₂ emissions. The country lost 12% tree cover between 2001 and 2023, where 5.6% of tree cover loss occurred mainly as a result of deforestation.⁶⁴ Native forests have historically been degraded and mismanaged as a result of being extensively used for firewood. With proper management, however, native forests have the potential to revitalize regional and local economies, and through their natural resilience, can recover and contribute to more sustainable production systems, as well as biodiversity and other ecosystem services.⁶⁵

In this context of decreasing forest cover, the Chilean government updated its Nationally Determined Contribution to double the forest management and reforestation targets.⁶⁶ The government aims to sustainably manage and restore 200,000 ha of native forests by 2030 and reduce emissions from forest degradation and deforestation by 25% by 2030, compared with average emissions from 2001 to 2013.^{67,68} From 2014 to 2016, Chile received USD 63.6 million from the Green Climate Fund for reducing GHG emissions from forests, through which the country was able to reduce emissions by 18.4 million tCO₂e during this period by implementing activities from the (REDD+) Framework.⁶⁹

Based on the above, Sustainalytics is of the opinion that ARAUCO's investment in sustainable forestry management will contribute to combating deforestation and conserving forest ecosystems in Chile.

Importance of financing affordable housing in Chile

In Chile, there has been a 74% increase in the number of families living in informal settlements and a 20% increase in the number of such informal settlements in 2021 compared to 2019.⁷⁰ The country's housing shortage has been further aggravated as a result of rising mortgage loan rates, the high cost of building materials and an increase in rental prices, affecting the housing of nearly 2.2 million people in 2021.⁷¹ It is estimated that 400,000 families in Chile spend more than 30% of their income on housing, which is well above OECD standards for affordability.⁷² A study by Fundación Techo and the Public Policy Centre of the Catholic University show a deficit of more than 641,000 homes across Chile and the existence of 1,290 informal settlements at the end of 2022.⁷³ The Housing and Urban Development Ministry of Chile estimated that 80,000 families were living in encampments across the country during 2022 and projected that 643,534 houses are

⁵⁹ FAO, "El Estado de los Bosque del Mundo" (2018), at: <http://www.fao.org/3/I9535ES/i9535es.pdf>.

⁶⁰ UNDP, "Latin America and the Caribbean: Natural Wealth and Environmental Degradation in the XXI Century", (2020), at: <https://www.undp.org/sites/g/files/zskgke326/files/migration/latinamerica/undp-rblac-CD19-PDS-Number14B-EN.pdf>

⁶¹ FAO, "Sustainable Forest Management", at:

⁶² FSC, "What is sustainable forestry? Practices & benefits", (2024), at: <https://fsc.org/en/blog/sustainable-forestry>

⁶³ FAO, "Climate Action + Forests = Sustainable Development", at: <https://www.fao.org/redd/news/detail/en/c/1411769/>

⁶⁴ Global Forest Watch, "Chile", at: <https://www.globalforestwatch.org/dashboards/country/CHL/>

⁶⁵ World Bank Group, "Chile's Forests: A pillar for inclusive and sustainable development" (2020), at: <https://documents1.worldbank.org/curated/en/379851591243537122/pdf/Chile-s-Forests-A-Pillar-for-Inclusive-and-Sustainable-Development-Country-Forest-Note.pdf>

⁶⁶ IISD, "In Updated NDC, Chile Aligns Climate and Sustainable Development Agendas" (2020) at: <https://sdg.iisd.org/news/in-updated-ndc-chile-aligns-climate-and-sustainable-development-agendas/>

⁶⁷ Ibid.

⁶⁸ UNFCCC, "Chile's Nationally Determined Contribution", (2020), at: https://unfccc.int/sites/default/files/NDC/2022-06/Chile%27s_NDC_2020_english.pdf

⁶⁹ Green Climate Fund, "FP120- Chile REDD-plus results-based payments for results period 2014-2016", at: <https://www.greenclimate.fund/project/fp120>

⁷⁰ Alvarez, F. (2021), "Housing Crisis Grows, According to Recent Report", Chile Today, at: <https://chiletoday.cl/housing-crisis-grows-according-to-recent-report/>

⁷¹ Hernández, K.S. (2022), "dwelling decay: housing crisis, urban institutionalism, And its Understanding Of The Qualitative Shortage", at <https://proceedings.aesop-planning.eu/index.php/aesopro/article/download/19/12>

⁷² Ibid.

⁷³ Pressenza, "The crime of fighting for decent housing in Chile", (2023), at: <https://www.pressenza.com/2023/06/the-crime-of-fighting-for-decent-housing-in-chile/>

required for such people.⁷⁴ Of these families, 51.5% are estimated to live informally due to insufficient housing in urban areas.⁷⁵

To address the housing deficit in Chile, the Housing and Urban Development Ministry in 2022 presented the Emergency Housing Plan to build 260,000 houses across the country and increase the government's role in housing planning and management.⁷⁶ The plan is expected to address at least 40% of the 2022 housing deficit, primarily concentrated in the metropolitan region, which represents 40% of the national housing shortage.⁷⁷ Chile has also developed a social household registry to collect and update information of the household population who are potentially eligible for social entitlements.⁷⁸ The registry classifies the individuals based on the situation of their family, addressing factors such as their educational level, housing condition, total income, physical and mental health and access to social security.⁷⁹ The implementation of the social household registry in Chile has increased the coverage and improved the interoperability of information systems, resulting in enhanced processes of identifying and selecting social benefit users for affordable housing.⁸⁰

Based on the above, Sustainalytics is of the opinion that ARAUCO's investment in affordable housing projects is expected to create a positive social impact by enhancing the accessibility of affordable housing in Chile and improving housing security among the Chilean population.

Contribution to SDGs

The Sustainable Development Goals were adopted in September 2015 by the United Nations General Assembly and form part of an agenda for achieving sustainable development by 2030. The instruments issued under the ARAUCO Sustainable Financing Framework are expected to help advance the following SDGs and targets:

Use of Proceeds Category	SDG	SDG target
Environmentally Sustainable Management of Living Natural Resources and Land Use	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
Terrestrial and Aquatic Biodiversity Protection	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
Energy Efficiency	7. Affordable and Clean Energy	7.3 By 2030, double the global rate of improvement in energy efficiency
Sustainable Water and Wastewater 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

⁷⁴ Government of Chile, "Article: The Government presented the Emergency Housing Plan with the challenge of building 260,000 houses over the next four years", (2022), at: <https://www.gob.cl/en/news/government-presented-emergency-housing-plan-challenge-building-260000-houses-over-next-four-years/>

⁷⁵ Vergara-Perucich, J. F. (2022), "Is There Financialization of Housing Prices? Empirical Evidence from Santiago de Chile", *Economies*, <https://doi.org/10.3390/economies10060125>

⁷⁶ Government of Chile, "The Government presented the Emergency Housing Plan with the challenge of building 260,000 houses over the next four years", (2022), at: <https://www.gob.cl/en/news/government-presented-emergency-housing-plan-challenge-building-260000-houses-over-next-four-years/>

⁷⁷ Ibid

⁷⁸ Berner, H, et al. (2021), "Social information systems and registries of recipients of non-contributory social protection in Latin America in response to COVID-19", at: https://repositorio.cepal.org/bitstream/handle/11362/46868/1/S2100029_en.pdf

⁷⁹ Jiménez, D. et al. (2021), "The Social Housing Crisis and the Barriers to Developing Dementia-Friendly Communities in Chile", *Front. Public Health*, at: <https://www.frontiersin.org/articles/10.3389/fpubh.2021.662364/full>

⁸⁰ Berner, H, et al. (2021), "Social information systems and registries of recipients of non-contributory social protection in Latin America in response to COVID-19", at: https://repositorio.cepal.org/bitstream/handle/11362/46868/1/S2100029_en.pdf

Pollution Prevention and Control	12. Responsible Consumption and Production	12.4 By 2020, achieve the environmentally sound management of chemicals and all wastes throughout their life cycle, in accordance with agreed international frameworks, and significantly reduce their release to air, water and soil in order to minimize their adverse impacts on human health and the environment
Renewable Energy	7. Affordable and Clean Energy	7.2 By 2030, increase substantially the share of renewable energy in the global energy mix
Clean Transportation	11. Sustainable Cities and Communities	11.2 By 2030, provide access to safe, affordable, accessible and sustainable transport systems for all, improving road safety, notably by expanding public transport, with special attention to the needs of those in vulnerable situations, women, children, persons with disabilities and older persons
Eco-efficient and Circular Economy Adapted Products, Production Technologies and Processes	12. Responsible Consumption and Production	12.5 By 2030, substantially reduce waste generation through prevention, reduction, recycling and reuse
Climate Change Adaptation	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
Affordable Housing	11. Sustainable Cities and Communities	11.1 By 2030, ensure access for all to adequate, safe and affordable housing and basic services and upgrade slums
Access to Essential Services	3. Good Health and Well-Being	3.8 Achieve universal health coverage, including financial risk protection, access to quality essential health-care services and access to safe, effective, quality and affordable essential medicines and vaccines for all
	6. Clean Water and Sanitation	6.1. By 2030, achieve universal and equitable access to safe and affordable drinking water for all
	11. Sustainable Cities and Communities	11.2 By 2030, provide access to safe, affordable, accessible and sustainable transport systems for all, improving road safety, notably by expanding public transport, with special attention to the needs of those in vulnerable situations, women, children, persons with disabilities and older persons 11.3 By 2030, provide universal access to safe, inclusive and accessible, green and public spaces, in particular for women and children, older persons and persons with disabilities
	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

<p>Socioeconomic Advancement and Empowerment</p>	<p>8. Decent Work and Economic Growth</p>	<p>8.3. Promote development-oriented policies that support productive activities, decent job creation, entrepreneurship, creativity and innovation, and encourage the formalization and growth of micro-, small- and medium-sized enterprises, including through access to financial services</p>
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Conclusion

ARAUCO has developed the ARAUCO Sustainable Financing Framework under which it may issue sustainability bonds (notes), debentures, private placements, commercial paper and loans, including revolving credit facilities, term loans, contingent facilities and multi-tranche loan facilities. ARAUCO intends to use the proceeds to finance projects in the following categories: Environmentally Sustainable Management of Living Natural Resources and Land Use; Terrestrial and Aquatic Biodiversity Protection; Energy Efficiency; Sustainable Water and Wastewater Management; Pollution Prevention and Control; Renewable Energy; Clean Transportation; Eco-efficient and Circular Economy Adapted Products, Production Technologies and Processes; Climate Change Adaption; Affordable Housing; Access to Essential Services; Socioeconomic Advancement and Empowerment. Sustainalytics considers that the eligible projects are expected to provide positive environmental and social impacts.

The ARAUCO Sustainable Financing Framework outlines a process for tracking, allocation and management of proceeds, and makes commitments for reporting on allocation and impact. Sustainalytics considers that the ARAUCO Sustainable Financing Framework is aligned with the overall sustainability strategy of ARAUCO and that the use of proceeds will contribute to advance the UN Sustainable Development Goals 3, 4, 6, 7, 8, 9, 11, 12, 14 and 15. Additionally, Sustainalytics is of the opinion that ARAUCO has adequate measures to identify, manage and mitigate environmental and social risks commonly associated with the eligible projects.

Based on the above, Sustainalytics is confident that ARAUCO is well positioned to issue sustainability bonds and that that ARAUCO Sustainable Financing Framework is robust, transparent and in alignment with the four core components of the Green Bond Principles 2021, Social Bond Principles 2023, Green Loan Principles 2023 and Social Loan Principles 2023.

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