

# FRAUD REPORTING PROCEDURE

Approved by the board of Celulosa Arauco y Constitución S.A.

# 2014



**ARAUCO**  
Growing the Future



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## APPLICATION AND SCOPE

### OBJECTIVE

The objective of this document is to define procedures for reporting, investigating and providing resolution to allegations of fraud in general and violations of the Code of Ethics. The fraud reporter may choose to report allegations anonymously. He/she may also choose to remain anonymous and confidential throughout the procedure. This will be carried out without prejudice to further legal actions that may ensue.

Celulosa Arauco y Constitución S.A. and its subsidiaries (ARAUCO) have embraced this procedure to receive, accept, investigate and act upon allegations reported by workers, customers, suppliers, shareholders and third parties, regarding violations of the Code of Ethics, including without limitation, irregularities observed in audits, accounting and internal controls.

Every fraud report that is submitted is ensured an independent, confidential analysis, with no reprisals for the fraud reporter.

### DEFINITION

**FRAUD:** For the purpose of this Procedure, Fraud is understood as all types of irregular or illegal actions, characterized by a definite intent to deceive, or to avoid a mandatory regulation, thus resulting in damage. Fraud may be perpetrated to benefit or harm the Organization or third parties, and may be carried out by members of the Organization or external people.

Below are a few examples of fraud that benefit the Organization:

- The sale or allocation of fictional or false assets.
- Inappropriate payments, such as illegal political contributions, bribes, illegal payments to government officials or their intermediaries, payments to customers or suppliers.



- Irregular or premeditated entry or valuation of transactions, assets, liabilities or benefits.
- Irregular and premeditated transactions between related parties, in which one party receives a clear benefit, that could not have been obtained without said irregular and premeditated action.
- Intentional errors or omissions in the registration or publication of relevant information, with the purpose of falsely improving the financial profile of the Organization in view of third parties.
- Illegal business activities, such as those that violate laws, regulations or contracts.
- Tax fraud.

Below are a few examples of fraud that benefit an employee, an external third party or one belonging to another organization:

- Bribes or pay-offs.
- Deviation, to an employee or third party, of a potentially lucrative transaction that would have otherwise generated benefits for the Organization.
- Embezzlement, described as the fraudulent appropriation of money or properties, and possible falsification of financial statements to conceal the action, making it difficult to uncover.
- Intentional cover up or falsification of facts or information.
- Claims made for goods or services that were not, in fact, provided to the Organization.



**DECEIT:** The use of tricks, lies or ploys to mislead a specific person, in order to cause harm.

**ASSET LAUNDERING:** Based on Chilean law, asset laundering is understood as any action that aims to conceal the illegal origin of specific goods, knowing that they derive from crimes related to illegal drug traffic, terrorism, gun traffic, child prostitution, kidnapping, bribes and other crimes related to operations involving securities (such as debt or investment securities).

**FINANCING OF TERRORISM:** Based on Chilean law, Financing of Terrorism exists when a natural or juridical person, by any means, requests, raises or provides funds to be used in the commission of any terrorist crime, such as, for example, taking over or attacking public transportation while in service, attacking a Head of State and other authorities, illicit association with the purpose of committing terrorist crimes, among others.

**BRIBING FOREIGN GOVERNMENT:** Based on Chilean law, it refers to whoever offers or consents to offer a benefit, economic or of another nature, to a government employee, in favor of him/her or a third party, in order to:

- a) Perform actions inherent to their position which benefit a person who is otherwise not entitled to that benefit.
- b) Omit due actions that are inherent to their position, or,
- c) Perform an action that violates the duties of their position.



**BRIBING FOREIGN GOVERNMENT EMPLOYEES:** Based on Chilean law, this refers to whoever offers, promises or provides a benefit, economic or of a different nature, in favor of the government employee or a third party, in order to perform an action or incur in an omission to obtain or maintain any business or wrongful advantage in the context of any international transaction.

If you wish to report allegations related to crimes such as Asset Laundering, Financing of Terrorism, Bribing a national government employee, or Bribing a foreign government employee, the allegations may be submitted by following the established procedure, which is available at [www.arauco.cl](http://www.arauco.cl)



## FRAUD REPORTING

### PROTECTION FOR FRAUD REPORTERS

This procedure offers protection against reprisals or discriminatory measures that could be taken by ARAUCO against a worker who submits a fraud report in good faith and in compliance with the procedure's parameters.

It is mandatory for workers to report incidents, conducts or circumstances that they believe, in their best judgment, could constitute a violation of the Organization's Code of Ethics. In order to facilitate compliance with this obligation, fraud reporting channels are made available. These channels are confidential and fraud reporters will remain anonymous, if they so choose.

### FRAUD REPORTING CHANNELS

i. The general fraud reporting channel is the web site at [www.arauco.cl](http://www.arauco.cl). The web site for Argentina is [www.altoparana.com.ar](http://www.altoparana.com.ar). The web site for Brazil is [www.araucodobrasil.com.br](http://www.araucodobrasil.com.br). Each web site contains a link to an application form in which to write the report. The report can also be made anonymously.

ii. **REGULAR MAIL:** The fraud reporter may submit a report by means of a confidential letter addressed to the Board's Secretary, or any Board member. If the allegations directly or indirectly involve or implicate a member of the Board, the report may be sent directly to the Ethics Committee.



### RECEIVING A FRAUD ALLEGATION

Whoever receives the report, whether it is a member of the Board or the Secretary, will send a communication to the Chairman of the Board and the members of the Ethics Committee. This communication will contain a summary of the allegations and the essential information needed to begin an investigation.

Once the fraud report is received by the Ethics Committee, it will proceed to determine if the allegations are admissible. If they are unacceptable due to an evident lack of authenticity, or for any other motive, the report will be filed. If the allegations are admissible, the Committee will designate a person responsible, who may or may not be a member of the Committee. This person's mission will be to investigate, resolve and produce a report of the investigation. This report will be delivered and presented to the Ethics Committee for information or decision-making, as appropriate.

### FRAUD ALLEGATION REGISTRATION

The Secretary of the Board will keep a record of fraud reports received and classified as admissible. This record will contain the following information, among other data:

- i. The date and nature of the fraud report;
- ii. Current status of the investigation;

The Secretary of the Board must update this record, highlighting the status of ongoing investigations. All fraud reports should be treated appropriately, in accordance to their context. Specific counsel will be used, when needed.





## HANDLING FRAUD ALLEGATIONS

The person conducting the investigation must take measures to collect the greatest amount of information for the investigation. This person will be authorized to interact with the source of the allegations in order to collect further details and therefore steer the investigation appropriately and on a timely basis.

If, however, enough information can't be collected to initiate the investigation, the fraud report will be filed and included in the statistical record of fraud reports.

If the investigation is conducted, the procedure may include the following:

- i. A meeting with whoever submitted the fraud report, to collect greater detail on the operation and the people assumed to be involved. The person designated as responsible for the investigation will inform the fraud reporter of the information security and confidentiality terms of this procedure.
- ii. Operations or omissions are then categorized or quantified, and the information provided is checked.
- iii. The means of proof are determined, which are needed to prove the allegations.
- iv. The authenticity of the information is confirmed.
- v. The impact and the people responsible for the punishable action or omission are determined.

Once all the information is collected and the investigation is complete, the person responsible must prepare a report and provide it to the Ethics Committee.



## CONFIDENTIALITY

Fraud investigations must be conducted under absolute confidentiality. Information disclosure is only allowed when required in order to conduct actions for the investigation. The investigation process must be confidential, and the anonymous identity of the fraud reporter must be maintained throughout the process, if they so choose. If the allegations directly or indirectly involve or implicate whoever was designated by the Ethics Committee as being responsible for the investigation of the allegations, he must remove himself from the investigation on time and report this situation to the Ethics Committee in writing. The Committee will then designate another person responsible for the investigation.

## INVESTIGATION REPORT

The Secretary of the Board must review and analyze the allegations that have been submitted. In addition, once the investigation is completed by the person assigned to the task by the Ethics Committee, a report must be produced. This report will contain the information collected, in reasonable detail, clearly describing the incident. These Investigation Reports should include, among other information, a description of:

- a) The submitted allegations,
- b) The procedures used to investigate them,
- c) Documented results of the investigation, and
- d) Corrective measures that were taken or that can be suggested.

The person designated by the Ethics Committee to conduct the investigation, may (with prior approval of said Committee and approval of the Chairman of the Board) hire external auditors, consultants or experts to assist in the investigation and analysis of the results. All investigations must be conducted in a confidential manner, such that the only information disclosed is information needed to facilitate the review of the documents being investigated or information required by Law.



In addition, the person responsible for the investigation may, if deemed reasonable and necessary, request the assistance of the Internal Audit team, Managers and other ARAUCO executives and collaborators to investigate and resolve allegations, while always maintaining confidentiality. The costs involved in the investigation of the allegations will be borne by the area which was commissioned to perform the respective investigation.

### FRAUD REPORT RESOLUTION

The Ethics Committee will review the Investigation Report prepared by the investigator of the allegations. Based on this report, the Committee will decide whether to approach the Board in order to proceed with internal penalties or other measures that may apply. After the Ethics Committee proposition, the Board may take the appropriate measures and, if needed, proceed to request further information.

The Board may, in its discretion, consult with any ARAUCO executive or any third party that could have the appropriate specialized knowledge for assistance during this process.

If the final report of the investigation concludes that the reported situation has issues or consequences of legal nature, Legal Counsel must advise and act accordingly to safeguard the Company's interests and deliver the information to the Court of Law as soon as possible, if this should apply.