

Environmental and Social Review Summary (ESRS) MASISA - CHILE

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1. General Information of the Project and Scope of IDB Invest's Environmental and Social Review

This transaction consists of a long-term loan to finance the 2021-2023 investment plan and 2021-2022 working capital of MASISA S.A. ("MASISA", "The Company" or "The Client"). The funds will be used for investments that include: i) commissioning new production lines to increase production capacity; ii) installing equipment and technology to increase production process efficiencies and reduce air emissions; iii) providing operational maintenance for its plants; and iv) improving the handling of alternative raw materials. MASISA's plants are located in the cities of Cabrero ("Cabrero Plant") and San Pedro de la Paz ("Mapal Plant"), both in the province of Concepción, VIII Region, Chile.

As part of the environmental and social due diligence (ESDD), IDB Invest reviewed relevant environmental and social information, which included, but was not limited to, the following documents: i) the Company's Environmental and Social Management System (ESMS); ii) current environmental permits and certifications; and iii) review of the operating processes carried out at the Cabrero and Mapal Plants, among other relevant documents. Given the restrictions on mobility adopted by the Chilean government to address the COVID-19 pandemic, a virtual tour of the Cabrero plant facilities was conducted during the ESDD process, and several meetings were held with company officials, community representatives, and representatives of its contractors.¹

2. Environmental and Social Categorization and Rationale

The Project has been classified as a Category B operation according with BID Invest's Environmental and Social Sustainability Policy because its impacts and risks are deemed to be of medium intensity. These include: i) impacts to the health and safety of workers, ii) possibility of occupational accidents due to new equipment installation activities (e.g., scrubbers, electrostatic precipitators, among others); iii) generation of air emissions (e.g., formaldehyde, particulate matter); iv) noise pollution; v) the generation of both hazardous and non-hazardous solid waste; and vi) demand for resources such as energy, water and local services.

The Performance Standards (PS) triggered by the Project are: i) PS1: Assessment and Management of Environmental and Social Risks and Impacts; ii) PS2: Labor and Working Conditions; iii) PS3: Resource Efficiency and Pollution Prevention; iv) PS4: Community Health, Safety, and Security

¹ The president of the Cabrero Community Union, the Catering service representative, a representative of Grúas Horquilla and a worker from MASISA's quality control area.

3. Environmental and Social Context

3.1 General Characteristics of the Project's site

MASISA's operations in Chile are concentrated in two production sites: i) the Cabrero Plant, located 470 km south of Santiago, Chile and 74 km from the city of Concepción; and ii) the Mapal Plant, located 10 km south of the city of Concepción and 20 km from the ports of San Vicente, Lirquén, Coronel and Talcahuano.

The Cabrero Plant, with a built area of 5.7 hectares (ha), is located in an industrial zone in the city of the same name,² on its own land comprising 53 ha. The equipment at this plant will be upgraded³ to increase production, improve energy efficiency and reduce condensable fumes ("blue haze"⁴). An estimated 30-50% of the services contracted during project implementation will be local (national).

The Mapal Plant, with a built area of 4.53 hectares, is located near the coastal area of the San Pedro de la Paz Municipality,⁵ a 22.4-hectare plot of land.⁶ Process improvements will be made by implementing new equipment that will reduce current air emissions by 40 to 50%. An estimated 30-50% of the services contracted during project implementation will be local (national).

In 2019 Chile experienced a large-scale social outburst that resulted in: violent protests, looting, burning and attacks on public facilities. The latter due to the dissatisfaction of several citizens with i) the payment by the State of its social debts regarding the pension system; health and protection; public transportation; and education and social mobility; ii) the privatization of services, especially water; and iii) abuses and corruption.⁷

Although, to date, the situation has returned to relative calm, the likelihood of a similar occurrence in the future remains high. In this sense, if the above occurs, the Company's facilities could well be exposed to aggression and looting, but this is not expected.

4. Environmental Risks and Impacts and Proposed Mitigation and Compensation Measures

4.1 Assessment and Management of Environmental and Social Risks and Impact

4.1.a E&S Assessment and Management System

The Company has developed and implemented a Health, Environment and Safety Management System (HESMS) at all levels and processes of its operation that includes: i) an environmental policy; ii) the identification of risks and impacts; iii) management programs; iv) the required organizational

² Cabrero Municipality, Bío Bío Province and Region.

³ The proposed improvements are expected to increase production and generate an additional 30 to 40 jobs at peak production.

⁴ Low molecular weight organic compound vapors (OCVs) that can be detected in the form of a visible mist (the typical blue haze), resulting from the process of thermofixing resins in wood.

⁵ Municipality of San Pedro de La Paz, Province of Concepción, VIII Region.

⁶ Through a lease agreement.

⁷ <https://www.bbc.com/mundo/noticias-america-latina-50124583>

capabilities and competencies; v) emergency preparedness and response; vi) stakeholder engagement; vii) external communication and grievance mechanisms; viii) means to periodically inform the affected communities; and ix) monitoring and assessment procedures.

The HESMS consists of: i) a Health, Environment and Safety (HES) Management Procedure; ii) a HES Assessment Guide; iii) Corporate HES Procedures (mandatory and indicative); iv) a HES Management Manual; and v) a Corporate HES Good Practice Implementation Rating.

The Client has implemented an ongoing structure to achieve increasing and reliable results in HES performance and to reinforce its governance through: i) HES Management; ii) representation of operational staff on HES issues; iii) HES monthly strategic meetings with service companies;⁸ and iii) HES Management Committees.⁹ It also prepares a consolidated annual report¹⁰ containing information about the financial, social and environmental performance of its subsidiaries and affiliates, aligned with the International Integrated Reporting Committee's Framework (IIRC) and the Global Reporting Initiative (GRI).

4.1.b Policy

The Company has several management instruments (policies) at the corporate level: i) Performance Framework; ii) Business Principles; iii) Sustainable Development; iv) Integrated Safety, Security, Environment, Occupational Safety and Quality Management²; v) Sustainable Development; vi) Diversity, Inclusion and Gender Equity; vii) Freedom of Association; viii) Talent Management; ix) Occupational Health and Safety; x) Business Management Responsibility; xi) Union Association; xii) Contractor Management; and xii) Donations. However, it lacks a specific policy addressing Community Health, Safety, and Security requirements.

4.1.c Identification of Risks and Impacts

MASISA has obtained approval for its projects through 14 Environmental Qualification Resolutions (EQR),¹¹ for which, as part of the environmental impact studies,¹² it identified and evaluated the environmental and social risks derived from its operations, carried out the required public consultations, and followed up on its previous E&S commitments. In addition, it has developed and

⁸ Companies engaged in activities with high potential HES risks.

⁹ General Management Committee, Management Committee, Country General Management Committee, Country Operations Management Committee, Unit Management Committee and Occurrence Investigation Subcommittees, Behavior, Central Operations and Timber Business Committee, Executive Monthly Results Committee (ExComm), Subcommittees, Joint Health and Safety Committee.

¹⁰ https://corporativo.masisa.com/wp-content/uploads/2021/04/Reporte-Integrado-Masisa-2020_EEFF.pdf

¹¹ Equivalent to an environmental license. The RCAs obtained include: i) RCA 033_13 Painting Plant at MASISA S.A. Cabrero; ii) RCA 035_01 Reconditioning of the Old Sawmill Timber Complex; iii) RCA 045_08 Increase in the Production Capacity of MDF Drawn Moldings; iv) RCA 141_05 Optimization of the processes of MASISA S.A., MAPAL Plant; v) RCA 173_14 Increase in the Production Capacity of MDF Moldings to 15000 m³; vi) RCA 176_13 Modification of the MASISA S.A. Riles Treatment System, Cabrero Plant; vii) RCA 185_07 Energy Co-generation System with Vegetable Biomass MASISA S.A.; viii) RCA 185_12 Second Production Line of Melamine Boards MASISA S.A., Cabrero; ix) RCA 185_12 Second Production Line of Melamine Boards MASISA S.A., Cabrero; ix) RCA 206_05 Expansion of the Moldings Line; x) RCA 248_99 Modification of the Andean Wood Complex Industrial Process; xi) RCA 289_09 Reconversion of the MDF1 Line to MDP; xii) RCA 340_05 New MDF Line at MASISA S.A., Cabrero Plant; xiii) RCA 412_14 Management of Riles in Wood Plant, MASISA S.A. Cabrero; and xiv) RCA N-027_08 Increased installed capacity of Melamine of Wood Planks in MAPAL.

¹² Environmental Impact Statement.

is implementing procedures to identify and assess Occupational Health and Safety (OHS) risks. It also has permits for the use and exploitation of well water at its Cabrero and Mapal plants.¹³

The Company has a Corporate HES Procedure to identify and evaluate OHS risks and to identify environmental aspects and evaluate impacts. This applies to all activities and operations of all units of the Company. Responsibility for its implementation goes from Senior Management to the operators of each process, with the respective leadership of the HES specialists.

Similarly, the Company has a Social Risk Assessment (SRA) Procedure in place with the following objectives: i) to systematically assess the social risks inherent to the operation; ii) to identify opportunities for the business and local development, based on the review of the operation's relationship with the environment; and iii) to prepare a cartographic representation of social risks to provide a quick overview of the operation's critical points concerning social issues. The SRA is conducted by a team of collaborators from the environmental, health and safety, operations, legal, and communication departments. This process is reviewed every 2 years, after new operations or operational changes arise, and after operational or relationship contingencies (environmental accidents, emerging conflicts with communities, etc.).

4.1.c.i Direct and Indirect Impacts and Risks

Direct impacts relate to operational processes and the locations where they are generated.¹⁴ These include: i) particulate matter (PM) generation; ii) air emissions (gases and formaldehyde); iii) environmental noise; iv) effluents; v) hazardous and non-hazardous solid waste. These impacts have been properly identified and assessed through the procedures implemented and are periodically reviewed and updated according to any operational changes that may occur. It should be noted that the Company expects to achieve a significant reduction in air emissions and particulate matter generation due to the renewal of the equipment in these processes.

Indirect risks associated with the entire raw material (wood) supply chain, from production (forest management) to delivery to the plant are being mitigated by MASISA requiring its raw material suppliers to be FSC certified.¹⁵ Thus, of the 43 suppliers that the company currently has, 63% are FSC certified. The rest are required to comply with the code in force, the corresponding management plans, an affidavit of the legality of the origin of the raw material, and other requirements included in the FSC certification. Having verified the above, the Customer grants the supplier a "Controlled Wood" Certificate. In addition, all MASISA suppliers must provide the following documentation: i) a Management Plan authorized by the National Forestry Corporation (CONAF); ii) the Management Plan under which the purchase of the forest was approved; and iii) the georeferencing of the property from which the timber originates.

¹³ Resolutions 0137 of June 23, 2008 and 026 of September 22, 1999.

¹⁴ For example: i) raw materials; ii) sawn lumber; iii) Medium Density Fiberboard (MDF) production; iv) Medium Density Particleboard (MDP) production; v) veneers; vi) MD moldings; vii) finishing; viii) melamine impregnation; and ix) painting.

¹⁵ The FSC forest management certificate issued by the Forest Stewardship Council indicates that the product in question was made with raw material from forests managed in an environmentally responsible manner, balancing social, environmental and economic standards.

The supplier control process is carried out by auditing the sites that are not FSC certified. Finally, the Customer has granted a reasonable period to all wood suppliers to implement the protocol defined by the Chilean Timber Corporation (CORMA).

MASISA will implement traceability software¹⁶ starting in 2022 that will enable permanent monitoring of raw material supplier trucks. This will ensure that the origin and final destination of the raw materials are as defined and detect any deviations.

4.1.c.ii Gender Risks

The Company has a Diversity, Inclusion, and Gender Equity Policy (applicable to its own and third-party personnel and evaluated periodically and routinely), which guarantees diversity, inclusion and gender equity, without distinctions based on sex, age, social status, religion, sexual orientation, race, color, marital status, unionization, political affinity, disability, nationality, ethnic group or any other condition that implies any discrimination or affects the fundamental rights of individuals. In addition, the Client strictly complies with Law No. 20,609 (Anti-discrimination Law),¹⁷ which guarantees to all persons, without arbitrary discrimination, the enjoyment and exercise of their rights and freedoms recognized by the Political Constitution of the Republic, the laws and international treaties ratified by Chile and which are in force.

The Company participates in the Public-Private Roundtable for Gender Equality led by the National Service for Women and Gender Equality, which addresses issues of gender violence. It also participates in the Win-Win Community of the United Nations (UN) Women where gender issues are addressed.

The Internal Regulations for Order, Hygiene and Safety (ILR) provide for adjustments to support services that are necessary according to people's age, sex and condition of disability in order for workers to perform adequately at work. In addition, guidelines to investigate and sanction sexual harassment and workplace harassment are set forth. In accordance with the ILR, the Company provides an environment of equal employment and development opportunities free of discrimination based on characteristics unrelated to job performance, which is why all employment decisions are based solely on evaluations related to activity and performance. To date, the Project has 50% female participation in administrative positions and 26% at the management level.

Gender risks and impacts are managed by the Human Capital Management, which has trained personnel; in addition, MASISA has created the Diversity Committee, which is formed by the Human Capital, Legal and Internal Audit managers, and by representatives of the workers' union. This committee is in charge of monitoring and reporting gender-related risks to senior management.

¹⁶ This software is the most advanced model within the CORMA protocol.

¹⁷ Law No. 20,609 defines arbitrary discrimination as any distinction, exclusion or restriction that threatens the legitimate exercise of workers' rights for reasons of race or ethnicity, nationality, socioeconomic status, language, political ideology or opinion, religion or belief, union membership or participation in trade unions or lack thereof, sex, maternity, breastfeeding, sexual orientation, gender identity and expression, marital status, age, affiliation, personal appearance, and illness or disability.

Although the Company, in compliance with Chilean maternity protection regulations,¹⁸ has a breastfeeding room in the industrial facilities of the Cabrero Plant, its hazard identification and risk assessment process for each unit on OHS issues: i) is not explicit in assessing risks to which pregnant women could be subject; ii) does not contain a mapping of areas vulnerable to sexual exploitation of women and minors in the areas of direct influence of the Project; and iii) has not determined whether the presence of Project workers may increase this risk. The Company will therefore adjust its hazard identification and risk assessment process.

At the time of the ESDD, the Company was developing a protocol (extensive to its own and contracted personnel) to prevent, sanction and eradicate mistreatment, labor and sexual harassment by implementing preventive measures and reporting, investigation and sanctioning procedures, with the objective of generating a healthy and safe work environment based on respect for human rights.

4.1.c.iii Climate Change Exposure

According to the United Nations Framework Convention on Climate Change, Chile is a vulnerable country because it meets 7 of the 9 predefined vulnerability characteristics, as it is a country with: (i) low-lying coastal areas; (ii) arid and semi-arid areas, areas with forest cover and areas exposed to forest deterioration; (iii) areas prone to natural disasters; (iv) areas exposed to drought and desertification; (v) areas of high urban air pollution; (vi) areas of fragile ecosystems, including mountain ecosystems; and (vii) an economy heavily dependent on income generated from the production, processing and export of fossil fuels and associated energy-intensive products, or from their consumption (CONAMA, 2008: 13).

The pluviometric system in most of the Chilean territory shows a secular decreasing trend. According to atmospheric circulation model forecasts, there is a probability that the northern and central areas of the country could suffer a decrease in their water resources, placing agriculture in a highly vulnerable situation (SANTIBÁÑEZ et al., 2008: 19). A study carried out by the Geophysics Department of the University of Chile in 2007 on climate variability in Chile towards the end of the 21st century worked with two emissions scenarios of the Intergovernmental Panel on Climate Change (IPCC): moderate and severe. In the moderate scenario, the study diagnosed temperature increases for Chile of between 1°C to 3°C, and in the severe scenario, of between 2 to 4°C throughout the country.

For the Bío Bío region, where the Project is located, the impact of climate change will undoubtedly be more palpable in: (i) ecosystems of regional relevance, large native forest formations and forest plantations, cultivated land and grazing areas, erosion and desertification processes; (ii) material variations in the intensity and temporal and spatial distribution of precipitation, surface runoff, water recharge, and the occurrence of extreme events associated with floods and other meteorological phenomena, such as droughts, frosts and storms; (iii) food production, agricultural and forestry production systems, regional and national energy systems, hydrobiological production systems, and urban systems; (iv) biological diversity and its effects on coastal production systems,

¹⁸ These regulations set forth certain unwaivable rights for women, such as pre- and post-natal leave, nursery care, leave of absence, the right to feed children under two years of age, and parental post-natal leave, among others.

coastal production infrastructure and urban settlements, and coastal ecosystems such as wetlands; v) the exposure of the population, equipment and infrastructure to the occurrence of extreme events (floods, droughts, landslides, etc.), resulting in the alteration of traditional ways of life of human groups (indigenous and rural population), insecurity in the supply of natural resources, goods and services, and quality of life.

That said and taking into account the analysis conducted by IDB Invest as part of the ESDD,¹⁹ the Project's exposure to climate change can be considered moderate.

4.1.d Management Programs

As part of its HES Management System, the company keeps procedures in place that allow it to avoid, minimize and compensate for undesired risks and impacts. It therefore implements action plans that include actions, deadlines, responsibilities, budget, objectives and indicators. These procedures regulate the management of the following risks: (i) occupational; (ii) process; (iii) change; (iv) occurrence of HES accidents and incidents; (v) control of hazardous energy; (vi) control of ladders, scaffolding and fall protection systems; (vii) safe behavior; (viii) waste management; (ix) air emissions management; (x) contractor management and access control; (xi) explosion protection; (xii) emergency prevention and management; (xiii) mobile equipment; and (xiv) general HES requirements. Meanwhile, guiding processes include: i) control of load movement and lifting systems; ii) machine and equipment protection; and iii) health management.

4.1.e Organizational Capacity and Competency

Environmental, social, health and safety issues are the responsibility of the HES and Community Relations Management, which reports directly to the Corporate Management. The following positions are part of this management team: i) Head of Social and Environmental Management, in charge of social, environmental and corporate social responsibility (CSR) management; ii) Head of Environment, in charge of environmental legal compliance and environmental management plans for the operations; iii) HES System Leader; and iv) a Head of OHS. The HES also includes the participation of specialists, technicians and operators that ensure compliance with the Company's environmental, social, safety and health aspects.

4.1.f Emergency Preparedness and Response

The Company plans emergency response considering the entire management process, the necessary infrastructure and the required personnel training, in accordance with the guidelines of the corporate "Emergency Prevention and Management" instructions.

The risk management process identifies emergency situations in order to define operational controls, which must prevent their occurrence and determine actions to combat them, as defined in the "Emergency Response Plans" (ERPs). Emergency brigades are governed by the "Emergency Brigade Statute". To test the suitability and effectiveness of the ERPs, drills are carried out as

¹⁹ CLIMATE RISK EXPOSURE SCREENING REPORT, Level I of the IDB Invest Climate Risk Assessment, September 2021. See document disclosed on this website.

determined in the "Drill Plans". These drills, as well as any actual emergency, are critically analyzed through an evaluation form.

Nevertheless, the Company will update: i) the Mapal Plant Emergency Plan to consider the risks of earthquakes and floods and include action and response protocols; and ii) the Cabrero Plant Emergency Plan to include action measures for earthquake and volcanic eruptions.

4.1.g Monitoring and Review

The Company's HES Management Manual outlines five elements to be evaluated: i) HES monitoring; ii) monitoring of formaldehyde used in the production of resins used as permanent adhesives in the panels; iii) treatment of monitoring deviations; iv) critical analysis of results and management for improvement; v) control of polychlorinated biphenyls (PCBs), present in some old electrical transformer insulators.

Moreover, to comply with the established requirements and as part of its commitments, MASISA has a regular environmental monitoring program for the following items: i) air emissions (combustion gases); ii) particulate matter iii) environmental noise; iv) effluents; v) solid waste; vi) water quality; vii) energy consumption; viii) water consumption; xi) hazardous substances and x) hazardous waste.

The Company uses the following indicators to evaluate its OHS management performance: i) Occupational Accident Frequency Rate (OAFR); ii) Occupational Accident Severity Rate (OASR); iii) Total OAFR; iv) medical surveillance program; v) number of occupational diseases; vi) incident reporting; vii) high potential occurrences; and viii) visible leadership. The Company also sets annual goals to reduce its OAFR and OASR indicators.

MASISA evaluates the performance of its critical suppliers in the following aspects: i) quality of service and product; ii) environmental issues embodied in an environmental management system; iii) OHS; iv) CSR; v) financial situation; and vi) compliance with labor issues regarding their employees.

Regarding social performance, the Company updates its baseline information on a regular basis through the Social Consultation and Pulse Consultation (every 4 and 2 years, respectively).²⁰ These consultations provide objective qualitative and quantitative information to maintain the social license of its operations and strengthen the bonds of belonging and trust with its stakeholders.

4.1.h Stakeholder Engagement

The Company has identified, through the SR process, the main social stakeholders associated with its operations at both the Cabrero and Mapal plants. These include: i) the direct public, consisting of neighbors in the area of direct and indirect influence of the plants, grassroots organizations, non-governmental organizations (NGOs), educational institutions, control agencies and local government authorities; and ii) the indirect public, consisting of employees (to develop a culture of

²⁰ Social Consultation and Pulse Consultation Procedure 2021.

sustainability and social responsibility), suppliers and customers (to develop social and environmental issues in the value chain), and shareholders (for risk control and information reporting). These two groups have been prioritized according to their levels of interest, in the form of a Stakeholder Matrix, which is updated every 2 years or whenever an operational change or emergency event occurs (environmental accidents, emerging conflicts with communities, etc.).

Notwithstanding the above, the Company will review and work on: i) providing relevant information on its plans and expected impacts, so that relevant external stakeholders (e.g. communities) can express their concerns and suggestions to reduce negative impacts and; ii) adapting its action plans based on this information exchange.

4.1.h.i Disclosure of Information

The Company implements and maintains timely, truthful, and transparent communication with stakeholders, groups and grassroots organizations in the communities in its area of influence. This is done in two stages: i) the first, called "Initial", where mutual trust is generated through dialogue, and ii) the second or "Intermediate, or involvement phase", which takes the form of working groups, periodic advisory and follow-up meetings, participation in traditional fairs, and training workshops, among other initiatives.

4.1.h.ii Informed Consultation and Participation

The Company, as part of the environmental evaluation process and to obtain the RCA for its plants, fulfilled all indications and requests as required by law, following all the procedures established by the environmental authority in each case. All information is public and available for consultation by all stakeholders.

4.1.i External Communication and Grievance Mechanisms

4.1.i.i External Communication

MASISA has developed a Corporate External Communications procedure, the objectives of which are: i) to disseminate and promote understanding of the Company and its evolution among related stakeholders; ii) to enhance the positive valuation of the brand and its attributes; and iii) to ensure the social license to operate.

At present, MASISA has a channel for direct or anonymous complaints²¹ related to the observance of its Business Principles, its Standards of Ethical Conduct, conflicts of interest and any issue related to possible non-compliance with regulations or its internal control environment, its financial statements and situations or events that require the attention of its Management or Board of Directors.

For all complaints received, the Client ensures complainants a timely, independent, confidential, and non-retaliatory analysis, through a process structured and monitored by the Risk and Audit

²¹ <https://corporativo.masisa.com/nuestra-empresa/gobierno-corporativo/canal-de-denuncia/>

Committee of MASISA's Board of Directors, which is independent from the Company's management. The reporting channels are: i) in writing to the secretary of the Risk and Audit Committee; ii) via e-mail;²² and iii) using the web page (through a form).

4.1.i.ii Grievance Mechanisms for Affected Communities

MASISA has a platform for managing external communications that is managed by the Communications Department.²³ This platform is responsible for referring each complaint received (from customers, communities) to the different departments. The channels used to receive complaints are: i) social media; ii) email;²⁴ and iii) the website.

The Community Relations Area monitors and keeps a monthly record of complaints. These are managed through action plans together with the Environmental Department and the Operations Area. The Company reports its complaint registry to MASISA's General Manager and Controlling Group on a quarterly basis.

Complaints come in through: i) direct contact; ii) WhatsApp; iii) telephone; iv) the plant's gatehouse; and v) email. Additionally, since 2020, the Company has developed a Complaints Protocol that was disseminated to the community and that provides the contact numbers of the shift manager, so that complaints can be communicated directly and immediately to the operational area.

The most recurrent complaints registered to date are those associated with the generation of: i) particulate matter; ii) noise; iii) odors; iv) soot; v) smoke; and v) public safety issues in the areas surrounding the plant.

However, at the time of the ESDD, there was no evidence of dissemination of the corrective actions taken to the community. The Company will therefore revise the mechanism to facilitate its use, including a flow chart of the process from the capture of complaints to the final response.

4.1.i.iii Ongoing Reporting to Affected Communities

The Company has implemented integrated reporting containing information about the financial, social and environmental performance of its subsidiaries and affiliates, in line with the International Framework of the International Integrated Reporting Committee and the Reporting Initiative. This report details the Company's social performance in terms of corporate social responsibility and community management, which includes strategic initiatives in environmental issues and local productive development.

²² principios@masisa.com

²³ This department also manages the media, with the support of an external agency, in order to disseminate and communicate the Company's projects, milestones, or strategic actions.

²⁴ comunicaciones@masisa.com and relacioncomunitaria@masisa.com.

In addition, MASISA actively participates in the "Roundtable for the Social Progress of Cabrero", an initiative carried out in collaboration with universities and local foundations, which aims to improve the quality of life of people in the rural and urban areas of the Cabrero municipality.²⁵

4.2 Labor and Working Conditions

4.2.a Working Conditions and Management of Worker Relationships

To date, the Company has 1,310 direct employees, 1,075 indirect employees (contractors) and 221 temporary or professional service workers.²⁶ Of the total number of direct employees, 16% are women, of which 50% are in administrative positions and 26% at the management level.

During 2020, the Company carried out different training and education events to leverage its cultural transformation process. To this end, it held workshops on how to formulate actions and dialogues with operators, professionals and managers on issues related to career development. The Company also holds an annual training plan on key OHS and environmental issues, which includes courses taught in person and through virtual platforms (e-learning) and professional social media (LinkedIn).

The Company has made a significant commitment to the promotion of female employment, which is evidenced by a high rate of female recruitment and the development of internal policies focused on gender equality and equity.

Moreover, the Company has adopted Internal Order, Hygiene and Safety Regulations (ILR) that establish (i) the terms of the employment contract; (ii) regular working hours and overtime; (iii) remuneration; (iv) breaks, paid and unpaid leaves of absence; (v) obligations relating to order; (vi) processes for investigating and sanctioning workplace harassment and sexual harassment; (vii) drug and alcohol control; (viii) anti-discrimination measures; (ix) violations of the principle of equal remuneration for men and women performing the same work; (x) equal opportunities and inclusion of people with disabilities; (xi) specific health and safety conditions for people working remotely or teleworking; and (xii) occupational health and safety standards, among others.²⁷

4.2.a.i Human Resources Policies and Procedures

The Company, through its Human Capital department, has developed several policies related to human resources management. These include policies on: i) Business Framework; ii) Business Principles; iii) Personnel Development; iv) Contractors; v) Accountability; vi) Freedom of Association; and vii) Diversity, Inclusion and Gender Equity. It also has specific procedures for managing its employees and those of its contractors.

²⁵ <https://conecta.pactoglobal.cl/casos-de-empresas/indice-de-progreso-social-cabrero/>

²⁶ Information taken from the consolidated report, with regional corporate data.

²⁷ Internal Order, Hygiene and Safety Regulations.

4.2.a.ii Working Conditions and Terms of Employment

The Company complies with Chilean labor regulations (laws, treaties and international conventions ratified by the country), as well as with its policies and ILR.

4.2.a.iii Workers' Organizations

All employees of the Company have the right to free association. At the end of 2020, 916 direct MASISA workers (69.9% of the total workforce) were unionized. The following unions are active in the Company²⁸: i) Mapal; ii) Tableros; iii) Supervisors and Professionals; iv) Molduras; v) Terranova; and vi) Componentes. All of these, except for the Components Union, which acts independently, are grouped together in the MASISA Federation of Unions.

4.2.a.iv Non-discrimination and Equal Opportunity

The Company, through its Inclusion Policy and its ILR, establishes guidelines for non-discrimination, equal opportunities, and inclusion of people with disabilities. The ILR sets out specific actions to guarantee the right to equal opportunities such as: i) adjustments to the physical, social and attitudinal environment to facilitate participation, accessibility and equal opportunities; ii) the incorporation of selection mechanisms to allow equal opportunities and the inclusion of people with disabilities; iii) no less than 1% hiring of staff with disabilities in relation to the total number of employees, and; iv) compliance with the regulations in force.²⁹

4.2.a.v Grievance Mechanism

This year, the Company has strengthened its internal communication channels by implementing new digital platforms such as: i) internet portal; ii) corporate WhatsApp; iii) streaming; iv) digital billboards;³⁰ v) physical billboards¹⁰; vi) digital magazine; and vii) corporate mailing.

MASISA also has a direct or anonymous whistleblower channel, which allows grievances and complaints to be received through the following means: i) in writing, to the Risk and Audit Committee Secretary; ii) via e-mail; and iii) through a form on the website.³¹ Nevertheless, the Company will develop and implement a formal internal grievance procedure, which will outline how grievances will be handled from receipt to resolution.

4.2.b Protecting the Workforce

4.2.b.i Child Labor

Chile is a signatory to ILO Convention 105. Consequently, its legislation prohibits child labor, except for minors between the ages of 15 and 18 performing certain types of light work, provided that all

²⁸ As per the names in Spanish.

²⁹ Law No. 20.422 of February 2021, which sets forth the Rules on Equal Opportunities and Social Inclusion of Persons with Disabilities.

³⁰ In cafeterias and offices.

³¹ principios@masisa.com

of the following conditions are met: (i) the proposed tasks are not harmful to their health or their physical or mental development; (ii) their parents, relatives or guardians have authorized them to work; (iii) the proposed work does not interfere with their studies; (iv) the number of hours worked does not exceed 30 per week, if the minor in question is studying; and (v) working hours do not exceed 8 hours at any time. Due to the nature of its industrial activities, however, the Company does not hire persons under 18 years of age.

4.2.b.ii Forced Labor

Chile has ratified ILO Convention 105. Accordingly, its legislation prohibits forced or unpaid labor, as well as discrimination against workers based on race, skin color, sex or sexual orientation, ancestry, marital status, religion, political participation, and nationality, among others.

The ESDD did not find any evidence of child or forced labor.

4.2.c Occupational Health and Safety

As part of its HESMS, the Company, in addition to the ILR, has the following Occupational Health and Safety related procedures: i) Health, Environment and Safety Management; ii) Occupational Health Management; and iii) Occupational Health and Safety (OHS) Management.

The OHS Procedure seeks to identify, manage, eliminate, neutralize or minimize occupational health and safety risks, thus preserving the physical integrity and health of all employees. The Head of Occupational Health and Safety is responsible for compliance. This procedure focuses on the management of: i) risks; ii) occurrences; and iii) behavior. Risk management includes: i) occupational risks; ii) process risks; iii) product risks; iv) change management; v) definition and implementation of operational controls; vi) risk work; vii) fire and dust explosion protection control; viii) control of personal protective equipment; among others.

The Company has a Central Safety, Occupational Health and Environmental Committee, through which it evaluates its OHS management performance monthly. As required by the legislation in force, the Company also maintains Joint Committees at work sites with more than 25 workers. The members of these committees are representatives of the employees and the employer, who receive 8 hours of training related to their functions. The latter include: i) monitoring compliance with prevention, hygiene and safety measures; ii) investigating the causes of occupational accidents and diseases; iii) promoting employee training; and iv) monitoring and evaluating compliance with the occupational health program.

To ensure continuity in compliance, all direct and indirect employees of the Company receive training on OHS management. MASISA also implements actions to promote, achieve, and maintain the physical, mental, and social well-being of its employees, which include environmental monitoring of the risk agents in each work area (total dust, breathable dust fraction, illumination, noise levels, formaldehyde concentrations, and radiation, among others) every 3 years. The results of the environmental monitoring are used as the basis for establishing biological monitoring, which is carried out periodically (annually or at shorter intervals, according to medical criteria) and includes the following: i) pre-occupational examinations; ii) regular check-ups; iii) regular specific

examinations; iv) exit examinations; v) change of position examinations; and vi) reinstatement examinations.

4.2.d Provisions for People with Disabilities

As per the Chilean regulations in force, the provisions against discrimination and prevention of harassment of persons with disabilities are detailed in the Company's ILR. These include: i) the adequacy of the physical and social environment; ii) equal opportunities in personnel selection processes; iii) job training to facilitate insertion; and iv) no less than 1% hiring of staff with disabilities in relation to the total number of employees

4.2.e Workers Engaged by Third Parties

The Company has a Contractor Policy and a Contractor Regulation by means of which it requires compliance with current regulations and MASISA's policies related to labor, environmental and social issues, and occupational health and safety.

4.2.f Supply Chain

As part of the HESMS, the Company has implemented some instruments to ensure that its suppliers comply with labor laws, standards, and principles throughout the supply chain. These include the corporate "Supplier Incorporation, Evaluation and Management" procedure and the Contractor Regulations, which require the latter to comply strictly with labor, environmental, safety and health regulations. The Company also requires that all contractors or suppliers provide certification from the Labor Department or other agency, attesting that the supplier is up to date with the payment of its labor and social security obligations with regard to its employees.

The Company provides training to representatives of supplier companies on issues related to: i) working conditions; ii) employment contracts; iii) personal protective equipment (PPE); and iv) environmental and social sustainability.

4.3 Resource Efficiency and Pollution Prevention

4.3.a Resource Efficiency

The Company is committed to the rational use of natural and energy resources through the implementation of the following actions: i) the use of controlled-source fiber (FSC certified) in its processes; ii) the reuse of its industrial water after physical, chemical or biological treatment at the Mapal and Cabrero plants; iii) the cogeneration of biomass energy (from bark, wood dust); and iv) the replacement of equipment to improve energy efficiency (e.g., dry material reprocessing mill).

4.3.a.i Greenhouse Gases

The most important greenhouse gas (GHG) generating sources in the Company are the following: i) energy production through the use of fossil fuels (diesel) and biomass; ii) transportation of wood fiber (raw material); iii) transportation of its final products; and iv) resin generation.

The Company has contracted a consulting firm to estimate the GHG emissions of its activities under Scope 1, 2 and 3 of the international standard ISO 14064.³² This exercise, which is done at the corporate level and considers the activities carried out at the geographical locations of the Cabrero and Mapal plants, has completed calculations for Scopes 1 and 2. The time remaining for the development of Scope 3 is 12 months.

4.3.a.ii Water Consumption

The Company keeps the permits for groundwater use and exploitation (through wells) for the Cabrero and Mapal plants in force. The Cabrero Plant has a permit that was granted in 2008 and a system of 18 wells, all of which are located on the Company's property. Similarly, the Mapal Plant, whose permit was granted in 1999, has a system of 6 wells, all located on the Company's property.

With respect to water for human consumption, the Cabrero Plant is supplied by the public grid. However, at the Mapal Plant, water for human consumption is purified on site. Whatever its origin, water quality is monitored weekly and every six months by certified laboratories to ensure, first, its potability and, second, its suitability for use in the Company's processes.

4.3.b Pollution Prevention

The Company, as part of the requirements set forth in its environmental permits, has environmental management plans that contain the principal prevention, mitigation or correction measures for the following possible impacts: i) alteration of ambient air quality (gas and particulate material generation); ii) increase in the level of ambient noise; iii) generation of hazardous and non-hazardous solid waste, and; iv) soil quality alteration.

The Company has effluent treatment plants in Cabrero and Mapal. The Cabrero plant consists of biological sludge reactors, where the clarified sludge is reused in an abatement system through a wet electrostatic precipitator (WESP). The water adhering to the wood in the form of moisture is separated using a high efficiency evaporator and then condensed, distilled and reused.

In the case of the Mapal Plant, part of the clarified product and the reject from the osmosis process is reused to wash the chips of the MDF line, while the other part is sent to the municipality's sewage collection and disposal system for treatment. It should be noted that the Company, in a continuous optimization process, seeks to reuse as much wastewater as possible and reduce its generation.

³² The International Organization for Standardization (ISO) Standard ISO 14064 specifies the principles and requirements (inventory design, development, management, and verification) for the quantification of greenhouse gas (GHG) emissions at the organizational level.

As authorized by the competent authorities of the different jurisdictions, the domestic effluent generated at the plants is discharged directly into the public sewage system, without exceeding the concentrations set out in the Maximum Allowable Values (MAVs) specified in the local legislation.

In terms of emissions control, the Cabrero Plant uses an efficient closed-loop process that allows it to reuse the biomass (bark and wood chips) combustion gases to heat a thermal fluid used for heating and energy transfer to the rest of the processes. All gases generated in the thermal plant are used as energy to dry the wood either directly or through a mixture of combustion gases at different temperatures (depending on whether it comes from the MDF or MDP process).

Although there are currently no regulations in Chile for emissions from this type of industry, the Company has entered voluntary commitments and adjusted its processes to comply with international regulations (European standards). It should also be noted that all the energy³³ required for the MDF process comes from renewable sources. Only the MDP wood drying process uses a wood dust burner whose ignition process is diesel fueled, until it reaches its working temperature. However, the wet electrostatic precipitator has an energy recovery system that is also used as thermal energy.

The Company conducts atmospheric monitoring, with discrete measurement of the following parameters: PM₁₀,³⁴ SO₂, NO₂, temperature, wind speed and direction. These monitoring values are reported to the authority on a monthly or annual basis, as applicable, to verify compliance with local regulations. Nevertheless, the Company will verify that its emissions comply with the values included in the IFC/World Bank Environmental, Health and Safety Guidelines for Sawmills and Wood Products Manufacturing.³⁵

4.3.b.i Waste

The Company's goal is to generate zero waste.³⁶ Currently, the generation of the latter is minimal since most of the liquid and solid waste are reused through highly efficient closed-loop processes, as is the case of effluents and combustion gases.

As for non-hazardous waste, MASISA's processes generate slag, which comes mainly from the burners. These materials are currently used as soil compactors inside the plant. The Company also reuses paper, cardboard, plastic, and strapping (straps used to tie packages). The Company is implementing a project to generate compost from organic waste generated in the cafeteria.

Hazardous waste includes: oils, thermal oil, grease, contaminated wipes, sanitary waste (biohazardous), batteries, printer cartridges, waste contaminated with hazardous substances, and

³³ Thermal energy is used to dry the wood, heat the press and generate steam, achieving a highly efficient process.

³⁴ The PM₁₀ monitoring conducted considers PM_{2.5}.

³⁵ International Finance Corporation's Environmental, Health and Safety Guidelines for Sawmills and Wood Products Manufacturing (IFC). <https://www.ifc.org/wps/wcm/connect/50b7689e-0f6f-44ea-930e-0aef3f998c75/0000199659ESes%2BSawmills%2Band%2BMWP-%2Brev%2Bcc.pdf?MOD=AJPERES&CVID=iqesiyl>

³⁶ The Company is an example of circular economy; it uses wood waste from its own sawmill and that of third parties (including small branches from the forest cutting process, which could generate forest fires) to transform it into valuable products that are in high demand, such as MDF boards.

chemical containers. These are delivered to duly certified hazardous waste handling companies or to the original supplier (in the case of printer cartridges and chemical product containers) for treatment, reuse or final disposal.

The resin is purchased from a local supplier (Georgia Pacific) whose facilities are located next to the MAPAL plant. Although the resin is produced from urea and formaldehyde, no solid waste is generated during its production. It is in the resin application washing processes system, however, that non-hazardous wastewater is generated and go directly to final disposal. At MAPAL, the resin is transported by pipeline and in the case of Cabrero by tanker trucks.

4.3.b.ii Hazardous Materials Management

The Company has a storage warehouse for hazardous substances. The plant complies with the regulations in force, is properly conditioned, has adequate ventilation, and has containment systems, emergency showers, and safety data sheets (MSDS³⁷) for each material deposited therein. The number of hazardous materials handled by the Company is minimal and their risk level is medium to low.

4.4 Community Health, Safety and Security

4.4.a Community Health and Safety

The Company ensures compliance with its Sustainability Policy through its Corporate Social Management and Community Relations Procedure. The purpose of this procedure is to control the risks and impacts of operations³⁸ on stakeholders, specifically the Cabrero and San Pedro de la Paz communities, located in the Bío Bío region. MASISA's Risk Assessment Procedure uses a "social map" that represents risks classified as high or medium in a territorial and geographic manner. The Company also has a stakeholder matrix for each of its industrial operations.

4.4.a.i Infrastructure and Equipment Design and Safety

The Company, through its Triple Bottom Line Policy (environmental-social-economic), is constantly innovating its processes to achieve sustainable development. In this sense, MASISA's plant designs, both in terms of infrastructure and equipment, include safety factors that are more stringent than those normally used in the design of this type of plant. Its infrastructure complies with the life and fire safety³⁹ (L&FS) requirements of the IFC's General Environmental, Health and Safety Guidelines and the international L&FS codes of the National Fire Protection Association (NFPA) to the extent applicable, as well as with Chilean fire protection laws and standards.

In order to reduce the environmental impacts of their processes, the plants have implemented actions such as the installation of: i) noise screens; ii) scrubbers and electrostatic precipitators for

³⁷ Material Safety Data Sheet.

³⁸ The direct impacts that may affect the community are: i) particulate matter ("PM") generation; ii) air emissions (gases and formaldehyde); and iii) ambient noise. See item 4.1.c. *Direct and indirect impacts and risks* of this document.

³⁹ It applies an active and passive fire and explosion protection concept specific to the industry.

particulate material and gases; and iii) multicyclones and dry electrostatic precipitators to minimize gases.

4.4.a.ii Hazardous Materials Management and Safety

Although the industry uses only minimal quantities of hazardous materials, the Company has optimized their management through: i) ongoing process control to avoid waste generation; ii) the use of only the quantities required; and iii) the implementation of OHS measures during storage.

4.4.a.iii Community Exposure to Disease

The Company, per se, has not exacerbated the risk of exposure to disease in the community. Nonetheless, to prevent the transmission of COVID-19, the Company implemented the following measures: i) pandemic management at production facilities and sites; ii) infrastructure adaptation; iii) epidemiological surveillance; iv) operational control; and v) communications management. It also formed the COVID Management and COVID Operational Committees, which conduct continuous monitoring of the pandemic.

4.4.a.iv Emergency Preparedness and Response

The Company has considered the community as part of its emergency and contingency response plans when identifying and assessing the risks of its operations. Thus, drills are conducted annually with the participation of the community; community participation is incorporated into the annual drill program, when applicable; and an update of the risk identification and evaluation process is carried out every two years, every time there is a significant operational change or when some type of emergency has occurred. The Company keeps the communities informed of the results of the risk assessments and drills performed on a sustained basis.

4.4.b Security Personnel

At its industrial plants, the Company has security-trained personnel who do not carry weapons; they are equipped with radio communications and a remote surveillance system to monitor the facilities.

However, the process of contracting security services does not include: i) verification of potential past crimes or human rights abuses of the guards; ii) a training process for guards on issues related to the Company's Security Policy, Code of Conduct, and "Zero Tolerance" Policy on the use of drugs and alcohol in the workplace; and iii) a training plan on the use and management of force in the event of security threats and risks. In this regard, the Company will: i) develop a Physical Security Management Manual that includes professional ethics and human rights issues;⁴⁰ and ii) train security personnel on human rights issues.

⁴⁰ Based on the International Finance Corporation (IFC) Good Practice Handbook. Use of Security Forces: Assessing and Managing Risks and Impacts. Guidance for the Private Sector in Emerging Markets.

4.5 Land Acquisition and Involuntary Resettlement

The Project does not involve any kind of involuntary physical or economic displacement.

4.6 Biodiversity Conservation and Sustainable Management of Living Natural Resources

None of the Project's facilities or raw material plantations intersect with the National System of State Wildlife Protected Areas (SNASPE).

4.7 Indigenous Peoples

The Project will not affect indigenous populations.

4.8 Cultural Heritage

The Project does not include any construction or expansion activity; therefore, no impact on cultural heritage is foreseen.

5. Local Access of Project Documentation

The documentation relating to the Company can be accessed at the following link:

<https://corporativo.masisa.com/>