





Indigenous communities

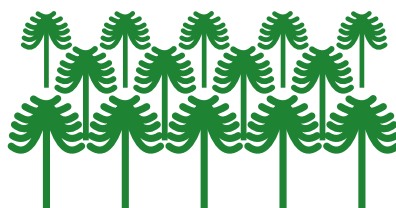
Page 40

Masisa strives to respect the practices and cultures of indigenous communities in the areas in which it operates, maintaining a dialogue and consultations with these communities. We currently have important relations with two indigenous peoples: the Mapuche in Chile, and the Kariña in Venezuela.

Pending land claims

Page 40

Masisa has been traditionally inclined towards dialogue with indigenous communities regarding ancestral rights and the religious use of land. We respect governmental communications channels as well as those of the communities and of the company.



Forest under conservation

Page 64

9.7% of Masisa's land consists of protected reserves, and 6.8% are native forests.

Policy profile and financial results

Page 61

We own native forests in Argentina, Brazil and Chile.



Masisa profile and financial results

Pages 8 - 27

Masisa is a vertically integrated forest company. We also include information on:

- Corporate governance
- Triple Bottom Line management system
- Financial Results



Masisa plantations

Page 10

The objective of the Forestry Division is to maximize the long-term profitability of Masisa's forestry assets, operating within a framework of sustainable management and social responsibility.

Safety of forest workers

Page 34

We are not satisfied on the issue of safety. We assume the commitment to do everything in our power to achieve our goal of zero accidents.

Local employment

Page 38

We are committed to controlling our economic impacts on local communities and define goals to increase the incorporation of local labor in all operations.

Appropriate salaries

Page 33

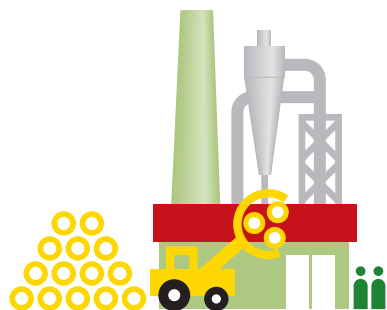
Salaries paid for an ordinary week's work meet legal requirements and are within industry norms. In Masisa we are also committed to ensuring that all employees receive at least the equivalent of "basic basket" in each country, an amount sufficient to cover the basic necessities of their families.



Communities

Page 38

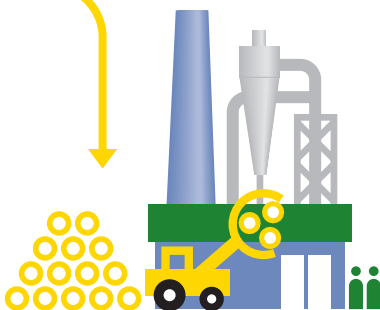
Masisa strives to understand the perceptions and expectations of neighboring communities through processes of dialogue that have revealed various issues of interest to our neighbors and local authorities.



Third-party sawmills

Page 57

We have developed a selection procedure for suppliers to ensure that our wood supply comes exclusively from approved operations.



Masisa sawmills

Page 10

We have sawmills in Chile, Brazil and Venezuela that process logs into boards. Masisa is an important player in the Latin America forestry business, with an installed sawmill capacity of 730,000 cubic meters.

Sawmill emissions

Page 52

This process generates wood chips and sawdust, materials that we use as a source of thermal energy in wood drying processes. In Brazil, we have a co-generating energy plant.

Worker safety in the sawmill

Page 35

Accident frequency throughout the company dropped by 15.6% in 2005. The Solid Wood Division had the best results, and the Forest Division the worst.

Waste water from sawmills

Page 51

Our sawmills in Brazil and Venezuela have recycling systems that significantly reduce the consumption of freshwater, compared with that in our Chilean sawmill.

Air pollution

Page 53

Control of air pollution at each plant is in accordance with national legislation in each case. However, data from plants is not adequately consistent to enable us to report adequately on pollution.

Worker safety in the plant

Page 34

We pay special attention to controlling and monitoring the exposure of our employees to noise, dust and formaldehyde in board production.

Waste waters from plants

Page 51

The water used in board production mainly comes from underground sources and, in some cases, from the municipal system, with the greatest quantity employed in manufacturing MDF boards.

Acquisition policies

Page 21

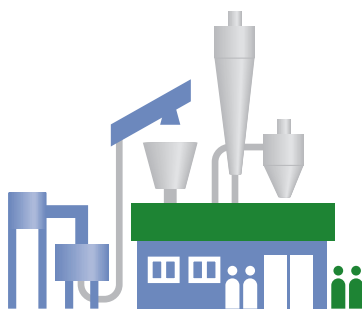
We have management systems based on procedures that minimize risk and monitor the control of impacts.



Transport, dust and noise

Page 39

We have received complaints on environmental issues from neighboring communities in six of our plants, and all problems have been dealt with, resolved or reduced.



Masisa board plant

Page 11

Masisa is the main board producer in Latin America, representing 19% of the region's installed capacity. We have industrial installations in Chile, Argentina, Brazil, Venezuela and Mexico, as well as a commercial presence in over forty countries.



About this report

This is the first Sustainability Report published by Masisa as the merged company, although Terranova had published two (2000-2001 and 2002-2003) and the former Masisa one (2002-2003).

The merged company publishes an annual report as a requirement under Chilean law, quarterly reports, information on important events required by the Chilean Superintendent of Securities and Insurance (www.svs.cl) and reports to the US Securities & Exchange Commission (SEC).

Various factors are responsible for important differences between this sustainability report and previous ones. We have been standardizing and integrating the information systems of the two original companies since the merger that was completed in June 2005, and this process is not complete. In addition, much of the information prior to the merger is not comparable, and this prevents us from providing historical information on performance and trends that is usually so useful when interpreting a company's performance and sustainability.

We have tried to design the contents of the report so it is more useful to our readers. For those of us who are reporting, it is always a challenge to achieve a balance between providing information that is complete and relevant (that which affects the company's performance), and giving too much information that obscures

For those of us who are reporting, it is always a challenge to achieve a balance between providing information that is complete and relevant (that which affects the company's performance), and giving too much information that obscures essential issues.

essential issues. We have based previous reports on the Global Reporting Initiative's (GRI) Sustainability Reporting Guidelines (www.globalreporting.org). Although we recognize the importance of standardizing reports so as to allow comparisons between companies, we feel that too much information was provided on issues that were not of much interest to our stakeholders. So this year we are using a reduced number of indicators and issues in the belief that they reveal more about the forest products industry.

We have combined three approaches to ensure that the issues covered in this report are the most relevant ones. First, we attempt to include those issues of interest to our stakeholders as indicated in our consultations. We also follow the WWF Guidelines on Corporate Sustainability Reporting for the Forest Industry (Discussion Document, Version 1, March 25, 2004) that cover important issues and materials for the forest industry. This document is in draft form, and therefore subject to change. Finally, we follow the GRI Guidelines, as suggested by WWF. The reader who would like to more information about Masisa's finances, human resources and business activities can access the company's annual report at www.masisa.com.

We have changed the level of information consolidation in this report. In the past we presented information on our businesses in each country in which we operate, but did not provide information on each line of bu-

siness. This report reflects the new divisional structure of our operations and provides separate information on aspects that are central to our forest, board and solid wood businesses. In some cases, we also present information on our different operating locations.

We have broadened the scope of the report. We continue using the financial criterion when reporting on the companies in which we hold over 50% of stock or those in which we are responsible for management. On this occasion, we have included information on our operations in Venezuela, the small mouldings plant that we operate in the United States, as well as on the safety of our service providers (contractors), all of which was absent from previous reports. Starting in 2006, we will add a new business division in the retail field, and we will also start reporting on the performance of our Masisa Placacentros distribution franchises in Latin America.

We invite our readers to comment on our performance as well as on the relevance and interest of the issues covered in this report.

For more information on the areas covered or on other social and/or environmental issues concerning Masisa, please contact:

Maria Emilia Correa,
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Fax: +56 2 350 6039 (Santiago, Chile) / info@masisa.com

Message from the General Manager

The merger between Terranova and Masisa was successfully completed in May 2005. The new company thus formed is publishing its first Sustainability Report, which is the principle means by which it reports transparently on its achievements in the financial, social and environmental areas.

The year 2005 was one of significant change that affected our economic performance and that helped us achieve important increases in profitability.

After the merger, I took up my post as new general manager in September and carried out a restructuring of the company, creating new business management units – forestry, solid wood and boards, and plan to create retail in 2006 – that will concentrate on value creation within the respective areas. A successful capital increase also took place at the end of the year, with new stock being placed in the United States, Europe and Latin America. In this manner we established a more diversified base of international stockholders and greater stockholder liquidity. Masisa's financial liabilities were re-financed through the issuing of new bonds that allowed for an extension of the payment periods and a reduction in financial costs.

These achievements allow us to contemplate our future with optimism, as we have established the basis for considerable improvements in profitability.

I would like to draw attention to an issue with which we are not satisfied: safety. Over the last two years we have suffered the deaths of four contractors in Chile and Brazil. I commit us to do everything in our power to achieve our goal of zero accidents.

I would like to point out that one of our main achievements has been the initiation of processes of dialogue and consultation with our main stakeholders, especially with the communities around our plants. These are processes that provide us with valuable lessons and allow us to make better decisions in the company, as well as giving us a better understanding of how we can

involve ourselves more productively in stimulating local development.

The effort to ensure that all our employees know of and apply our vision, values and business principles is also noteworthy, as well as advances in the use of the Sustainability Scorecard®, our management tool that integrates the financial, social, and environmental areas in the company's day-to-day operations.

I am also proud to report that all our industrial plants operate with ISO 14001 and OHSAS 18001 certifications, while all our plantations have FSC certification, except for Argentina, which will be certified in 2006.

In Masisa we believe that we can, and indeed must, contribute to breaking the cycle of poverty. We are planning to replicate throughout Latin America the pilot projects that we have in Chile to provide basic furniture for low-cost housing among lower income segments of the population. We shall also continue training furniture-making micro-entrepreneurs with the participation of the Placacentros, our specialized retail outlets.

We are aware that Masisa must make a considerable effort to bring its human resource management up to world-class standards. We will be paying special attention to this issue over the coming years.

This report has been verified by PricewaterhouseCoopers, and it benefited from the participation of the Universidad Austral de Chile, representing civil society.

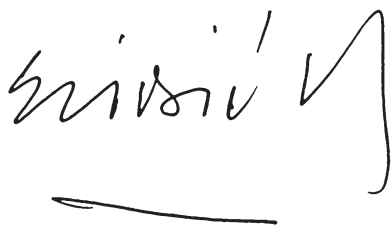
Masisa is committed to the principles of the UN Global Compact. Our challenge is to communicate what we are doing more effectively both within the company and with civil society regarding the implementation of these principles. This report has thus been prepared to inform on our progress and actions in this area.

A summary of the forestry indicators suggested by WWF, the GRI guidelines and principles of the UN Global Compact are presented at the end of the

document to facilitate the identification of relevant information. Our commitment to transparency can be appreciated in the comments we have requested and included in this report. We are satisfied that the constructive comments and ideas will contribute to improve our performance.

In Masisa we are continuously striving to be a company that is successful in the financial, social and environmental areas. We aim to triumph in markets operating in a responsible and ethical manner, and we are convinced that companies can and must play a leading role in building sustainable societies. In this context we are motivated by the fact that little by little markets are starting to prefer us because of the way we operate. In addition, financiers are beginning to get seriously interested in learning about our social and environmental management processes. We are also pleased that increasing numbers of people are seeking work with us.

The mutual effort of all our employees is taking us down the right road. We still have a long journey ahead, but I am confident that we are moving in the right direction. The criticism, dialogue and continuous interaction with all our stakeholders will allow us to advance even further.



ENRIQUE CIBIÉ B.
Chief Executive Officer



Our company

Masisa is a vertically integrated forestry company with pine and eucalyptus plantations in Chile, Argentina, Brazil and Venezuela. We produce wood products for a variety of uses: wood boards, solid wood products such as doors and mouldings, as well as timber, for which we maintain industrial operations in Chile, Argentina, Brazil, Venezuela, Mexico and the United States. Our company is one of the leaders in the forestry sector in Latin America, and our products are marketed directly in all those markets, as well as in Peru, Ecuador, Colombia and Central America, and indirectly in the rest of Latin America.

In 2005, Masisa had sales of US\$744 million, with operating results of US\$81.9 million, and profits of US\$26.5 million. The United States, Chile and Mexico, countries classified as low risk, were responsible for 59% of sales; 36% of sales were made in other Latin

American countries, and the remaining 5% were exports to 50 countries outside the region.

Masisa sells its products directly to processors of logs, to the furniture industry, construction companies, and large chains selling building materials, as well as to distributors. It also has a chain of specialized stores, the Masisa Placacentros, with more than 270 points of sale in ten Latin American countries.

In 2005 Masisa had a workforce of nearly 10,500 direct and indirect employees.

Masisa is a publicly-held corporation organized under the laws of Chile, whose stock is traded on the Chilean stock market and on the New York Stock Exchange through American Depositary Receipts (ADRs). Our company headquarters are legally domiciled in Santiago, Chile.

GrupoNueva (www.gruponueva.com) companies are characterized by their strong commitment to sustainable development, expressed through its Triple Bottom Line management system and in trading practices that promote ethical and responsible conduct in the social, commercial and environmental spheres in the communities in which they operate.

VISION AND MISSION

We wish to be recognized as a leading industrial group made up of companies that create economic value and operate in a framework of ethics, eco-efficiency and social responsibility while improving our neighbors' and our region's quality of life.

Masisa's mission is to generate value in the production and marketing of boards and other wood products, through innovation, service and efficiency in our actions, within an ethical and socially responsible framework.



VALUES

Our customers

All our employees are constantly trying to anticipate and meet the changing needs of our customers through our products and services, working to world-class standards.

Our employees

Mutual respect is the basis of relationships among all our employees. We promote teamwork and synergy between our employees and companies. We afford opportunities for personal development. We provide healthy and safe working conditions. We like our employees to be key players in the group's efforts toward sustainable development.

Our communities

We interact ethically and responsibly with our communities in Latin America and work to improve the quality of life of present and future generations. Society affords us opportunities. Therefore, we devote part of our efforts and talents to improving society. Our businesses promote social and environmental responsibility in all our operations and among all with whom we do business.



Our history

The current Masisa is the result of a merger between Masisa and Terranova, two Chilean forestry companies. The former was established in Valdivia, Chile in the 1960s to produce wood boards, being the first company to produce particleboard (PB) in that country, among the first to produce medium density fiber (MDF) boards in Argentina, and the only producer of oriented strand boards (OSB) in Brazil. Terranova's origins extend back to the 1970s in the company Aserraderos Andinos Ltda. In 1994, on separating from the Compañía de Aceros del Pacífico (CAP), it became Grupo Terranova and started expanding operations outside Chile, with investments in the United States, Venezuela and Brazil. In 2002 Terranova acquired control of the former Masisa, a process that ended with the merger of the two companies in June 2005, and the adoption of the name Masisa S.A. for the newly formed company.

GRUPONUEVA, MASISA'S CONTROLLING COMPANY

GrupoNueva (www.gruponueva.com) controls Masisa, holding 52.8% of company stock as of January 2006. The remaining shares are owned by Chilean stockholders (pension funds) and foreign stockholders.

GrupoNueva businesses are characterized by their strong commitment to sustainable development, expressed through the Triple Bottom Line management system, and in trading practices that promote ethical and responsible conduct in the social, commercial and environmental spheres in the communities in which they operate.

GrupoNueva establishes management guidelines for its businesses with regard to strategic planning, budget definition and control, financial policies, internal audits, eco-efficiency, environmental performance, social responsibility, health and safety, human resources, legal matters, communications and public relations, and information technology.

Business areas

Masisa currently has three business areas, each one of which includes various operations. The company will add a fourth commercial division in 2006.

FORESTRY DIVISION

The aim of the Forestry Division is to maximize the long-term profitability of Masisa's forestry operations, working within a framework of sustainable management and social responsibility.

Masisa's forest assets are in Chile, Argentina, Brazil and Venezuela. It owns 367,318 hectares of land, of which 243,235 hectares are forest plantations. Annual forest production is 3,036,715 cubic meters. The sale of forest products to third parties was responsible for 4.8% of Masisa's annual sales in 2005 .

The climate and soil characteristics, combined with the tree species used for plantations, create important production advantages compared with forest plantations in the Northern Hemisphere. In some South American countries, forest plantations grow six times faster than those in the north, giving the region a competitive edge for a forestry business.

SOLID WOOD DIVISION

The strategic aim of the Solid Wood Division is to make high quality pine products. It has sawmills in Chile, Brazil and Venezuela that process logs to produce boards. Masisa is an important player in the Latin American market in this business, with an installed milling capacity of 730,000 cubic meters.

Most of the wood needs drying, and just a small proportion is sold as "green". Dry timber, used for packaging and different applications in construction, is marketed mainly in Mexico, Venezuela, Colombia and Brazil.

The best quality dried timber is used for making doors and finger-joint mouldings. Masisa has a finger-joint mouldings plant in Chile and another in Brazil, as well as a finishing plant in Charleston, South Carolina. The majority of these mouldings are sold in the United States. Our installed finger-joint moulding capacity is 175,000 cubic meters, and 214,000 cubic meters for MDF mouldings.

We also make solid wood pine doors in Chile for indoor use. These doors are sold almost exclusively in the United States, where we sell approximately one million units a year. We have an installed capacity of 45,000 cubic meters.

BOARD DIVISION

Masisa is the main board producer in Latin America, with an installed capacity of 2.3 million cubic meters, representing 19% of the region's installed capacity. We have industrial plants in Chile, Argentina, Brazil, Venezuela and Mexico, and a commercial presence in over 40 countries. Our main products are MDF boards, agglomerate or particle boards (PB), and OSB, which are sold mainly in Latin America.

All Masisa boards comply with the E-1 European norm for low formaldehyde emissions.

Reconstituted wood boards have appeared as an alternative to sawn wood, the use of which has become restricted since the middle of the last century due to forest depletion or environmental concerns. Wood from rapid growth trees such as pine or eucalyptus in

plantations, and waste from other wood processing, is used in the manufacture of Masisa boards, based on sustainable resources and technologies.

Wood boards can be classified according to their end use: some boards serving structural purposes (OSB, plywood), and a family of boards for internal use, furniture and finishes in buildings of all types (MDF and agglomerates). Masisa has specialized in the family of MDF boards for furniture and decoration, offering a wide range of basic products and with decorative applications of melamine and veneers that allow for uses in all types of furniture and finishes for the home, office, and commercial applications. Three years ago Masisa started making structural boards, producing and marketing OSB boards that are mainly used in construction for roof coverings, lateral walls and flooring.

RETAIL DIVISION

Our operations are complemented by Masisa's network of Placacentros, stores specialized in the delivery of high-quality products and services to furniture makers. The Placacentro concept has been very successful. Between 2000 and 2005 the network increased from 49 to over 270 stores distributed throughout ten Latin American countries.



Industrial plants by country

Several of Masisa's industrial plants combine one or two product lines.



Corporate Governance

Good corporate governance is essential in ensuring the fulfillment of Masisa's vision and commitments as it instills confidence in shareholders and other stakeholders regarding company management and the seriousness of its controls.

Masisa is a private company whose shares are traded on the stock exchanges in Santiago, Chile and New York, and is thus subject to compliance with legislation in both locations, including the US Sarbanes-Oxley law.

Masisa has defined and formalized responsibilities for the management, effectiveness and efficiency of all dimensions of its operations so as to comply with these obligations. The company documented the critical processes of its business, defined key controls, and established permanent monitoring of the internal control structure, all of which is certified by each general manager where the company has operations. Likewise, the audit, disclosure and compensations committees were created.



RISK MANAGEMENT AND INTERNAL CONTROLS

Risk management is an important element in the corporate governance structure. Masisa has implemented processes, methodologies and standards to support management in the administration of risks to the business. We seek to promote an attitude of doing things well, with decisions based on information, data and analysis, and not simply to meet demands for compliance with controls or applicable laws.

Risk management requires a strategic, complete and integrated approach to foresee threats and identify opportunities and competitive advantages.

Masisa's internal control section reports directly to the Audit Committee on the results of risk evaluations car-

ried out in each of the company's operations. These evaluations continuously monitor the existing control structure of all company processes.

Disclosures Committee

This committee answers to directors on the veracity of the financial information presented to the public and presents a complete image of the company's financial performance. It is made up of Masisa executives Enrique Cibié (general manager and committee president), Alejandro Droste (financial manager), Patricio Reyes (comptroller), Rodrigo Salvidia (assistant manager, administration) and Claudio Ugarte (assistant manager, internal control).

DIRECTORS

President

Julio Moura

Mechanical Engineer, Federal Institute of Technology, Zurich, Switzerland. MBA, MIT Sloan School of Management, United States

Vice President

Ronald Jean Degen

Electrical Engineer, Escola de Engenharia Mauá de São Paulo, Brazil. MBA, University of Michigan, United States of America

Directors

Juan Carlos Méndez

Agronomist, Pontificia Universidad Católica de Chile (PUC). Master's in Agricultural Economics, PUC, Chile. Master's in Economics and PhD candidate, University of Chicago, United States of America

Patrick Nielson

BA in Political Science, Lewis & Clark College, Portland, Oregon. JD, Hastings College of Law, California, United States

Jorge Carey

Lawyer, Universidad Católica de Chile
Master's in Comparative Jurisprudence, New York University School of Law, United States

Enrique Seguel

General (retired), Chilean Army
MBA, ESADE, Barcelona, Spain

Antonio Tuset

BA and Accountant, Universidad de Chile.
Diploma in Philosophy, Universidad de los Andes, Chile

CORPORATE GOVERNANCE BODIES



Standing: Patrick Nielson, Antonio Tuset, Enrique Seguel, Jorge Carey and Juan Carlos Méndez.
Seated: Ronald Jean Degen, Julio Moura and Enrique Cibié.

Board of Directors

Masisa's Board of Directors comprises seven members elected at the Shareholders' Meeting. The current board was elected for a three-year period on June 6, 2005. It is made up of five directors elected by GrupoNueva and two independent directors elected by minority shareholders, mainly Chilean Pension Fund Administrators (PFA).

Independent directors have a very important role to play in Masisa. They form part of the Board of Directors' Committee with absolute majority, and this committee also has control over and participates in the Audit and Compensations Committees.

The board appoints Masisa's general manager. Another of its functions is to evaluate the company's general performance on environmental and social issues, particularly with regard to relations with authorities. It reviews and approves the Sustainability Report. Within Masisa, environmental and social responsibility is a line of the general and country managers. The company has a corporate manager in charge of social and environmental responsibility, and each one of its divisions has a professional responsible for this area.

BUSINESS PRINCIPLES

Board of Directors' Committees

Committee of Directors

This committee was created in April 2001, and its current members are Enrique Seguel, Antonio Tuset (both representing minority shareholders), and Juan Carlos Méndez. This committee reviews financial statements and reports of the external auditors, appoints the external auditors and evaluation agencies that are approved during the annual shareholders' meeting, evaluates transactions with other parties, and those in which a director, manager or company director has an interest, and advises on the compensation of high-ranking company executives.

Audit Committee

The members of this committee include Antonio Tuset, Enrique Seguel (both representing minority shareholders), Ronald Degen and Patrick Nielson. Among other functions, the Audit Committee is responsible for ensuring the integrity of financial statements, reviewing accounting policies, monitoring the company's compliance with legal requirements, evaluating possible lawsuits and litigation, and strategies to manage such risks, and establishing anonymous and confidential procedures to inform of accounting problems.

Compensations Committee

This committee is composed of Enrique Seguel, Antonio Tuset (both representing minority shareholders), Ronald Jean Degen and Patrick Nielson. Its functions are to approve objectives with regard to the compensation of Masisa's general manager; review the remuneration level of each second-line executive, together with the composition of the compensation structure; examine criteria for the payment of variable incentives and other benefits relating to different positions, as well as other strategies for the retention of key personnel.

Ethical behavior

Masisa's Declaration of Business Principles (to be found at www.masisa.com under Company) includes the company's commitments to issues such as compliance with the law, ethical behavior, workers' rights, and respect for the natural and social environment. As a member of GrupoNueva, Masisa also adheres to the UN Global Compact (www.globalcompact.org), the responsibility for which is reaffirmed in the Declaration of Principles.

Going further than providing a detailed list of desired behavior and restrictions in the style of traditional codes of ethics, Masisa has opted to define general principles that guide all company employees.

The principles, available in English, Spanish and Portuguese, the three official languages of the countries in which we operate, are part of the induction courses provided by the company. They are also analyzed in detail by our direct and indirect employees in workshops entitled "Let's build the future." Finally, we have a procedure through which any employee may ask, comment upon, or file a complaint relating to these principles.

Management is responsible for ensuring compliance with the Declaration of Business Principles.

TRANSPARENCY AND COMMUNICATION



Masisa has a communications strategy that targets different groups: customers, employees, communities and other stakeholders. In this report's chapter on social results, the different forms of communication with each group are detailed.

Customers

We describe the responsible manner in which we operate through our marketing tools, seeking to strengthen the preference for our products.

Employees

We strive to ensure that all Masisa's direct and indirect employees are familiar with and share our triple bottom line management system through the "Let's build the future" program.

Communities

We promote processes of dialogue and consultation with our neighboring communities and other stakeholders, seeking to establish long-term relations and maintain our social license to operate.

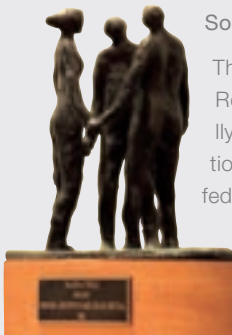
We communicate with our stakeholders using three main tools: our corporate website (www.masisa.com), our Sustainability Report, and news through the media. These communications processes are implemented to varying degrees in our different companies; in some countries they are quite advanced, while in others they are still quite young.

"LET'S BUILD THE FUTURE" WORKSHOPS 2004-2005				
	Direct		Indirect	
	Participation	%	Participation	%
	338	97.13%	729	74.69%
	846	86.07%	722	86.37%
	2,209	80.01%	1,722	72.05%
	80	87.91%	8	80.00%
	157	80.51%	38	37.00%
	355	92.69%	589	56.96%
TOTAL	3,985	83.7%	3,808	71.19%

PRIZES AND RECOGNITION

AmCham Argentina

In November 2005 Masisa Argentina and Forestal Argentina received an honorable mention in the Environment and Health category for its "Responsible Management of Natural Resources" program. This prestigious recognition, which attracted 71 projects from important companies in the 2005 submission, recognizes actions that benefit the community.



Sofofa prize

The 2005 Sofofa prize for Social Responsibility is presented annually by the Society for the Promotion of Manufacturing, a prominent federation of Chilean industries. This is one of the country's most important prizes in the area of corporate social responsibility and the only one awarded by the businesses themselves.

It publicly recognizes the company that best exemplifies an integral and permanent commitment to social responsibility, defined as the value that permeates all relations with stakeholders. Masisa Chile was recognized for the commitment and ethics it maintains on a daily basis in its relations with employees, customers, investors, suppliers, social organizations, authorities, communities and the environment.

Social responsibility ranking

Even though we have a long haul ahead with regard to internal communications, we are very satisfied to have been included among the 10 top-ranking companies in social responsibility, a ranking undertaken in Chile by the Prohumana Foundation. This was carried out on the basis of surveys among personnel of the participating companies. Thanks to the opinion of our employees, Masisa Chile placed ninth among almost 300 companies invited to participate.

“ This report is very comprehensive, and Masisa is to be congratulated. It's the best report by a panel company that I have seen, and is on par with some of the leading companies in the paper sector. In fact, with a few small changes I'm sure it could be held up as a model for other companies.

Things to improve include future performance targets (though I do like the reporting back on previous commitments). It is important that Masisa benchmarks itself against best environmental performance and sets appropriate targets to meet or exceed these across the series of pollution parameters it currently reports against. This "context" against best in class is hugely important for the casual as well as professional reader. The section on toxic chemicals could also be improved with a formal commitment to phase out their use. The section on efficiency of fiber use is good, but the option of recycled fiber is left unmentioned. There is no mention of a transport policy, and a cross-reference to the GRI requirements would be good.

Finally, while we appreciate the chance to comment on this report, it would be good to have similar commentary from staff, communities, indigenous peoples and financial analysts who are all stakeholders in the company.

I hope that this commentary can be taken on board for next year, and I look forward to seeing progress in the future. ”

Duncan Pollard

Head, European Forest Programme

World Wildlife Fund International, Switzerland

COMPLIANCE WITH LEGAL REQUIREMENTS



Masisa has a serious commitment to complying with legislation in all countries in which we operate, with a special emphasis on those laws pertaining to the environment, labor and social matters. We communicate this commitment to all our contractors, and we include clauses in our contracts to this effect, as we consider that the legal license to operate is the first requirement to be met by any responsible company.

In 2005 we carried out an audit of compliance in all our companies with the support of external advisors. Over the previous years we made a considerable effort to bring us up to standard for FSC and ISO 14001 certification, and the 2005 audit drew some failings to our attention, especially in Chile, where we had limited relations with the environmental authorities and interpreted some regulations incorrectly.

For example, we thought that the Masisa plant in Valdivia was exempt from the Supreme Decree 90/2001, as the discharges into the Calle Calle River are rainwater and treated grey waters, not water from processes. So we did not consider it necessary to inform the superintendent of public health of such discharges. However, we discovered that this decree applies to any type of discharge of effluents into surface wa-

terways and, on being informed of the error, the plant manager submitted the required data. As the time limit had expired, we received a minimal fine (approximately US\$3,000).

Auditors also indicated that we should improve relations with neighbors at all our plants, with the communities in which we operate, and with the authorities and other stakeholders interested in environmental issues. We should also improve the work culture of those in charge of environmental matters, improving their relations with management, and ensuring that management systems are more results-oriented than process-oriented.

In a joint effort involving the comptroller, the general manager's office and the manager of operations and engineering, we have introduced changes that include the strengthening of internal capacities; working more closely with environmental and public health authorities in providing them with all the information they consider necessary, and in keeping dialogue open; promoting closer working relations with agencies certifying management systems to ensure they understand company values; and checking that new products adequately address environmental issues and obligations.



LEGAL PROCESSES ADDRESSING ENVIRONMENTAL OR COMMUNITY ISSUES

1) We have two legal processes underway, both in Argentina, initiated by neighbors of the Concordia plant in 2003 due to emissions of dust, odor, noise and vibrations.

In responding to these community concerns, Masisa has taken various steps such as planting a curtain of 2,500 trees as a sound barrier and installing a gas scrubbing system that has considerably reduced dust emissions. We are also measuring dust deposits in different parts of the neighborhood, have installed a system to wet plant roadways to minimize dust, and have extended the roof area to catch sawdust.

2) Incidents or fines for not complying with all corresponding international declarations, conventions or treaties, as well as local regulations associated with environmental and social issues:

- A fine in Chile of approximately US\$3,000 imposed by the superintendent of public health.
 - A warning in Charleston SC (USA), for the late presentation of reports on gas emissions.
- 3) Suppliers turned away due to their inability to meet the legal norms or a persistent failure in their compliance:

In Valdivia, Chile, we cancelled a service contract with a company for not respecting Masisa's internal regulations required of all contractors.

In collaboration with FUNDES, an organization promoting training for small and medium-sized businesses (www.fundes.org), we developed the supplier development program that involves a management analysis of suppliers so as to offer them suggestions for improving their performance. This program will be applied at all other plants in Chile to improve the training of suppliers.

Triple Bottom Line management system

In Masisa we ensure that social and environmental impacts are part of the decision-making process at all administrative levels. For this reason we apply tools to continuously improve our performance in these areas. The main ones include the Sustainability Scorecard© (SSC), external certifications, and the evaluation of the environmental and social impacts of our projects.



Sustainability Scorecard©

The SSC is the management tool that allows us to translate our financial, social and environmental strategic commitments into goals and concrete objectives, and to control results on a monthly basis. The majority of Masisa companies use the SSC, which includes issues relating to customer relations, internal processes and matters relating to growth and lessons learned in the organization (human resources).

Management results in this area during 2004 and 2005 can be seen in the environmental and social sections of this report.

Evaluation of the environmental and social impacts of new projects

In Masisa the design and implementation of new projects includes an evaluation of environmental impacts and potential social effects.

The largest project initiated during the 2004-2005 period was the new production line of MDF boards in Cabrero, Chile. The US\$82 million budget for this investment included US\$6.2 million to reduce risks to our employees and the project's impacts on air quality, water and soil. The project design and the acquirement of all environmental authorizations was directed by the chief operations manager, the engineering operations manager and the manager for social and corporate responsibility. These are available on the website of the Chilean environmental authority under the name Masisa (www.e-seia.cl)

External certification

Management systems are based on procedures to minimize risk, monitor and control impacts on the natural environment and human health, and establish on-going processes to make improvements in these areas.

All Masisa companies must have three internationally recognized certifications: ISO 14001 for environmental management, OHSAS 18001 for occupational health and safety, and the Forest Stewardship Council (FSC)

for sustainable management in forest plantations. We have attempted to integrate all these into one system so as to facilitate overall management procedures. However, the result of this effort has not been particularly satisfactory. In 2006 we shall initiate a simplification process starting in our Chilean companies, through which we hope to establish a more efficient management system.

Division	Industrial plant/Company	Certification				
		ISO 14001 ⁽¹⁾	OHSAS 18001 ⁽²⁾	FSC ⁽³⁾	Custodia FSC ⁽⁴⁾	SCS ⁽⁵⁾
Wood	 Rio Negrinho plant	●	●		●	
	 Macapaima plant	●	2006		*	
	 Charleston plant	●	●			
	 Cabrero plant	2006	2006		●	
	Chillán plant	2006	2006		●	
Board	 Concordia plant	●	●			●
	 Ponta Grossa plant	●	●			●
	 Macapaima plant	●	2006		●	
	 Durango plant	●	●			
	 Cabrero plant	●	●			●
	Chiguayante plant	●	●			
	Mapal plant	●	●			●
	Ranco plant	●	●			
	Carlos Puschmann plant	●	●			
Forestry	 Forestal Argentina	●	2006	2006		
	 Forestal Brazil	●	●	●		
	 Forestal Venezuela	●	●	●		
	 Masisa Forestal, Chile	●	●	●		
	Forestal Tomagaleones, Chile	●	●	●		

* Even though we do not have FSC Chain-of-Custody certification, all wood that arrives at the sawmill has FSC certification.

⁽¹⁾ Environmental management

⁽²⁾ Occupational health and safety management

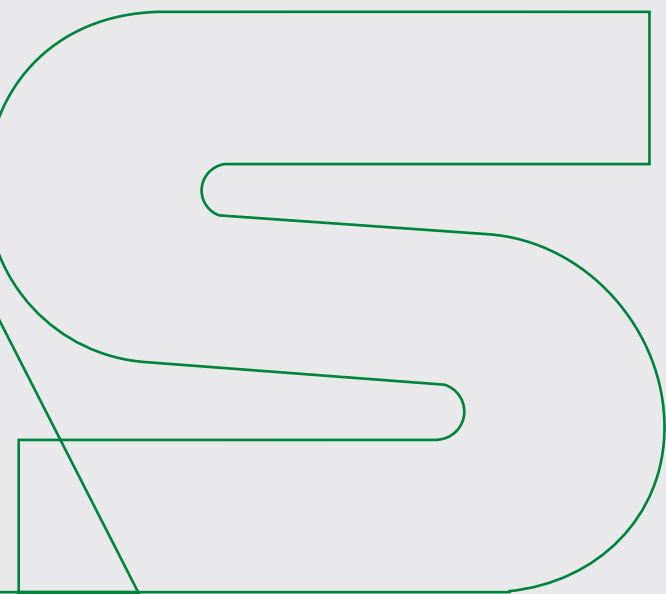
⁽³⁾ Sustainable forest management

⁽⁴⁾ Chain-of-Custody

⁽⁵⁾ Contains recycled raw materials

Economic Results





The Triple Bottom Line strategy seeks simultaneous and positive achievements in the economic, social and environmental spheres.

SALES

Masisa's net sales grew by 14%, from US\$651 million in 2004 to US\$744 million in 2005. The growth in sales was reflected in all principal markets, especially in the United States. The main factors that explain this growth are:

- An increase in PB sales in Latin American markets, mainly in Chile, Argentina, Mexico and Colombia.
- An increase in MDF boards sales in Latin American markets, particularly in Brazil, Argentina, Mexico and Venezuela.
- The recovery of the Argentinean market, which has allowed higher sales at better prices.
- The sustained growth in sales of Masisa USA, Inc. The top-selling products in this market are MDF mouldings and OSB boards.



Financial Dimension

OPERATIONAL INCOME

The operational result in 2004 was US\$95.1 million and US\$81.9 million in 2005. This latter figure was affected by increased costs, mainly in Chile, Brazil, Argentina and Mexico, due to the higher price of resins and energy, and the effect on costs of the appreciation of Latin American currencies.

The total costs due to the purchase of materials, goods, and services from third parties amounted to US\$581.1 million in 2004 and US\$656.6 million in 2005.

INVESTMENTS

Masisa has an investment policy focused on state-of-the-art technology in its operations and continuous improvements to its processes. MDF mouldings lines were built in Chile and Argentina to create products for export to the United States. Forest investments were made with the purchase of the minority participation in Forestal Tornagaleones and Forestal Argentina. In August 2005 the construction of an MDF board plant in Chile was approved, for export mainly to the United States and Mexico.

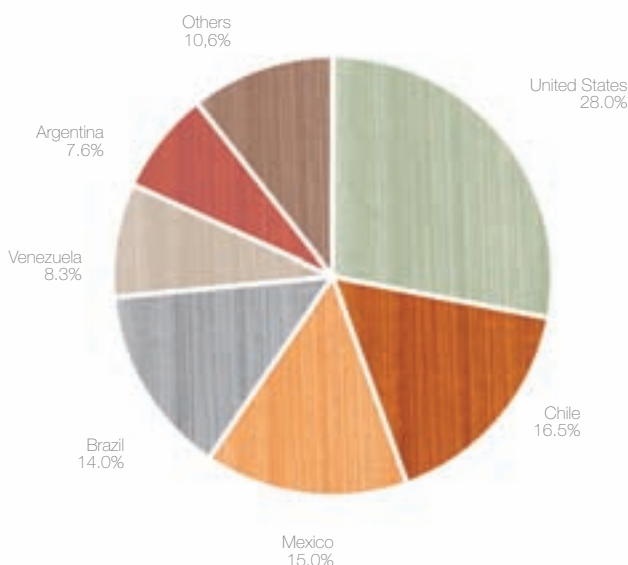
MAIN FINANCIAL INDICATORS

Masisa has achieved an adequate capital structure with the necessary risk classification to allow for financing at a reasonable cost. Masisa's leverage index in 2004 was 0.96, and in 2005 0.72 times.

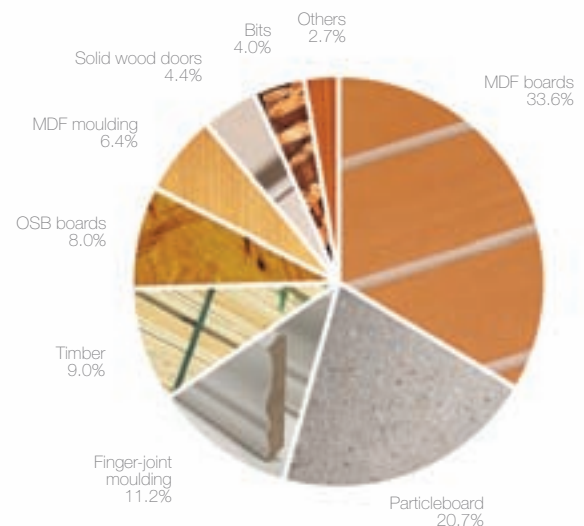
The main capital structure milestones in 2005 included:

1. The merger between the former Masisa and Terranova was completed;
2. The company debt was successfully restructured and capital increased;
3. Net interest coverage improved due to the 2005 debt restructuring.

GEOGRAPHICAL DISTRIBUTION OF SALES
2005



DISTRIBUTION OF SALES BY PRODUCT
2005



DIRECT AND INDIRECT ECONOMIC IMPACTS

Masisa had more than 4,700 direct employees in 2005, and over 4,300 in 2004. The payment of remunerations and benefits in 2004 was over US\$69 million, while in 2005 it was US\$91.5 million. In 2004 and 2005 we paid out approximately US\$111.5 million and US\$143.6 million respectively to our main suppliers.

Masisa's profits in 2004 and 2005 reached US\$56.8 million and US\$26.5 respectively and the governments of the countries in which Masisa operates received tax payments of US\$22.2 million in 2004 and US\$29.5 million in 2005.

The company's social responsibility programs are not considered as philanthropic activities or suitable for donations, but part of the company's operating costs. We do, however, maintain some philanthropic activities, which received monetary and/or in-kind donations amounting to nearly US\$0.1 million in 2004 and US\$0.2 in 2005.

DIRECT AND INDIRECT ECONOMIC IMPACTS (millions US\$)		
Description	2004	2005
Net sales	651.0	744.0
Total costs (cash flows to suppliers and services)	580.9	656.7
Total personnel costs (payroll and benefits)	69.6	91.5
Distributions to providers of capital broken down by interest on debt and borrowing, and dividends on all classes of shares, with any arrears of preferred dividends to be disclosed	175.7	142.6
Increase/decrease in retained earnings at end of period	1.8	52.1
Taxes paid	22.2	29.5
Subsidies	1.6	1.9
Donations made	0.1	0.2
Total employees	9,452	10,110
Direct employees*	4,381	4,761
Indirect employees	5,071	5,349

* Does not include employees from Peru and Colombia

Important events over the period

In 2005 the merger between the companies Terranova and Masisa was completed, and there was a capital increase in Chile and the United States; the new company obtained a new syndicated bank loan and debt bonds were placed on the Chilean market.

On March 24, 2005 Terranova S.A. completed the registration process on the US Securities and Exchange Commission. On April 13 and 14, 2005, the shareholder assemblies of Terranova S.A. and Masisa S.A. approved the merger of Masisa and Terranova, and this became effective on May 31, 2005. Terranova S.A. changed its name to Masisa S.A. In 2005 Masisa paid out dividends of US\$52.1 million, corresponding to the previous year's activities.

On December 5, 2005, Masisa successfully placed US\$73.3 million as part of the first step of a capital increase of US\$120 million, placing a large part of this in the United States through the issuance of American Depositary Receipts. On January 5, 2006, the second step of this increase was finalized, with a total subscription close to 98%. This transaction enabled the company to finance part of future investment projects, and by placing the bonds in the United States, the company achieved greater liquidity in company transactions.

On December 20 Masisa signed a six-year international syndicated bank loan for US\$110 million through its subsidiary Masisa Overseas Inc. These funds are to be used to re-finance debts.

On January 20, 2006 Masisa placed bonds valued at approximately US\$163 million. The considerable demand for bonds allowed for their placement at favorable interest rates. This issuance allowed the pre-payment of series A and B bonds, issued by the former Terranova, with the transaction being completed on January 23, 2006. An improved risk classification of Masisa's debt from A- to A in January 2006 due to the propitious capital increase contributed significantly to the success of this placement.

RELATIONS WITH THE FINANCIAL SECTOR

Masisa aspires to be recognized as a profitable option for investment that generates value for its stockholders, its customers, its employees, and other stakeholders. We are convinced that by applying our triple bottom line management system, in which social and environmental issues are part of the business strategy, and by maintaining a positive attitude toward these issues, this management system is and will continue to be a source of long-term value for the company.

Good social and environmental administration is an integral part of serious management and an important element in the adequate control of long-term operational risks. It was thus interesting to find, during the capital increase process and the placement of bonds in 2005, that international financial agents requested in-depth information on these areas. Masisa rose to the challenge and met their expectations regarding its environmental and social policies.

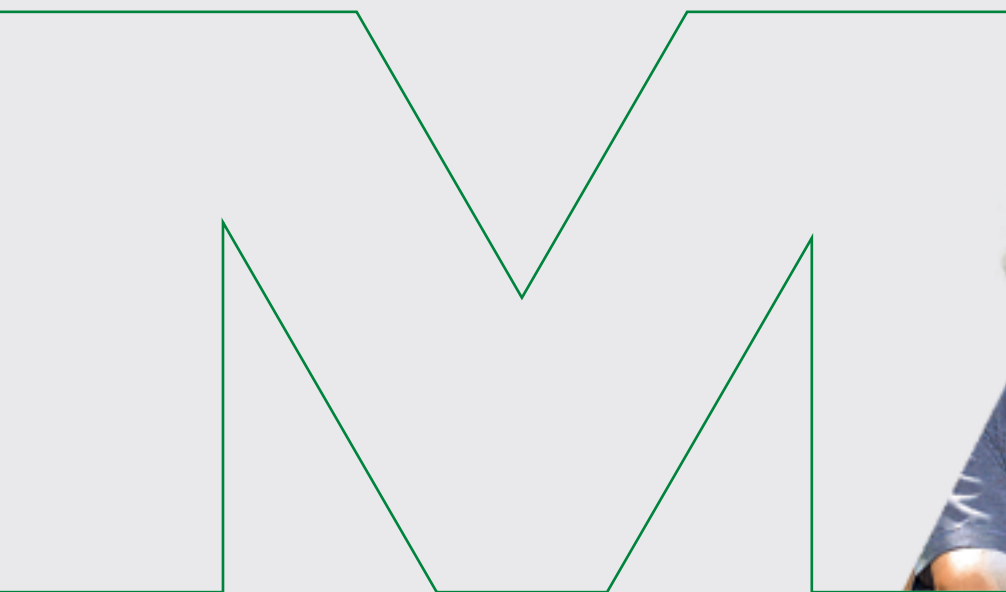
The sustainability evaluations carried out by the financial sector enable investors to identify companies that create long-term value for stockholders and for

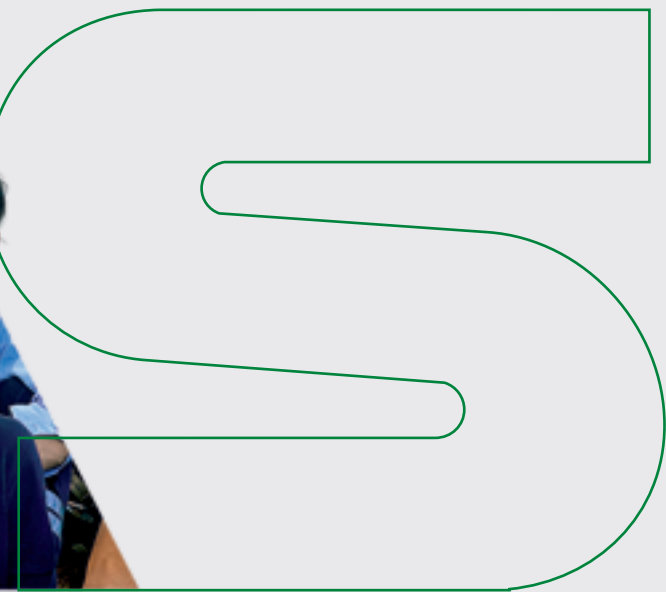
society. A good evaluation contributes to that value creation and attracts capital, as it takes into account the ways in which the company manages its social and environmental risks, and how it takes advantage of opportunities in these two areas. In December 2005 the Bank Sarasin & Co. Ltd, from Switzerland (www.sarasin.ch) carried out a sustainability evaluation of Masisa using its own methodology, and awarded us a "high" classification, including Masisa in its universe of sustainable investment (see box below).

We see ourselves as a leading Latin American company, with solid forest holdings, a modern industrial capacity, a strong distribution network in the region with an important presence in the United States, and a permanent commitment to sustainable development - and even more important, with a permanent commitment to future generations of employees, customers and other stakeholders.



Social Results





The experience of dialogue and consultations with our employees, neighbors and local authorities has demonstrated how listening can help us make better business decisions.

There have been many changes in Masisa over the past two years. But the effort in learning to listen to our stakeholders has perhaps been the most complicated. Masisa and Terranova have always been serious about and respectful of the law and institutions, but we realized that we were more focused on improving our performance than on establishing links with the people to whom we relate in the course of our work. The experience of working with our neighbors and local authorities has been very interesting and has demonstrated the importance of listening in making better business decisions. In essence, between 2004 and 2005 we have learned that listening is the basis of our social license to operate.



Consultations and dialogues

The experience of working with our neighbors and local authorities has been very interesting and has demonstrated the importance of listening in making better business decisions. In essence, between 2004 and 2005 we have learned that listening is the basis of our social license to operate.

Since 2003 two-day workshops have been held in all Masisa operations so that management could identify their stakeholders along the value chain; strategic stakeholders were defined and goals set in relating to them; a person responsible for this process was designated; and consultations and dialogue were initiated to define objectives and goals, while at the same time we started to implement a social management system.

In this manner Masisa strives to obtain and maintain its social license to operate, understanding this to be a dynamic, transparent and mutually beneficial relationship with its stakeholders that allows our company to carry out its business uninterrupted.

We have carried out surveys in communities around almost all our operations to learn of peoples' perceptions and expectations. On some occasions we work with civil society organizations, such as "Casa de la Paz" (www.casadelapaz.cl) in Chile and Argentina, as they offered us an objective external opinion that has considerably enriched our own vision of the issues.

In 2004 we also carried out a process of internal consultations using Hewitt Associates' (www.hewitt.com) employee engagement methodology, through which we obtained the opinions of all direct and indirect employees on three main issues: the extent to which employees speak positively of their colleagues and the company; their desire to continue working for Masisa, even in the

face of other alternatives; and their contribution to the company's success.

Masisa obtained a score of 58% at the corporate level on this first occasion. This compares favorably with an average score of 52% for the Fortune 500 companies. This formal consultation takes place every two years, with a focus group exercise taking place between these consultations. By 2008 we hope to have a score of 75%, which would put us among the best in the world in terms of the commitment of the company with the employees.

IDENTIFICATION OF STAKEHOLDERS

All of our operations have identified their stakeholders, and defined their employees, neighboring communities, customers, suppliers and stockholders as being of strategic importance.

STATUS OF CONSULTATIONS

All of our operations have initiated consultation processes with both internal and external stakeholders.

Our stakeholders

EMPLOYEES, RESPECT AND SECURITY

Work standards

Masisa complies with labor laws in each of the countries in which it operates, respects the rights of its direct and indirect employees, all according to the company's Declaration of Business Principles and the United Nations Global Compact. As from 2006 our commitment is to develop principles that form the basis of our management of the merged company, with a view to, among other things, unifying policies and principles.

Labor commitments

Child labor

Masisa does not employ nor involve itself in any way with workers below the legal age established in each country in which we operate. We require through contracts that our contractors demonstrate the age of every worker while they are providing us with services, so as to ensure that no under-age person is involved when the work forces are rotated.

Forced labor

Masisa does not use any forced labor or allow controlling of pay as a means to force a person to compromise their right to fair payment for work.

Discipline

In Masisa we strive to foster a culture of respect between people. We do not accept corporal or mental punishment, physical coercion or verbal abuse among employees.


Freedom of association and the right to collective bargaining

Masisa respects the right to establish or join trade unions, and to collective bargaining.

Non-discrimination

In Masisa we do not discriminate on grounds of ethnicity, social group, origin, religion, disability, gender, sexual orientation, political or union affiliation, or age. However, we are not satisfied with our company's record on gender diversity. We have made insufficient efforts to promote women at the directorship level. This issue will be addressed in the course of 2006.



WOMEN AS DIRECT EMPLOYEES		
	2004	2005
	13%	14%
	18%	19%
	4%	4%
	28%	31%
	12%	15%
	17%	17%
TOTAL	8%	7%

Pre- and postnatal rights

Masisa respects each country's legislation in this respect.

Working hours

Masisa respects the labor laws in each country in which it operates. The working period does not exceed 48 hours/week (45 hours/week in Chile), with at least one day off work for every seven-day period. Overtime is paid according to rules established in the collective agreements and usually does not exceed 12 hours per week. In special cases, when more time on the job is required, we have agreements with the unions, for example, in the case of maintenance work. With regard to indirect employees, we do request our contractors to abide by the law in this, and other respects.

Compensation

Salaries paid for a normal week's work comply with the law and fall within industry norms. In Masisa we are also committed to ensuring that all employees receive at least the equivalent of the "basic basket" in the country concerned, an amount sufficient to cover the basic necessities of their families. Masisa does not make disciplinary deductions from paychecks.

Contract Workers

Masisa develops important parts of its business through contractors who offer specialized services, particularly in the area of forest management. This also allows for employees to travel to work in different regions.

NUMBER OF EMPLOYEES				
	Direct		Indirect	
	2004	2005	2004	2005
	347	348	629	976
	917	983	740	836
	2,473	2,761	2,573	2,390
	87	91	43	10
	194	195	103	103
	363	383	983	1,034
TOTAL	4,381	4,761	5,071	5,349

Through consultations with neighboring communities, we discovered that some people consider this sub-contracting policy to be part of a strategy to avoid the legal costs involved in hiring people directly. Masisa does not agree with this perspective for a variety of reasons. In the first place, Masisa requires its service providers to operate in accordance with its vision and values, and to abide by local legislation. Secondly, our monitoring and control of industrial safety standards includes contractors. And finally, we prefer to hire people directly when this makes economic sense, there are no great geographical displacements, or when specialization is not a requirement.

Training

We spend money and time training direct employees. We are not satisfied with the way in which we are carrying out these activities. At the end of 2006 we hope to have developed strategic training programs for direct and indirect employees, with a more centralized monitoring system to review their effectiveness. We have hired an executive whose objective will be to optimize employee development and training within the company.

Health and occupational safety

Masisa is committed to providing a safe and healthy work environment for both its direct employees as well as for contract workers. Our operations are carried out under the OHSAS 18001 management system regulating occupational health and safety, a norm that allows for reporting on actions and/or conditions that jeopardize the health and safety of employees.

We pay special attention to controlling and monitoring the exposure of our employees to noise, dust and formaldehyde in board production. In the case of formaldehyde, the company norm requires exposure to be limited to a maximum of 0.3 ppm/m³ LPA (AC-GIH), following the strictest international norm, which we have achieved after making various investments, including ventilation systems along the agglomerate production lines.

Convinced that safety is the responsibility of everyone, we are continuously training our employees in accident prevention and health. We also provide preventative health programs and programs to control bone and muscle conditions due to repeated movements and common illnesses such as cardiovascular conditions and HIV/AIDS, among others.

Accident rates

The accident frequency and severity indicators are based on data from Masisa's direct and indirect employees, which are evaluated on a monthly basis with the aid of the Sustainability Scorecard©.

We are not satisfied with our accident rate for 2004–2005. For this reason we have implemented DuPont's Safety Training Observation Program (STOP) in those operations with a higher accident rate so as to promote safe conduct and involve supervisors in the prevention of injuries and accidents. For 2006 our main concern will be the development of a culture of safety and health among indirect employees.





Accident Frequency

The accident frequency index is a standard international measurement that reflects the number of accidents in relation to the number of hours worked per year. It is measured by multiplying the number of accidents by 200,000 and then dividing by the number of hours worked. The accident frequency in the whole company dropped by 15.59% in 2005.

Accident Severity

The accident severity index, also a standard international measurement, reflects the number of days lost due to work-related accidents and, in the case of Masisa, includes direct and indirect employees. It is measured by multiplying the number of days lost to work-related accidents by 200,000, and dividing by the number of hours worked.

In 2005 our accident severity index unfortunately increased by 52.15% reflecting four fatal accidents. Our indirect employees were the hardest hit in terms of accident severity, particularly in the Forestry Division. The most important reductions were achieved in the Board Division in Chile and in the Solid Wood Division in Brazil. The severity index dropped considerably among direct employees, by 56.92%. The worst performance, with a rise of 338.76%, is to be found in the forestry sector.

ACCIDENT FREQUENCY INDEX			
(Direct and indirect employees)			
Division	2004	2005	Variation
Forestry	4.01	5.27	- 31,42%
Solid Wood	5.46	3.74	31,47%
Board	4.30	3.18	26.12%
Total	4.64	3.91	15.59%

ACCIDENT SEVERITY INDEX			
(Direct and indirect employees)			
Division	2004	2005	Variation
Forestry	70.44	309.04	-338.76%
Solid Wood	75.85	205.94	-171.50%
Board	316.19	194.67	38.43%
Total	149.91	228.04	-52.12%

IMPROVING THE LIVES OF OUR CUSTOMERS

In Masisa we look for new ways of doing business that enable us to build a more sustainable society while creating a profitable business. As part of our business strategy, rather than subsidize community projects, we promote businesses that improve the quality of the lives of people with lower incomes in the countries in which we operate.



Furniture for low-cost housing

Masisa designed a line of basic furniture for low-cost housing promoted by the Chilean housing ministry. The selection of this furniture, its design, dimensions and its functional character are the result of an opinion poll carried out among a group of low-income families who live in the "Casa Nueva, Vida Nueva" ("New House, New Life") village in Puente Alto, Santiago. Given its characteristics, this line of furniture could have a price of US\$400 in retail stores, but people buying them through our Placacentros chain will pay just US\$130. While helping to improve people's standard of living, this initiative opens up a market for the company that could reach US\$4 million in sales in Chile alone.



From furniture-maker to entrepreneur

The project "From furniture-maker to entrepreneur," a joint project developed with FUNDES (www.fundes.cl) and Masisa's network of Placacentros, seeks to increase levels of competitiveness among small and medium-sized furniture makers by bringing them into the formal sector and training them in areas such as efficiency and profitability.

With FUNDES we are training micro-entrepreneurs who regularly access our products through the Placacentros network. These furniture makers are in the process of becoming entrepreneurs, a role with increasing potential as markets are becoming more industrialized. By 2008 we estimate that in Chile we will have additional income of close to US\$2.8 million from increased sales as a result of this program.

Our products and your health

Formaldehyde is a compound used throughout the world in board making. In June 2004 the International Agency for Research on Cancer of the World Health Organization reclassified formaldehyde from “probably carcinogenic to humans” to “carcinogenic to humans.” When this reclassification took place, Masisa had already been working for years to reduce emissions from our boards. We can now guarantee that 100% of our boards have formaldehyde emissions that comply with the demanding E-1 European norm.

This is an example of how Masisa voluntarily decided to develop a product that has a higher production cost but which allows us to tell our customers that they can breathe safely because their health is important to us. We are aware that this attitude helps us differentiate our brands from others, and that our customers choose us because, among other things, they know we care about them. (See more information on the use of formaldehyde-based resins on page 57.)



“ For those of us who are part of the Placacentros network, the E-1 boards represent a significant market differential compared with the competition. At a time when people are increasingly aware of the importance of health issues and the environment, Masisa comes out in front with products of this type, integrating quality and benefits for us, the customers. ”

Álvaro Goes
Owner of Placacentro Madcompen,
Ponta Grossa – PR, Brazil



LISTENING TO AND WORKING WITH NEIGHBORING COMMUNITIES

Communities have shown their interest in Masisa's participation in local development.

Results of the consultations

Masisa aims to understand the perceptions and expectations of its neighboring communities by applying the consultation methodology developed by Grupo-Nueva. These processes of dialogue have revealed various issues of interest to our neighbors and local authorities and have caused a number of company responses.

Local employment

The communities in which we operate want us to generate local employment. We have committed ourselves to monitoring this impact on a monthly basis by adding it as a Sustainability Scorecard© indicator and to defining goals to increase local labor in all our operations.

Impact on local economies

Our neighbors like to know the impact we have on the local economy and want us to increase purchases from local suppliers. We have committed ourselves to monitoring this impact on a monthly basis by adding it as a Sustainability Scorecard© indicator and to defining goals to increase local purchases in all our operations.

Environmental impacts

Our neighbors living close to our operations want to know about potential environmental risks and impacts on their health. We also found out that there are people who have lived next to our companies or plantations for 10 or 15 years and do not even know what we do!

We have committed ourselves to inviting our neighbors to visit us and get to know our operations, to explaining what we do and informing them of possible risks and contingency plans. We will maintain an "open door" policy in the future.



Complaints

We have received complaints on environmental issues from neighboring communities at six of our plants. All these complaints have been dealt with, and the problems solved or reduced. They are responsible for a greater part of the environmental investments in 2004 and 2005 (US\$6.9 million).

- Macapaima, Venezuela: dust and noise emissions, and risks in transporting wood. We took steps to control the speed of trucks, change transport timetables, and water roads to keep down dust.
- Durango, Mexico: air pollution. This was reduced with filters, and mechanical changes in processing plant were finished in 2005.
- Entre Ríos, Argentina: noise and air pollution. See legal processes on page 19.
- Chiguayante, Chile: noise and air pollution. Environmental authorities are in the process of defining air quality norms so we can agree on technical improvements that we hope to implement during 2006.
- Cabrero, Chile: noise and air pollution. The implementation of the project to recycle effluents from the sawmill in March 2006 represents an important milestone in this relationship. In 2005 we started converting boilers to reduce atmospheric emissions, and the project will start operating in 2007.
- Chillán, Chile: air pollution. In 2005 we completed the installation of filters that reduced emissions.

Local sustainable development

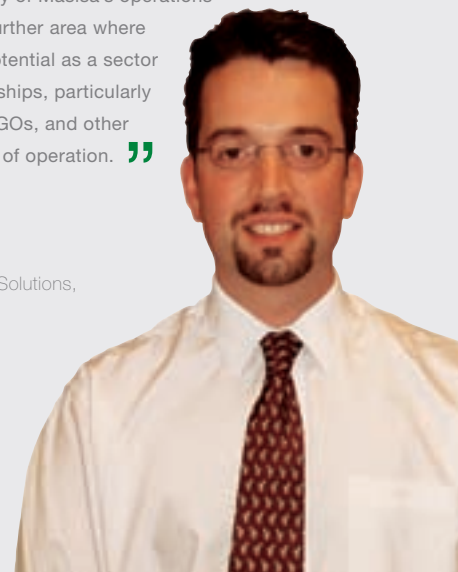
The communities have shown their interest in Masisa's participation in local development activities. We have received positive feedback on dialogues that have been going on for the last four years in 13 communities around our plantations in Chile, as well as on community-assistance activities in Cabrero and Etruria, Chile. The local sustainable development initiatives of Masisa, Venezuela and Masisa Forestal with indigenous peoples have been particularly enriching. We shall report on developments in this new management phase in the next report.

“ Masisa's first Sustainability Report as a new entity is an impressive undertaking. The company's willingness to show leadership in the early adoption of WWF's Guidelines on Corporate Responsibility Reporting for the Forest Industry is in itself an indication of a strong commitment to sustainable business practices. The WWF guidelines certainly add a great deal of value in terms of their granular approach to forestry-specific issues, in the absence of a relevant GRI sector supplement. However, following a 'manual' on sustainability is not a guarantee of good performance, nor do the guidelines focus on the upside potential of superior management capacity. Masisa rightly states that it sees its commitment to the triple bottom line approach not only as a risk management tool, but also as a source of competitive advantage.

Masisa's experience, by its own admission, confirms that investors are increasingly scrutinizing companies' social and environmental management policies as part of their due diligence. Hence Masisa will likely reap the rewards of its investment in the integration of sustainability factors with its core business both in terms of strategic risk management, and also in terms of its acceptability to financial institutions with a progressive approach to screening. The inclusion of more metrics in its reporting will allow for Masisa to be more easily benchmarked against its global competitors, which is of fundamental importance to sustainability-focused analysts. The company's commitment to globally-recognized third party certification, and its announced intent to develop Integrated Management Systems for its businesses, should stand it in good stead.

Particularly noteworthy in Masisa's report is the section on 'Social License to Operate', with its acknowledgement of the importance of stakeholder engagement. The company's efforts to engage in meaningful dialogue with Indigenous Communities is commendable, and more disclosure around the perceptions of Masisa's operations held by the Mapuche of Chile, for example, would provide further insight. Also of interest is the company's inclusion of Climate Change as a business issue; it would be beneficial to lend more weight to the company's discussion of carbon, both as a risk, and also as a potential opportunity. Quantitative indicators on carbon management should be established as part of future performance targets, given the commitment to seek continuous improvement, and a full assessment of the impacts on biodiversity of Masisa's operations would also be valuable. A further area where Masisa could highlight its potential as a sector leader is in strategic partnerships, particularly with research institutions, NGOs, and other stakeholders in its countries of operation. ”

Nick Moss Gillespie
Partner, Responsible Forestry Solutions,
Canada





Masisa strives to respect the practices and cultures of indigenous communities in the areas in which it operates, maintaining a dialogue and consultations with these communities. We currently have important relations with two indigenous peoples: the Mapuche in Chile, and the Kariña in Venezuela.

Relations with indigenous peoples

With the Mapuche people

At the end of 2004 the NGO Casa de la Paz carried out a study of the Mapuche people's perception of the companies that now make up Masisa. This highlighted the positive aspects of the way we dealt with the Mapuche, the strategies employed and the company's history in responding to the issues. This study also confirmed that we need to go further than simply meeting the legal requirements in this relationship due to its particular historical and cultural legacy. In 2005 we promoted a more thorough dialogue process, inviting the participation of indigenous communities near Masisa's Forestry Division, as well as civil society organizations and business representatives. We hope that this dialogue will broaden our analysis and understanding of indigenous realities and processes.

Land claims

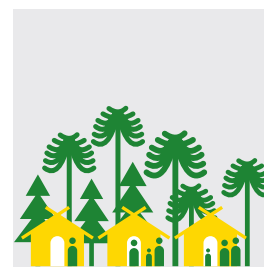
The relationship between the Chilean forestry industry and the Mapuche people is characterized by conflicts over their long-standing land claims. In Masisa's case, the claims relate to properties of the former Terranova (approximately 2,000 hectares).

Masisa has been traditionally inclined towards dialogue with indigenous communities regarding ancestral rights and the religious use of land. We respect governmental communications channels as well as those of the communities and of the company, but we rely on the rule of Chilean law in conflict resolution when we are unfortunately faced with illegal acts against company people or property. The doors of the company are always open so that representatives of the indigenous communities get truthful information on properties and can explore the option of gaining access to these through the National Corporation for Indigenous Development (CONADI), the Chilean governmental agency that evaluates matters such as the indigenous land titles given to indigenous peoples in the 19th Century, and the availability of resources, among other things, so that the negotiations can take place.

In 2000 Masisa sold the Santa Juliana property in an operation financed by the state through CONADI. In 2004 negotiations took place concerning the 363-hectare Rapahue property in the Purén commune that had been forested between 1981 and 1983. During these negotiations the plantations forested by the company between 1990 and 1994 were excluded. However, we signed a contract with the community for it to lease from Masisa the area of land that was excluded from the sale (225.3 hectares). The company allows the community to undertake commercial thinning in the plantations that are located on that land.

We have other agreements with some Mapuche communities for the use of waste and the sale of disqualified woods. On the Santa Elisa and Portahue properties near Temuco, we came to an agreement formalizing the use of the land after felling through the *comodato* system that gives these communities partial use of the land.

Although on one occasion in the past we donated a property (Quetrahue, 2001), Masisa has no current plans to donate any forest properties.



COMMUNITY DEVELOPMENT IN CABRERO

In 2005 in response to local interest, we decided that it would be better for the work of the Terranova Foundation in Cabrero, Chile, to be developed directly by the company as an important social actor within the community. We therefore established the Department for Community Development in Masisa Cabrero with experts in community development. In 2005 we finished various training projects, and the next phase will start in 2006. We initiated a program to support teachers' training, with the collaboration of the society for primary school education, which seeks to improve the academic results of 350 children up to fourth grade in basic education.

The activities developed by the foundation in the Etruria training center, such as programs to preserve Mapuche cultural traditions, the validation of community systems and the creation of micro-enterprises in the communities of Filoco, Reserva Rain, Mahuidanche, Valentín Llancafil and Trapehue, all continued under Masisa Forestal's leadership.

With the Kariña people

Masisa has operations in Venezuela's Macapaima region, an area renowned for its indigenous ancestral heritage. We seek to maintain this cultural heritage through a balance of conservation and development that allows indigenous peoples to be actors in the society in which they are immersed.

We have carried out various activities with the Kariña community in promoting the use of their language, as well

as cultural, culinary and archaeological traditions, and the use of medicinal herbs and products from the region. Masisa has also developed projects to improve the quality of life in the communities, for example by facilitating access to a drinking water system that considerably improved the health of the community. This water distribution system is managed through a local committee by the community itself and has helped strengthen its organizational capacity.

PLANNING IN THE INDEPENDENCIA MUNICIPALITY, VENEZUELA

The municipal development plan is an instrument that proposes a long-term vision for the municipality's inhabitants, defining priorities for action by the local government. The agreement between the Venezuelan planning institute (IVEPLAN), Masisa Venezuela, and the mayor's office of Independencia pioneered the consolidation of the latter's Municipal Development Plan with its highly participatory focus involving the communities. The plan was based on an analysis of current problems facing 60 urban and rural communities, through 165 representatives and community leaders.

Masisa promoted the community participation and put the issue of sustainability on the agenda, for which it received recognition from Venezuelan authorities. The mayor of Independencia, Humberto Bello, said of Masisa's participation: "There are many who have contributed to the drafting of this plan, but I cannot exclude a mention of the private sector initiative, represented by the Terra-

nova group, now Masisa, whose representatives made this product a possibility. That, by the way, is not wood or MDF, or whatever you like to call its byproducts, but a production that translates into development for our communities, true joint social responsibility that extends further than assistance. They are proposals that are really corrective. I thank Masisa for its commitment to us."

Thus Masisa Venezuela participated in an innovative model for stakeholder engagement that goes beyond simple philanthropy and makes the company a local actor in sustainable development.



We have committed ourselves to inviting our neighbors to visit us and get to know our operations, to explaining what we do, to informing them of possible risks and contingency plans, and in general to maintaining an open door policy.



MANA

ENVIRONMENTAL RESULTS

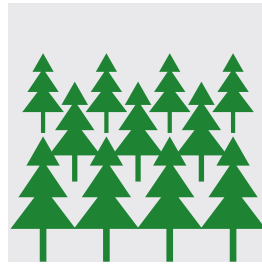
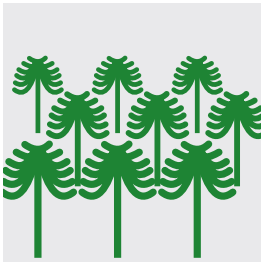


CHALLENGES OF THE FORESTRY BUSINESS

The forestry industry has special environmental challenges, in that forests are managed both to produce wood and ensure environmental services such as the conservation of biodiversity, the protection of soil and watercourses, and the sequestration and storage of greenhouse gases. In the manufacture of wood products, the industry must take care that wood or fiber purchased from third parties comes from well-managed forests, that additional inputs to the manufacturing process do not have a negative impact on workers or users of the product, and that the impacts of noise or atmospheric emissions in factories are controlled for the sake of neighbors' wellbeing.

Forestry has the potential to be one of the most sustainable industrial sectors. Well-managed forests produce many benefits other than wood, such as a habitat for many species of plants and animals. Manufacturing processes can use wood as fuel to generate energy,





reducing consumption of fossil fuels and at the same time decreasing waste. Used as a construction material, wood generates relatively few residues and greenhouse gases in comparison to cement or steel¹. The excellent performance of wood from well-managed forests is recognized by leaders in "green construction" such as the U.S. Green Building Council's Leadership in Energy and Environmental Design Standards.

ENVIRONMENTAL INVESTMENTS

In 2004 Masisa made environmental investments amounting to US\$3.3 million, and in 2005 they were close to US\$3.5 million. The accumulated total since 2002 is US\$11 million. These sums have involved investments in obtaining and maintaining environmental certifications, control of atmospheric emissions, water treatment systems and waste management. The most significant investment in 2005 was US\$1.5 million in the Cabrero, Chile plant to re-circulate and treat water from the sawmill.

The pages that follow describe how Masisa tackles its challenges, endeavoring to create environmental benefits at its sites. More details are provided about these and other environmental aspects of the company's three divisions. A table at the end of the chapter summarizes information on each site with industrial operations (several different lines of production can operate in each one), natural resource consumption, atmospheric emissions and water effluents.

¹ The Consortium for Research on Renewable Industrial Materials www.corrim.org/reports/; The ATHENA Institute – Building Life Cycle Assessment: residential case study. Trusty & Meil 2001. www.athenasmi.ca/

ENVIRONMENTAL PERFORMANCE OBJECTIVES

In terms of environmental management, Masisa's priorities vary according to the production processes of its divisions. At the corporate level, however, the company has defined the following objectives:

OBJECTIVE 1

Comply with the requirements of local environmental legislation

As verified in the audits conducted during 2005, all of our operations comply with local legislation and in some cases go beyond what is required by law (see Compliance with the Law, page 18).

OBJECTIVE 3

Reduce the use of natural resources in our factories

We make a special effort to improve eco-efficiency with respect to natural resource use and the generation of residues in our factories. Increasing eco-efficiency is part of Masisa's business strategy and is included in the Sustainability Scorecard®.

In 2005 we succeeded in:

- Reducing energy consumption by 12%;
- Decreasing waste for final disposal by 27%.
- Energy use rose 3% due to higher consumption in the solid wood division. Around two-thirds of the energy employed at Masisa comes from biomass and less than one-tenth from fossil fuels; the rest is electrical power, mainly hydroelectric.

OBJECTIVE 2

Obtain the most stringent external certifications

As of December 2005, all of our plantations were certified by the Forest Stewardship Council (FSC), except for those in Argentina, which will obtain certification in 2006. (For more information about plantation management and the FSC, see page 63.) In addition, all of Masisa's forestry and manufacturing operations are managed under ISO 14001 environmental management standards.

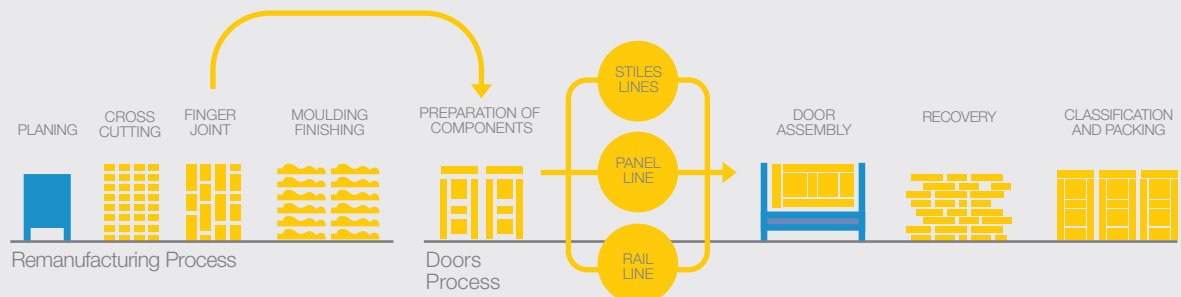
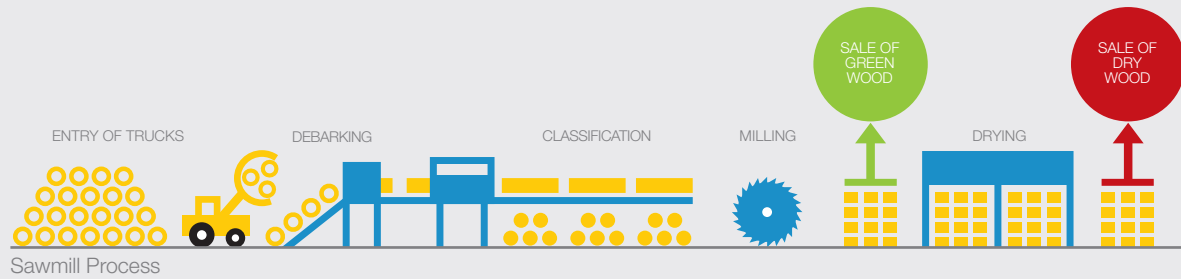


OBJECTIVE 4

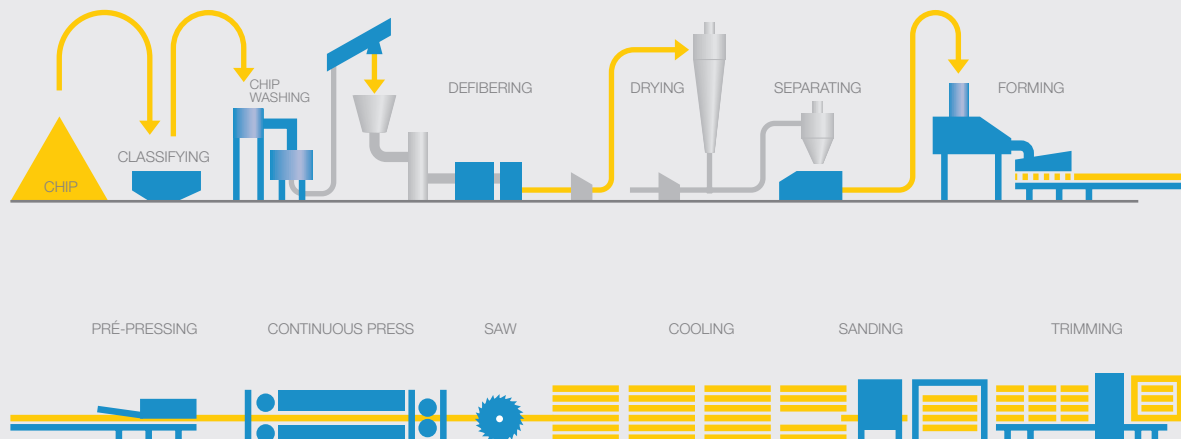
Control environmental impacts that affect the neighbors of our operations

We have made investments to reduce effluents, noise and emissions. Consultations in 2005 indicate that our neighbors are satisfied with the way we are addressing these issues. (See "Relations with Neighbors", page 38.)

SOLID WOOD PROCESS





BOARD PROCESS



Water: Consumption and effluents



WATER	m ³ /m ³ 2004	m ³ /m ³ 2005	Improvement
 Boards	1.11	1.04	7%
 Wood	8.65	6.90	15%
Total	2.51	2.19	12%

FORESTRY DIVISION

Consumption

On well-managed plantations, wood production requires few inputs. With the exception of water for nursery irrigation and human use in the camps, plantations use only rainfall and aquifers.

Effluents

In 2005 we began analyzing possible impacts on the quality of watercourses of forestry activities at the Chilean plantations. We periodically measure flow and suspended solids, an important indication of soil loss during a given time. Our aim is to relate potential soil loss with the topographical variables of the forest lands and with the type and intensity of these operations. A fundamental element in this analysis is the condition of the natural vegetation remaining in the watershed, especially the vegetation right beside the watercourses, which is regulated by law. Once data collection concludes, geographical information systems and statistical analysis will be used to detect the most influential variables in the alteration of normal runoff cycles, water chemistry and loss of suspended sediments (soil loss).

SOLID WOOD DIVISION

Consumption

While the three sawmills in our Solid Wood Division do not use water in their production processes, those in Chile use a significant amount for spray irrigation to keep wood saturated with moisture (approximately 300m³/hour). This prevents attacks of the blue stain fungus affecting the visual quality of the wood, although its physical and mechanical properties are not altered.

Freshwater is obtained from underground pools and the capture of rainwater. Our mills in Brazil and Venezuela have recirculation systems that significantly lower their freshwater consumption in comparison to the mill in Chile. During 2005 construction began of a primary water treatment plant (with mechanical filter) for our operations in Chile. This will enable us to re-circulate water and reduce our consumption to a minimum, thus enhancing eco-efficiency. This plant will begin operating in the first quarter of 2006 and is a response to requests from the neighboring community.

Effluents

Water used in the irrigation systems carries vegetative material from the bark. In the Brazil and Venezuela operations we have a water circulation system so this solid material in suspension is not a great problem, and the recirculation system at the Chilean mill will prevent the discharge of effluents into watercourses. Relevant parameters associated with irrigation effluents are mainly suspended solids (wood), organic load (DBO₅) and chemical oxygen demand (COD).

BOARD DIVISION

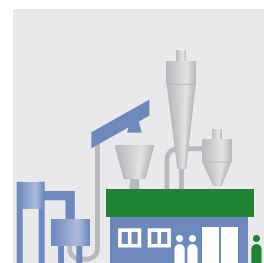
Consumption

The water used in board production mainly comes from underground sources and, in some cases, from the municipal system, with the greatest quantity employed in manufacturing MDF boards.

Effluents

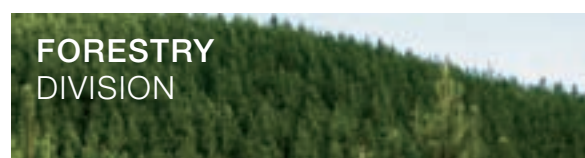
Effluents from the board process are primarily suspended solids (wood), organic load (DBO₅) and chemical oxygen demand (COD), as well as heat in some cases. The newest plants, such as the production lines in Brazil and the new line of MDF board in Chile, are designed to have zero effluents.

More information on each operation can be found in the Annex, "Water Consumption and Parameters in Effluents," pages 76 and 77.



Energy and atmospheric emissions

ENERGY CONSUMPTION	MW hr/m ³ 2004	MW hr/m ³ 2005	Improvement
 Boards	1.10	1.10	1%
 Wood	1.19	1.29	(16%)
Total	1.11	1.14	(3%)



Energy

Consumption in forestry activity is limited to the transport of workers, raw materials and products. Mainly fossil fuels are used, but since transport is generally outsourced, we have no reliable information about consumption at this time.

To diminish the visual impact of harvesting activity in sensitive areas, we began planting protective curtains with fast-growth species. These curtains have been applied in three areas in Chile, facilitating new growth of the low-lying scrub native to the sector, along with other species of legumes.



Energy

The Solid Wood Division primarily uses thermal energy from biomass and to a lesser degree electrical energy and fossil fuels. The sawing and remanufacturing processes generate chips, sawdust and wood dust, materials we use as a source of thermal energy for drying wood. Thanks to the co-generation plant, in Brazil these byproducts are also used to generate electricity and water vapor.

Atmospheric emissions

The most important emissions are particulate materials (wood dust) mainly produced during three stages of the process: in the thermal plants and boilers, in wood drying and in sanding (boards, doors, mouldings, etc.). The largest portion of particulate material comes from drying, and Masisa has made considerable efforts to reduce these emissions by setting up control equipment in almost all of its plants.

CLIMATE CHANGE

We recognize the critical importance of climate change as a global environmental issue. Our companies help reduce the generation of greenhouse gases by using significant quantities of energy generated from burning biomass, continually decreasing use of fossil fuels and improving the efficiency of processes, and through the sequestration of gases by our plantations and native forests.

In recognition of this issue, we pledge to:

- Continue improving energy use in processes of generation and in the transport of our products.
- Develop co-generation projects, projects to increase energy efficiency and/or sequestration of gases by our forests, in markets operating outside the Kyoto Protocol

(the Chicago Climate Exchange, for example) or through the vehicle of the Clean Development Mechanism.

- Communicate the benefits of our climate change-related actions to customers and other stakeholders.

These commitments require voluntarily reducing greenhouse gas emissions in relation to an emissions baseline. Unfortunately, the methodology we used previously to measure carbon is different from those most used at the international level, such as the Greenhouse Gas Protocol (WRI/WBCSD). With the completion of a new baseline in 2006, we will have a carbon scorecard using internationally accepted methodologies for assessing and publishing emissions reductions.

In February 2005 we finished installing filters at our door manufacturing plant in Chillán, Chile, thus remedying a longstanding problem in this unit while successfully capturing wood material we can use as a source of energy. In addition, gases generated as

a product of combustion in the thermal plants and boilers are used as fuel, and only occasionally are fossil fuels used. Emissions include carbon monoxide (CO), carbon dioxide (CO₂), sulfur dioxide (SO₂) and nitrogen oxides (NO_x).



BOARD DIVISION

Energy

As with the Solid Wood Division, energy supply at Masisa's board division is based on renewable sources: 70% biomass, 25% electrical power (mainly hydroelectric) and just 5% fossil fuels. However, electrical energy is a significant cost of production. Masisa controls consumption carefully and maintains an energy-savings strategy in both project design and operations.

Energy use is significantly reduced in new projects, for example by using conveyor belts instead of air ducts and optimizing distances between equipment and work areas. Practices adopted to reduce consumption in operations include halting equipment when plants stop and at hours of peak electricity consumption; and changing piston rings in saws or blades depending on energy consumption (the defibering machine is one of the most important users of energy).

Currently, Masisa is assessing energy generation projects in Chile, especially co-generation. By slightly increasing current use of biomass for wood drying at the sawmill, we can generate electricity while also obtaining the hot air required for drying. This will improve energy efficiency and significantly reduce emissions of particulate matter from the boilers. The overall efficiency of combustion-based electrical generation rises when thermal energy is used in another process, in this case, drying.

Monitoring and control of atmospheric emissions in factories

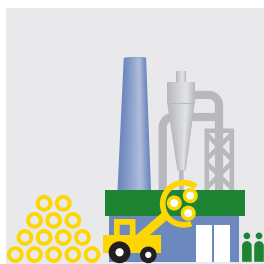
Data on emissions of particulate material, carbon monoxide, carbon dioxide and nitrogen oxides indicate that we are complying with national legislation where applicable regulations exist (Argentina/Concordia, United States, Venezuela/Macapaima and Brazil/Ponta Grossa.) However, inconsistent measurement makes it impossible to report adequately, and emission information cannot be compared within individual plants or with others.

We are working to control formaldehyde emissions in the board plants (pressing). In Cabrero this process was concluded at the end of 2005.

During 2006, we will implement a plan for monitoring the main sources of emissions in all of the plants. This information will allow us to compare our results with international standards and monitor air quality.

For more information on energy consumption and emissions parameters, see the "Energy Consumption annex" on page 78.

Chemical Inputs And Use







FORESTRY DIVISION

In order to photosynthesize and grow, trees require energy from the sun, nutrients from the soil, carbon dioxide, and water. The only external inputs are small amounts of fertilizer when needed to make up for soil deficiencies and pesticides to optimize growth. Fossil fuels also provide energy for harvesting equipment and transporting trunks.

Pesticide and fertilizer use are carefully controlled at Masisa. We employ only those on an internal list of authorized products that is periodically updated to reflect the availability of new products and specific restrictions and bans in country legislation and the FSC standard.

Around two-thirds of pesticide use is of class IV products, those that normally represent no danger. The



Country	Pesticides (Kilograms)	Pesticides (Liters)
	17,937	15,205
	3,922	
	5,181	3,068
	14,113	11,354
TOTALS	41,153	29,627

Country	Fertilizers (Kilograms)
	212,525
	1,370
	4,346
	65,000
TOTALS	283,241

remainder are class II and III, considered moderately or not very dangerous. We do not use IA products prohibited by the World Health Organization and the FSC. Nor do we use IB products, except for the two liters of Methamidophos used in 2005 in Venezuela to control a plague of insects resistant to all other chemicals. We are looking for safer alternatives should the need arise again.

The chemicals are used to control insects and rodents, decrease weeds and combat fungi in the nurse-

ries. Masisa only applies chemical products for rodent control in facilities where workers are housed, as rodents that can be vectors of the deadly Hantavirus.

Masisa supervises the use of these products by contract workers through internal verification and operational monitoring. These materials are also controlled during the external audits for ISO 14001, OHSAS, and FSC certifications.



SOLID WOOD DIVISION

Wood

We have certification of origin control procedures validated by external certifiers to ensure that the wood we use comes from "non-controversial sources." Masisa does not purchase wood that has been cut illegally, or which comes from genetically modified trees, from land subject to conflicts with indigenous populations or from plantations on land where native forest has recently been replaced.

We prefer to use FSC-certified raw materials. In the manufacture of solid wood materials we use at least 63% certified timber (Brazil). In Chile this percentage is 90%, rising to 100% in Venezuela. Until early 2005 we had FSC Chain-of-Custody for products such as solid pine doors, requiring 70% of wood supply from plantations certified under the same FSC seal.

At the start of 2005, FSC published new certification rules and recognized a new chain-of-custody category called "Mixed Sources." We use this new certification for the solid wood doors where we employ 35% of the credits awarded for use of wood whose origin is FSC-certified. This change generated significant savings by shortening the transportation distances involved in bringing wood to the sawmills in Chile and Brazil, and thus raising eco-efficiency levels. Masisa's industrial facilities in Brazil and Chile were the first of their type in Latin America to adopt these new standards.

Chemical products

We use Tribromophenol or Preventol O Extra as fungicides to prevent blue stain fungus from appearing while milled wood is stored. Both products have low toxicity and are biodegradable. Anti-stain bath processes at the sawmills are isolated, and the remainder is sent to authorized landfills for final disposal.

For the doors and mouldings we use only water-soluble and non-toxic PVA (polyvinyl acetate) adhesives, popularly known as "white glue," and water-based paint.

BOARD DIVISION

Wood

Masisa consumes 1.4 million tonnes of dry wood a year at its board plants, of which 67% is residue from other industrial processes. All wood is from pine or eucalyptus plantations. No native wood is used except in Mexico, where there are no artificial plantations and we have to purchase residues from mills processing native wood.

We supervise our suppliers of wood residues to make sure they are formally constituted companies whose operations are approved by the competent authorities in the countries where we operate.

Very little raw material is lost; whatever is left over from manufacturing boards is used for fuel, as is sawdust after sanding.

Adhesive resins

Masisa's reconstituted boards are made of wood particles, fibers or laminates glued together with a resin that activates with thermal pressing to make a panel.

RESIN CONSUMPTION – BOARD DIVISION

2005

Particleboard	45,081 solid tonnes/year (100%) UF resin (urea-formaldehyde)
MDF board	92,034 solid tonnes/year (100%) UMF resin (urea-melamine-formaldehyde)
OSB board	16,519 solid tonnes/year (100%) MUF resin (melamine-urea-formaldehyde)

WOOD SUPPLY CHALLENGES IN MEXICO

Our industrial operations in Durango, Mexico, represent a special challenge in comparison to the rest of the company, as there are no planted pine plantations in this country that can provide raw material for board production. Our entire supply comes from third parties, close to 50 suppliers who use at least eight different species of pine.

We developed supplier selection procedures to assure that our wood

comes exclusively from authorized operations. In Mexico forest exploitation requires authorization from Semarnat, the Mexican environmental authority that generates logging permits. Semarnat conducts sustainability studies and requires a management plan to harvest wood.

Given the biological importance of forests such as those of Sierra Madre Occidental, we feel there is room for improvement regarding control

of the origin of wood used in our Durango operations. We have begun conversations with local environmental authorities and are promoting FSC certification of our suppliers. Currently 10% are certified, and we expect this number to rise, ensuring adequate management all along the value chain. We have also requested support from researchers at the Ecology Institute and at the National Corporation for Knowledge and Use of Biodiversity (CONABIO) to gain a better understanding of this issue.

CONTROLLING FORMALDEHYDE EMISSIONS

Formaldehyde is a component present in many natural objects, including wood. It is also found in the synthetic resins used in board making. More formaldehyde is released in closed environments where boards are cut, milled or sanded, and can irritate eyes, nose, throat and mucous glands, as well as possibly affecting the respiratory system and skin, causing dermatitis. To prevent this, the use of gloves and masks is recommended.

In June 2004, the World Health Organization's International Agency for Research on Cancer recommended that formaldehyde be reclassified from "probably carcinogenic to humans" to "carcinogenic to humans." This indicated that people exposed to formaldehyde in high concentrations for extended periods can develop nasopharyngeal cancer.

Masisa's Response

Masisa has demonstrated an on-going concern for the environment and human health. Continuing in this vein and taking into account the growing demand for environmentally friendly products, all of our production at all of our plants now has low levels of formaldehyde emissions, in compliance with norm E-1.

Masisa manufactures E-1 board because it values the wellbeing and health of its collaborators and customers, and this allows us to comply with the demands of international markets.

What is E-1 Classification?

E-1 classification identifies products with low formaldehyde emissions, in this case, wooden boards. A board is classified as E-1

when the amount of formaldehyde (perforator value) released in 100 grams of dry sample is less than 8 milligrams (<8mg/100g). Since this is a European regulation, it is common for E-1 wood board to be required in countries of the northern hemisphere. (The European regulation EN-312-1 establishes the limits for particle board – class 1 - and MDF – class A - as 8 mg/perforator.)

Advantages of compliance with E-1 Classification

Furniture and other products manufactured with E-1 boards are safer.

Boards with low formaldehyde emissions allow furniture-making companies to enter international markets that demand compliance with this regulation as a basic requisite.

Masisa is the only producer in Latin America that supplies only E-1 boards.



Efficiency in production processes



We maximize the value of the plantations through the careful use of harvesting and selection processes and by using almost every part of the harvested trees in the making of the different products, from solid wood doors and mouldings to sawn wood. Byproducts from the process, such as chips and sawdust, are used to make boards.

The most valuable pieces are at the base of the tree, so after trimming we eliminate the knots of the wood to produce trunks of the right quality for sawn wood. The upper parts of the tree have less value, and because they have knots and are of small diameter, serve only for pulping. In this way, we find markets for all of the trunk. Residual organic material such as branches and roots are left to enrich the soil.

Trunks for sawing are sold to our solid wood division or placed on the market. Pulpable parts are sold to third parties.

Volumes of harvested wood will increase significantly in upcoming years as the company's plantations mature, with parallel increases in production volumes as a result of vertical integration.

Genetic engineering and silviculture

There is extensive debate about the use of trees modified by genetic engineering in silviculture. On the one hand, there are the environmental organizations and others that consider that the potential environmental risks have not yet been understood to the degree necessary before such trees are used on large-scale commercial or experimental plantations. Some of their concerns include the possibility that modified genes could escape to wild populations of natural species, and that transgenic trees may result in an even greater intensification of silviculture, lowering biodiversity in the plantations. On the other side, those who defend forestry biotechnology consider that this technology promises immense benefits for the sector and that any potential risks could be mitigated.

PRODUCT DIVERSIFICATION AND WOOD USES						
			TYPE OF INDUSTRY			
		% of Tree	Pulp	Sawmill	Remanufacturing	Plywood
	Pulpable parts	18%	✓(+)	✓(-)		
	Normal sawable parts	47%	✓	✓(+)	✓(-)	
	Classified sawable parts	25%	✓	✓(+)	✓(+)	✓(-)
Pruned parts	10%	✓	✓(-)	✓(+)	✓(+)	
	TOTAL	100%				

✓ Wood Use ✓ Recovery of Residues

Despite lack of consensus on the use of transgenic trees in the forestry industry, in many parts of the world the private sector is engaged in intense research on genetic engineering. In the United States, several companies have made important investments in its applications for forestry species. In Europe, where there is comparatively more resistance to transgenic crops, the private sector currently does not participate in field trials. In Latin America, our competitors are participating in studies to develop and evaluate transgenic characteristics for pine and eucalyptus species.

Our policy with respect to genetic engineering, approved in November 2005, states that Masisa will not make commercial or experimental use of transgenic trees until they are proved safe. However, we are concerned that the necessary large-scale field trials are not being done to test the safety of genetically modified trees.

Our competitors are investing in this technology, and if these trees are accepted in the countries where we operate, we will find ourselves at a serious competitive disadvantage. To better understand and evaluate the risks and benefits of forest biotechnology, we have decided to monitor the development of forest biotechnology around the world extremely closely, and to participate in research activities, such as those of the Genomic Forestry Consortium in Chile. This consortium is a government effort involving universities, state agencies and forestry companies in research into biotechnological applications, including modifications of *Pinus radiata*. During the first five years the consortium will not release genetically modified trees into the environment in either experimental or commercial form, so that its activities will not carry environmental risks.

SOLID WOOD DIVISION

The main sources of efficiency in the industrial processes of this division lie in wood yield and productivity. Yield refers to the quantity of final product per individual unit of wood entering the processes, while productivity is the quantity of material produced per unit of time. Average sawing yield in Masisa is 57%, meaning that 57% of the wood entering the process is turned into a product. This indicator is consistent with international efficiency levels.



Sawmills in Brazil and Venezuela represent 51% of Masisa's installed capacity and achieve high efficiency levels in terms of yield and productivity. In contrast, our Chilean operations consist of both outdated and modern facilities. We think there is potential to improve their efficiency if some processes undergo technological modernization, especially in the area of wood reconstitution.

BOARD DIVISION

At Masisa we strive for maximum efficiency with respect to the use of raw materials, energy and water. In this sense, the two main limitations are the age of some of our plants in Chile, and our commitment to produce E-1 boards with low formaldehyde emissions.

Wastes for final disposal



WASTE FOR FINAL DISPOSAL			
	Kg/m ³ 2004	Kg/m ³ 2005	Improvement
 Board	19.38	14.41	26%
 Wood	84.88	56.97	28%
Total	31.55	22.80	27%

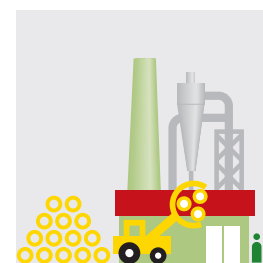
RESIDUES FOR FINAL DISPOSAL PER PLANT IN TONS			
Solid Wood Division			
Country	Plant	2004	2005
	Rio Negrinho	229	124
	Macapaima	33,560	22,087
	Charleston	135	365
	Cabrero	4,441	4,921
	Chillán	357	222
Board Division			
Country	Plant	2004	2005
	Concórdia	4,001	4,922
	Ponta Grossa	85	49
	Macapaima	32,413	21,630
	Durango	621	127
	Cabrero	114	126
	Chiguayante	313	281
	Mapal	745	1,215
	Ranco	75	64
	Carlos Puschmann	392	148

SOLID WOOD DIVISION

BOARD DIVISION

The main wastes we send for final disposal are used oils, organic residues from the dining halls, runoff and ash from the boilers and sludge from the water treatment plants. All wastes are stored and treated in accordance with their danger levels. We follow local regulations in sending these wastes to approved sanitary landfills for final disposal, or they are disposed of suitably on our lands when we are so authorized.

We are very satisfied with the results of our efforts to reduce residues.



Sustainable forest management

All of Masisa's plantations have FSC certification except those in Argentina, which will be certified in 2006. We also support the strengthening of the FSC norm and the development of local standards in the countries in which we operate.

At Masisa we recognize that many people all over the world are concerned about the environmental impacts of industrial plantations. For this reason, we have decided to obtain external certification of our forest management following the most rigorous standards: those of the FSC. All of the Masisa plantations have FSC certification except for those in Argentina, which will be certified in 2006. We also support the strengthening of the FSC seal on the market, and the development of local standards in the countries in which we operate.

FSC CERTIFICATIONS

FSC principles are very thorough. They include issues such as land tenure of indigenous peoples, reduction of chemical use and benefits for local communities. But perhaps the most interesting part about the FSC accreditation is that it reflects local consensus achieved among hundreds of stakeholders – including business representatives, environmentalists, civil society organizations and indigenous communities – in both the northern and southern hemispheres. Another important characteristic of the FSC is its transparency. Audit results are public and are available on the websites of the certifiers.

“ ForestEthics (www.forestethics.org) appreciates the opportunity to offer brief comments on Masisa's Sustainability Report. We are singularly impressed with the report's breadth and depth. Fortunately organizations such as World Wildlife Fund, Innovest and Sarasin have offered analysis and commentary for the report as a whole. This enables us to focus our comments only on the report's sections which address Forest Stewardship Council (FSC) certification and Masisa's native forested lands in Chile. These are the areas in which we have worked to date with Masisa, and these are also the areas in which we have planned future work with Masisa.

We value the Sustainability Report's FSC sections because the FSC seal offers the best assurance globally that a wood or paper product is environmentally and socially responsible. Because of Masisa's strong FSC commitment and performance, we have encouraged large North American buyers of Chilean wood to purchase products from Masisa. We also plan to help Masisa build stronger demand for its FSC certified products by working with the company's North American sales team. In addition, we believe that Masisa can reap greater financial rewards from its FSC commitment—specifically in Chile—by creating new FSC certified supply sources closer to the point(s) of demand.

Chilean native forests known as “*renovales*” are a key to the restoration of healthy native forest ecosystems in that country. For this reason, we value the Sustainability Report's comment, in the Patrimonio Forestal section, regarding analyses and consultations that Masisa has made to guide its management of lands including “*renovales*”. To support the development of “*renovales*”, new systems of forest management and new forest product markets are required. ForestEthics has made a strong commitment to the development of these new management systems and product markets in Chile. As part of our growing relationship with Masisa, we hope to participate in the further development of management systems for “*renovales*” on the company's Chilean lands. ”

Aaron Sanger
Director ForestEthics, Chile



Our experience with FSC certification has been very positive. It has allowed us to demonstrate the seriousness of our commitment to the increasing sustainability of our forestry management and provides us with a framework for the standardization of management practices in several countries. The external audits support our effort to excel on issues such as permanently increasing conservation areas, resolving the complaints of indigenous communities, and improving the safety of our employees.

We know that the majority of those interested in these issues support management standards such as those

of the FSC. But there are people who do not believe plantations can be "sustainable" and even claim that the FSC should not be allowed to certify industrial plantations. They charge that FSC's principle 10, which refers specifically to plantation management, is "too vague." In response to these concerns, the FSC has begun to revise this principle, and this should be finished by the end of 2006. At Masisa we believe that FSC's well-balanced, decisionmaking process will serve to validate well-managed industrial plantations as an important element of a sustainable territory.

WHAT FSC AUDITORS SAY ABOUT OUR FORESTS

VENEZUELA

Certified by FSC in 2003
Last audit in 2004

Key challenges:

- Contract third parties to assess the social impact of our operations.
- Develop an exhaustive conservation program that includes the areas dedicated to conservation.

CHILE-NORTH

Certified by FSC in 2001
Last audit in 2004

Key challenges:

- Continue working hard to solve disputes that still exist over indigenous lands and maintain strong relations with communities.
- Develop procurement policies to differentiate between sources of wood and exclude controversial sources.

CHILE-SOUTH

Certified by FSC in 2004

Key challenges:

- Improve communication about FSC with contractors.
- Establish mechanisms to settle disputes for our stakeholders.
- Trace a map of indigenous peoples located near our forests.
- Improve the maps indicating our native forests.
- Translate our management plans into maps.
- Improve information about our native forests.
- Document and put into practice improved measures for the protection of high conservation value forests.
- Improve riverside corridors.

BRAZIL-NORTH

Certified by FSC in 2002
Last audit in 2005

Key challenges:

- Improve protection of forests against fires, hunting and other illegal activities.
- Make the results of our monitoring program available to the public.

BRAZIL-SOUTH

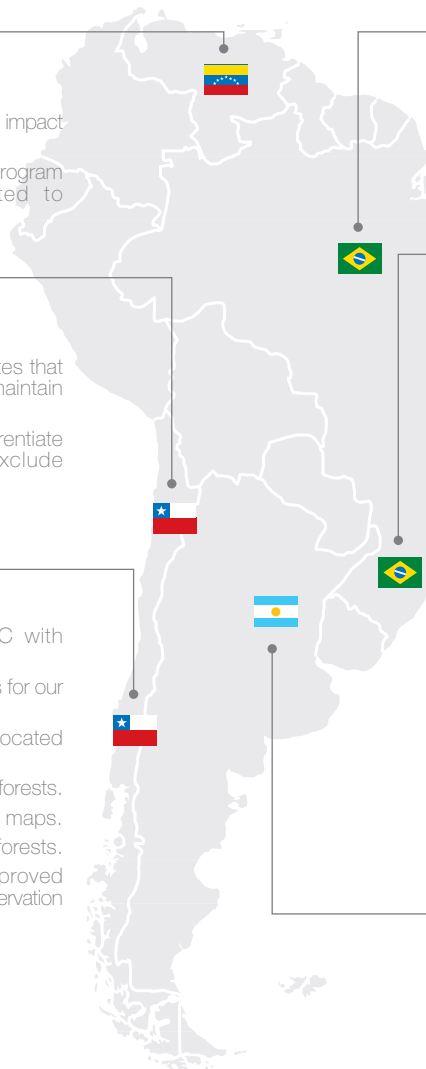
Certified by FSC in 2005

Key challenges:

- Analyze and inform stakeholders about our obligations to respect treaties and signed agreements.
- Protect our forests from illegal grazing.
- Develop a plan to minimize the risks of working in areas with defective communications.
- Improve our understanding of the physical tensions related to the work of our manual collaborators.
- Improve record keeping in areas with high accident rates.
- Develop and implement a social action plan.
- Develop and implement a monitoring plan.
- Expand our accounting to include social and environmental aspects.
- Improve our landscape through planning to protect water, soil and biological resources.
- Develop an integrated strategy for biodiversity conservation.
- Integrate social and environmental programs into the management plan.

ARGENTINA

Not yet FSC-certified



ABOUT THE FSC

The Forest Stewardship Council (FSC) is an international network to promote responsible management of the world's forests.

- FSC brings people together to find solutions to the problems created by bad forestry practices and to reward good forest management.
- FSC is a stakeholder-owned system for promoting responsible management of the world's forests.
- Through consultative processes, it sets international standards for responsible forest management.
- It accredits independent third-party organizations who can certify forest managers and forest product producers to FSC standards.
- Its trademark provides international recognition to organizations that support the growth of responsible forest management.
- Its product label allows consumers worldwide to recognize products that support the growth of responsible forest management worldwide.
- FSC undertakes marketing programs and information services that contribute to the mission of promoting responsible forestry worldwide.
- Over the past 10 years, over 73 million hectares in more than 72 countries have been certified according to FSC standards, while several thousand products are produced using FSC certified wood and carry the FSC trademark.
- FSC operates through its network of National Initiatives in more than 34 countries.
- FSC Principles and Criteria for Forestry Management are available at www.fsc.org.

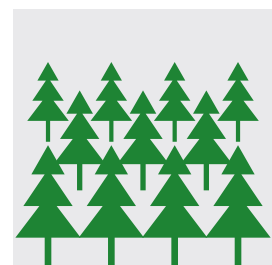
The graphic on page 62 summarizes results of the most recent audits of Masisa plantations.

FOREST ASSETS

The lands owned by Masisa are predominantly used for monocrop plantations and planting areas. Most of the plantations are pine, although species vary from country to country. In Venezuela we use *Pinus caribea*; in Brazil and Argentina, *P. elliottii* and *P. taeda*; and in Chile, *P. radiata*. In Argentina the company has 22,550 hectares of eucalyptus plantations and in Brazil 5.4 hectares of araucaria.

Protected reserves make up 9.7% of Masisa's lands, and 6.8% is comprised of native forest. We recognize the importance of managing these assets effectively, and carefully follow the suggestions and proposals of experts and environmental groups such as WWF, ForestEthics, Defensores del Bosque Chileno, CONA-BIO and the Ecology Institute in Mexico. We have made progress in carrying out analyses and making consultations to assure that part of these forests can be used for sustainable wood production, especially "*renovales*" (forest formations of native species of secondary growth, normally consisting of one species and of a similar age).

With the exception of some that are leased (especially in Venezuela), most of the lands are owned by Masisa. Between 2004 and 2005 some changes took place: we sold 12,000 hectares to Forestal Arauco in Chile, postponed planting on some of the harvested areas in Venezuela, and acquired new lands in Brazil. No significant loss of plantations or forests occurred due to wind, insects or fires.





CONSERVATION

Nature Reserves in Argentina

Since 1999 Forestal Argentina, the forestry subsidiary of Masisa, works with the Habitat and Development Foundation in an association that today has resulted in the establishment of 4,200 hectares of reserves. We have plans to intensify the bird conservation program and invite other companies to create a network of private reserves on the Uruguay River.

We began our joint initiative with 200 hectares of very well conserved gallery forest in the zone of Ayui, supported by ornithologists, biologists, naturalists and other experts. This association with a conservation organization has been a highly enriching experience. As we gradually learned to work together, our fears disappeared and we each began to understand and assimilate one another's knowledge. In Masisa we learned to talk about conservation as a management challenge, and the people at Habitat and Development started to understand the needs of our business.

Our nature reserves are open at all times to researchers but not to the public. One week every year we open the Arroyo Ayui Nature Reserve to students, neighbors and the authorities in an event we call "Reserve Week."

Currently Forestal Argentina comprises the following reserves:

1. Arroyo Ayuí Grande Nature Reserve

(220 hectares, northeast of Entre Ríos). A preliminary inventory found 113 species of birds, 35% of those native to the province. The reserve is a sanctuary for increasingly uncommon populations of mammals such as the capybara, the common brown brocket deer, the long-tailed otter, and Geoffroy's cat.

2. Buena Vista II Nature Reserve

(650 hectares, northwest of Paso de los Libres). Formed by an extensive gallery forest with lianas, vines and open areas of high conservation interest. More than 300 species of birds inhabit its lakes, marshlands and flooded areas, along with other vertebrates such as the gold tegu lizard and the yacaré caiman.

3. La Florida II Nature Reserve

(1,356 hectares, Department of Paso de los Libres) Rich in woody species that make up coastal scrub, it is a continuation of the tropical and subtropical vegetation of Brazil and harbors a high level of biodiversity. Conserving these sectors of the coast helps to maintain a chain of sanctuaries for species migrating along the river.



4. Tres Cerros Nature Reserve

(770 hectares, southwest of Paso de los Libres)

Forming a mosaic of natural environments, the reserve's colonies of waterfowl comprise a vast diversity of nesting birds at any one time. Thanks to its conservation, estuaries, forest and wetlands are connected, making it possible for birds to find food and build nests with materials from inside the reserve itself.

5. Santo Domingo Nature Reserve

(570 hectares, northeast of Paso de los Libres)

Composed of an extensive belt of gallery forest and marshlands alternating along the flood plains of the Uruguay River.

6. La Yunta Nature Reserve

(230 hectares, southwest of Paso de los Libres)

Composed of the flood valley of the Ayuí stream, this area shelters a high diversity of amphibians. The preservation of these lands is of utmost importance since the humid scrublands provide refuge for a great number of birds and function as buffer zones protecting against flooding of the stream.

7. Linconia Nature Reserve

(120 hectares, southwest of Paso de los Libres)

The fauna native to this reserve are threatened by poaching, the main reason why its conservation is so important.

8. Yuqueri Nature Reserve

(100 hectares northwest of Concordia).

Alternates sandy beds with pebble beaches, small gorges, hilly regions. The vegetation that persists in this reserve is composed of marginal or riparian forest having great biological and landscape value. Harbors long-tailed otters and gray foxes.

9. El Talar Nature Reserve

(180 hectares south of the department of Concordia)

Dominated by the flood valley of the Yeruá stream. Its lands are covered by a layer of stagnant water and marshland vegetation. The preservation of its vegetation has allowed the development of fringes of a young gallery forest, sheltering species threatened by poaching.

COMPLIANCE WITH COMMITMENTS REPORTS 2002-2003

REPORT	COMMITMENT IN 2002-2003 REPORT	SECTION	STATUS	LOCATION IN 2004-2005 REEPORT
Terranova	Continue consultations and dialogue with our employees, communities, customers and suppliers during the 2004-2005 period.	Corporate identity (Scope of the report)	●	Consultation and dialogue
Masisa	Include all industrial, forestry and commercial operations and subsidiaries in our 2004-2005 report.	Corporate identity (Scope of the report)	●	About this report
Masisa	Initiate communication and consultation processes with stakeholders of our Chile, Argentina, Brazil and Mexico companies, giving priority to customers, community, employees and suppliers.	Corporate identity (Scope of the report)	●	Consultation and dialogue
Masisa	At the end of 2005, all companies will have an integrated ISO 14001 and OHSAS 18001 management system.	Corporate Identity	●	External certification
Masisa	Publish sustainability reports every two years.	Corporate Identity	●	About this report
Masisa	Initiate a consultation program with main external stakeholders in our Argentina, Brazil, Chile and Mexico companies, for inclusion in our next report.	Social Responsibility	●	Transparency and communication Consultation and dialogue
Masisa	New Human Resources Manual in effect, emphasizing the incorporation of indirect employees in all our policies.	Social Responsibility	●	—
Masisa	Take a position on discrimination and define a course of concrete action coherent with our business principles.	Social Responsibility	●	—
Masisa	Reduce accidents by at least 20% in each workplace.	Social Responsibility	●	Safety and occupational health
Masisa	All of our operations should be OHSAS 18001-certified.	Social Responsibility	●	Compliance with law External certification Environmental Investments
Masisa	Record the frequency and severity of accidents to our direct and indirect employees.	Social Responsibility	●	Safety and occupational health
Masisa	Operations will have fully comparable methodologies for capture, analysis, and publication of the frequency and severity of accidents.	Social Responsibility	●	Safety and occupational health
Masisa	In our next report we will compare the safety and occupational health situation of our companies with their local situations.	Social Responsibility	●	—
Masisa	In our next report we will provide more information on training for our indirect employees.	Social Responsibility	●	—
Masisa	Have a corporate definition of standards, procedures, frequency and those responsible for formaldehyde measurements; the goal will be to comply with standard 0.3 ppm Time Weighted Average (TWA) in work positions proposed by the American Conference of Governmental Industrial Hygienists.	Social Responsibility	●	Safety and occupational health Controlling formaldehyde emissions
Masisa	Finish installing the ventilation system in the chipboard line in Chile.	Social Responsibility	●	Complaints
Masisa	Establish a procurement policy establishing preference for better performing suppliers in terms of quality, health, safety, environmental management and relations with stakeholders	Environmental Responsibility	● (1)	FSC
Masisa	Fully operative routine controls are in place to measure formaldehyde levels at workplaces, and formaldehyde emissions in products, and resin consumption per unit of board produced.	Environmental Responsibility	●	Safety and occupational health Controlling formaldehyde emissions

● Met ● Partially Met ● Not Met

REPORT	COMMITMENT IN 2002-2003 REPORT	SECTION	STATUS	LOCATION IN 2004-2005 REPORT
Masisa	Regular monitoring in all of our plants of atmospheric emissions and liquid discharges that can be harmful to the environment.	Environmental Responsibility	● (2)	Water: consumption and effluents Energy and atmospheric emissions
Masisa	During 2003 we defined indices to be used in all our plants and measurement and control systems. Results for that year are the baseline for 2004 performance goals, along with goals for cost savings in production.	Environmental Responsibility	●	Environmental performance objectives
Masisa	Each operation should have ISO 14001, ISO 9000-2000 and OHSAS 18001 external certification & implementation.	Environmental Responsibility	●	External certifications
Masisa	Each operation should have certification of its own social management system.	Environmental Responsibility	●	External certifications
Terranova	All operations initiate consultations with our stakeholders; these will be part of their management and on-going improvement systems by the end of 2004.	Corporate Identity	●	Consultations and dialogue
Terranova	Operations in Chile (sawmill) and Argentina (industrial) will obtain ISO 14001 environmental management certification during 2004.	Corporate Identity	●	External certifications
Terranova	All forestry and industrial operations should obtain OHSAS 18001 health and occupational safety certification before the end of 2004.	Corporate Identity	● (3)	External certifications
Terranova	All subsidiaries should integrate their management systems in a single system before the end of 2005.	Corporate Identity	●	Sustainability Scorecard©
Terranova	We will establish different internal entities so we can be sure that the vision, values, mission and business principles are known and respected by each member of the organization.	Corporate Identity	●	Transparency and communication
Terranova	In our next report we will include information on the average accident rate in each country where we operate.	Social Responsibility	●	Safety and Occupational Health
Terranova	Reduce the frequency of accidents by at least 20% in each workplace as of 2004.	Social Responsibility	●	Safety and Occupational Health
Terranova	We will increase the earnings of our employees so that they can pay for the basic basket for four persons without difficulty.	Social Responsibility	●	Labor commitments
Terranova	We will implement a social management system in our subsidiaries in keeping with internally drafted regulations. All our subsidiaries must have implemented this norm by the second half of 2004.	Social Responsibility	●	External certifications
Terranova	Initiate studies of our native forests in Chile, their management potential and the possibility of incorporating them in the company economy.	Environmental Responsibility	●	Conservation forests
Terranova	For future harvests in sensitive areas, protective curtains comprised of other fast-growing species will be established to reduce the visual impact of the activity.	Environmental Responsibility	●	Energy and atmospheric emissions
Terranova	In Chile we have a project pending to recycle the water used in the trunk storage yards, an investment not made in 2002 as planned and expected for 2004.	Environmental Responsibility	●	Water and effluent parameters Environmental investments
Terranova	The third sustainability report to be published in 2006 will include eco-efficiency results from the 2004-2005 period.	Environmental Responsibility	●	Environmental performance indicators
Terranova	In the next report we will present improved justification regarding the exclusion of some GRI indicators.	GRI indicators table	●	Environmental performance indicators

NOTES:

(1) We began actions but must formalize the policy.

(2) We complied with local legislation but should improve these measurements.

(3) Venezuela in 2006

GRI INDICATORS

● Available ● Partially ● Not available

GRI INDICATOR	GLOBAL COMPACT PRINCIPLE	STATUS OF INFORMATION IN THE REPORT	PAGE
1 Vision and Strategy			
1.1 Vision and strategy of sustainable development	Principle 8: Promote greater environmental responsibility	●	8, 9
1.2 Statement of the CEO with key elements of the report		●	6, 7
2 Organizational Profile			
2.1 Name of the organization		●	8
2.2 Products, services and brands		●	10, 11
2.3 Operational structure		●	10, 11
2.4 Divisions, companies and subsidiaries		●	10, 11
2.5 Countries in which the organization operates		●	12
2.6 Nature of ownership; legal form		●	9
2.7 Markets served		●	10, 11
2.8 Scale of the organization		●	23 - 27
2.9 Key stakeholders and their main attributes		●	29 - 43
Report Scope			
2.10 Contact person		●	4, 5
2.11 Reporting period		●	4, 5
2.12 Date of previous report		●	4, 5
2.13 Boundaries of report and limitations on scope		●	4, 5
2.14 Significant changes in the company since the last report		●	4, 6, 26
2.15 Bases for reporting on subsidiaries, strategic alliances		●	–
2.16 Explanation of the effect of any re-statements of information in earlier reports		●	4, 5
Report Profile			
2.17 Decisions not to apply GRI principles		●	4, 5
2.18 Criteria/definitions used in any accounting for economic, social and environmental costs and benefits		●	–
2.19 Significant changes in measurement methods		●	–
2.20 Internal policies to provide assurance about the accuracy, completeness and reliability of the information		●	20
2.21 Policies and practices for independent verification		●	6, 7, 80, 81
2.22 Means for obtaining additional information		●	5
3 Governance Structure and Management Systems			
3.1 Governance structure		●	13, 14
3.2 Percentage of the board of directors that are independent		●	14, 15
3.3 Process for determining the expertise board members need to guide the strategic direction of the organization including issues related to environmental and social risks and opportunities		●	14, 15
3.4 Processes for overseeing the board's identification and management of environmental, social and economic risks and opportunities		●	13
3.5 Linkage between executive compensation and achievement of company objectives		●	14, 15
3.6 Structure and members responsible for oversight, implementation and audit of policies		●	14, 15

● Available ● Partially ● Not available

GRI INDICATOR	GLOBAL COMPACT PRINCIPLE	STATUS OF INFORMATION IN THE REPORT	PAGE
3.7 Statement of mission, values, principles and internal codes of conduct		●	8, 9, 14
3.8 Mechanisms for shareholders to make suggestions		●	13, 14
Stakeholder Engagement			
3.9 Basis for identification and selection of major stakeholders		●	29 - 43
3.10 Approaches to stakeholder consultation		●	29
3.11 Type of information generated in stakeholder consultation		●	38, 39
3.12 Use of information from stakeholder engagements		●	38 - 43
Policies and Management Systems			
3.13 Application of the precautionary principle	Principle 7: Support a precautionary approach to environmental challenges	●	45 - 48
3.14 Voluntary commitments or other initiatives		●	48
3.15 Membership in industry or commercial associations and national or international advocacy organizations		●	–
3.16 Management of upstream and downstream impacts		●	45 - 65
3.17 Indirect management of economic, environmental and social impacts		●	20, 21
3.18 Major decisions regarding the location of operations		●	20
3.19 Programs and procedures pertaining to economic, environmental and social performance		●	20, 21
3.20 Status of certification pertaining to economic, environmental and social management systems		●	21
4 GRI Context Index			
Table with GRI and Global Compact		●	68 - 71
5 Economic Performance			
EC1 Net sales		●	26
EC2 Geographic breakdown of markets		●	8-11, 23 - 25
EC3 Costs of all raw materials and services		●	–
EC4 % contracts paid according to agreed terms		●	–
EC5 Total payroll and benefits per country		●	26
EC6 Distribution to providers of capital		●	26
EC7 Increase/decrease in retained earnings at end of period		●	26
EC8 Taxes paid		●	26
EC9 Subsidies received		●	26
EC10 Donations to community, civil society or other groups		●	26
Environmental Performance			
EN1 Total materials use other than water	Principle 8: Promote greater environmental responsibility	●	54 - 56
EN2 Percentage of materials used that are from external sources	Principle 8: Promote greater environmental responsibility	●	58 - 61
EN3 Direct energy use	Principle 8: Promote greater environmental responsibility	●	52, 53
EN4 Indirect energy use	Principle 8: Promote greater environmental responsibility	●	78
EN5 Total water use	Principle 8: Promote greater environmental responsibility	●	50, 51, 76, 77
EN6 Location and area of soil	Principle 8: Promote greater environmental responsibility	●	61, 63 - 65

● Available ● Partially ● Not available

GRI INDICATOR		GLOBAL COMPACT PRINCIPLE	STATUS OF INFORMATION IN THE REPORT	PAGE
EN7	Major impacts on diversity	Principle 8: Promote greater environmental responsibility	●	–
EN8	Greenhouse gas emissions	Principle 8: Promote greater environmental responsibility	●	52
EN9	Use and emissions of ozone-depleting substances	Principle 8: Promote greater environmental responsibility	●	54 - 56
EN10	NOx and SOx and other significant air emissions	Principle 8: Promote greater environmental responsibility	●	54 - 56
EN11	Total amount of waste	Principle 8: Promote greater environmental responsibility	●	60
EN12	Significant discharges to water	Principle 8: Promote greater environmental responsibility	●	60
EN13	Significant spills of chemicals, oils and fuels	Principle 8: Promote greater environmental responsibility	●	60
EN14	Significant environmental impacts of main products and services	Principle 8: Promote greater environmental responsibility	●	45 - 47
EN15	Percentage of products reclaimable at the end of their useful lives	Principle 8: Promote greater environmental responsibility	●	–
EN16	Incidents and fines for non-compliance with environmental regulations	Principle 8: Promote greater environmental responsibility	●	18
EN17	Initiatives to use renewable energy and increase energy efficiency	Princípio 9: Desenvolvimento e divulgação de tecnologias inócuas para o meio ambiente	●	52, 53, 58, 59
EN22	Total recycling and reuse of water	Principle 8: Promote greater environmental responsibility	●	79
EN23	Quantity of land belonging to Masisa or submitted to its administration	Principle 8: Promote greater environmental responsibility	●	10
EN27	Protection and management of native ecosystems	Principle 8: Promote greater environmental responsibility	●	64, 65
EN33	Environmental performance of suppliers	Principle 8: Promote greater environmental responsibility	●	56, 62, 63
Social Performance				
LA1	Breakdown of workforce by status, type and contract type		●	33
LA2	Net employment creation and average turnover		●	–
LA3	Percentage of employees represented by independent trade organizations	Principle 3: Uphold freedom of association and the right to collective bargaining.	●	–
LA4	Policy on information, consultation and negotiation with employees on changes in operations	Principle 3: Uphold freedom of association and the right to collective bargaining.	●	32, 33
LA5	Policy on reporting and notification of accidents and diseases		●	34 e 35
LA6	Description of joint health and safety committees		●	34, 35
LA7	Injury, lost-day and absentee rates and number of work-related fatalities		●	34, 35
LA8	Policies and programs on AIDS		●	34
LA9	Average hours of training per year per employee		●	33
LA10	Equal opportunity policies and programs	Principle 6: Elimination of discrimination in respect of employment and occupation	●	32
LA11	Composition of senior management (diversity)	Principle 6: Elimination of discrimination in respect of employment and occupation	●	32
LA12	Employee benefits beyond those legally mandated		●	–
LA13	Provision for formal worker representation	Principle 3: Uphold freedom of association and the right to collective bargaining.	●	–

● Available ● Partially ● Not available

GRI INDICATOR		GLOBAL COMPACT PRINCIPLE	STATUS OF INFORMATION IN THE REPORT	PAGE
LA14	Compliance with ILO health and safety provisions		●	34, 35
LA15	Formal agreements with unions on health and safety		●	34, 35
LA16	Formal programs to support employability of employees and career endings		●	–
LA17	Lifelong learning		●	–
HR1	Policies dealing with human rights in operations	Principle 1: Support and respect internationally proclaimed human rights.	●	32
HR2	Evidence of consideration for human rights in investment decisions and selection of suppliers	Principle 1: Support and respect internationally proclaimed human rights. Princípio 2: Evitar abusos aos direitos humanos	●	32, 33
HR3	Policies and procedures to evaluate and address human rights performance of contractors/suppliers	Principle 1: Support and respect internationally proclaimed human rights. Princípio 2: Evitar abusos aos direitos humanos	●	15 - 32
HR4	Policies and programs to prevent all types of discrimination	Principle 1: Support and respect internationally proclaimed human rights.	●	32
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HR6	Policy excluding child labor	Principle 5: Uphold the effective abolition of child labor	●	32
HR7	Policy to prevent forced labor	Principle 4: Uphold the elimination of all forms of forced and compulsory labour	●	32
HR8	Employee training concerning human rights	Principle 1: Support and respect internationally proclaimed human rights.	●	16
SO1	Management of impacts on local communities		●	38 - 40
SO2	Policies and mechanisms for the prevention of bribery and corruption	Principle 10: Work against corruption in all its forms	●	–
SO3	Policies on political lobbying and contributions		●	–
SO4	Awards received for social, ethical or environmental performance		●	17
PR1	Policy for preserving consumer health and safety		●	–
PR2	Policies on product labeling		●	–
PR3	Policies assuring consumer privacy		●	–

INDICATORS FOR THE FORESTRY INDUSTRY – WWF










WWF INDICATOR	GRI INDICATOR	SECTION	PAGE
1. DESCRIPTION OF THE COMPANY, GOVERNANCE STRUCTURE AND MANAGEMENT SYSTEMS			
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	GRI 2.3 Operational structure	Our company	10, 11
	GRI 2.4 Main divisions	Business areas	10, 11
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	GRI 2.18 Criteria/definitions used	About this report, and throughout the report in the different topics	4, 5
	GRI 2.19 Changes in measurement methods	About this report	4, 5
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	GRI 3.2 Percentage of independent board members	Corporate governance and its respective bodies	14, 15
	GRI 3.3 Expertise of board members	Corporate governance and its respective bodies	14 - 15
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	GRI 3.8 Communication between shareholders and the board	Corporate governance	13 - 15
	GRI 3.9 Identification of stakeholders	Consultation and dialogue	29 - 43
	GRI 3.10 Consultation with stakeholders	Consultation and dialogue	31
	GRI 3.11 Information generated from consultations	Employees, customers, neighboring communities, relations with indigenous peoples	38 - 43
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	GRI 3.13 Precautionary principle	Not reported	-
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WWF INDICATOR	GRI INDICATOR	SECTION	PAGE
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	GRI 3.17 Indirect management of economic impacts	Economic results - Direct and indirect impacts	23 to 28
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	GRI 3.19 Programs and procedures pertaining to economic, environmental and social performance	Triple bottom line management	20, 21
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3.1 Compliance with local laws and international conventions	GRI EN16 Incidents and fines	Business principles – compliance with the law	18, 19
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	Number of dismissed suppliers	Business principles – compliance with the law	19
3.2 Credibility	Responsibility	Comments of third parties: PwC, Universidad Austral de Chile	17, 37, 39, 61, 80, 81
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3.3 Ongoing improvement	Study of company sustainability performance	Triple bottom line management	20
	Environmental Management System	Triple bottom line management - External certification	20, 21
	Environmental Impact Assessment	Triple bottom line management – Environmental and social impact of new projects	20, 21
	Social Impact Assessment	Triple bottom line management – Environmental and social impact of new projects	20, 21
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3.4. Transparency/communication of company commitments and its performance	Publication	Business principles – Transparency and communication	16
	Scope	About this report, Business principles – Transparency and communication	4, 5, 33
	Objective	Business principles – Transparency and communication	15, 33
	Sustainability report available		4, 5
Environment			
3.5 Raw materials	Raw materials that do not harm environment	CoC for solid wood products and SCS for board (outside certification); reduced formaldehyde (controlling formaldehyde emission)	54 to 57
	Efficiency	Environmental performance objectives; efficiency in production processes	58, 59
3.6 Forestry management	Legality	Sustainable forestry management - all points addressed by FSC certification	61 to 63
	Protection of high conservation value forests		64, 65
	Protected areas		63 to 65
	Forest restoration		63 to 65
	Forest conversion		63 to 65
	Harvesting method		63
	Plantations		63
	Genetically modified organisms		58, 59
	Credible, independent forestry certification	FSC-certified sustainable forestry management	62, 63
	Forest profile: hectares, location and ownership of forests	Forest assets	63
	Status of the forests where the company has operations	Triple bottom line management - External certification	63

WWF INDICATOR	GRI INDICATOR	SECTION	PAGE
3.7 Policy on purchasing responsibility in forest products	Chain of custody	(CoC certification) Triple bottom line management - External certification	19 - 21
	Fair price	Not reported	–
	Country of origin of forest products	Domestic supply in all operations except in the USA	10
	Forest products broken down by type of source/origin	Chemical inputs and use - Solid Wood and Board Divisions	54, 55
3.8 Toxins	Elimination of POPs and EDCs	Not reported - Masisa does not generate	–
	Management	Chemical inputs and use	54, 55
	POPs and EDCs per production unit and annual levels, broken down by type of toxin	Not reported - Masisa does not generate	–
3.9 Water use	Legality	Water: use and effluents; compliance with the law	18, 76, 77
	Water source	Water: consumption and effluents	50, 51
	Efficiency	Environmental performance: Objective 3	48
	Use: total volume of water used by source per unit of product and absolute volume	Water: use and effluents	50, 51
	Use: Total volume of discharged water per unit production and absolute volume	Table on water use and effluent parameters. The company is working toward closed circuits: water used will be similar to water discharged in the near future.	76, 77
3.10 Energy	Operations	Environmental performance: Objective 3; Energy and emissions table; Energy and air emissions	48, 50, 51, 78
	Transport	Not reported	–
3.11 Emissions, effluents and residues	Emissions		50, 51
	Legality	Compliance with the law	18, 19
	Environmental management	Energy and air emissions; Chemical inputs and use; Final disposal of waste; Water: use and effluents	45 to 65
	Elimination	Not reported. Company does not produce POPs or EDCs	–
	Reduction	Energy and air emissions; Chemical inputs and use; Final disposal of waste; Water: use and effluents	52, 53
	GRI EN8 Greenhouse gas emissions per unit of production	See climate change	52
	NOx, SOx, POPs and PM10 per unit of production	Board production: Energy consumption and emissions parameters	78
	Volatile organic compounds (VOC) per unit of production	Not reported	–
	Total sulfur reduction per unit of production	Not reported	–
	Effluents per unit of production		77
	Total volume (m3/unit of production) of discharged water	Not reported	–
	Temperature of discharge	Not reported	–
	Total quantity of effluents by type	Table: Water consumption and effluent parameters	76, 77
	Wastes	Environmental performance Objective 3: Reduce natural resource use in our factories	48
	GRI EN11	Final disposal of waste	60
3.12 Carbon sequestration and storage in forestry projects (CS&S)	Responsible management of CS&S project	Not reported	–

WWF INDICATOR	GRI INDICATOR	SECTION	PAGE
Social			
3.13 Stakeholders	Respect for local communities and the rights of indigenous peoples	Neighboring communities	38 to 41
	Human rights	FSC and Global Compact	31 to 43
	Involuntary resettlement	Not reported	–
	Stakeholder engagement	Consultation and dialogue	31
	Support for stakeholders	Cientes, comunidades vizinhas, relações com povos indígenas	32 to 43
	Stakeholder profile	Cientes, comunidades vizinhas, relações com povos indígenas	32 to 43
	Status of consultations	Consultation and dialogue	31
3.14 Labor standards and codes	Child labor	Labor Commitments	32, 33
	Forced labor	Labor Commitments	32, 33
	Health and safety	Labor Commitments	32, 33
	Freedom of association and right to collective negotiations	Labor Commitments	32, 33
	Discrimination	Labor Commitments	32, 33
	Discipline	Labor Commitments	32, 33
	Labor security	Labor Commitments	32, 33
	Contracted workers	Labor Commitments	32, 33
	Pre- and post-natal	Labor Commitments	32, 33
	Working hours	Labor Commitments	32, 33
	Compensation	Labor Commitments	32, 33
	Number of workers forming part of a union	Not reported	–
	Accident frequency	Worker safety	34, 35
3.15 Governos não democráticos		Not reported- Masisa does not operate in non-democratic countries	–

WATER USE AND EFFLUENT PARAMETERS

Country	Plant	WATER USE (m³)		
		2003	2004	2005
SOLID WOOD DIVISION				
	Rio Negrinho	616.164	673.751	657.504
	Macapaima	No information available	350.272	284.495
	Charleston	1.220	1.647	1.571
	Cabrero	3.157.690	2.896.326	2.375.716
	Chillán	26.896	22.597	37.753
BOARD DIVISION				
	ConcOrdia	342.398	236.954	189.342
	Ponta Grossa	198.978	152.844	131.786
	Macapaima	360.130	392.169	389.316
	Durango	40.184	51.308	32.749
	Cabrero	450.591	474.256	433.865
	Chiguayante	94.440	122.921	102.017
	Mapal	603.276	432.761	369.168
	Ranco	166.477	338.844	395.485
	Puschmann	12.795	15.795	12.360

NOTES

(1) Only process waters are recycled. Wastewater is channeled to the Board Division to be treated along with wastewater and process water from the Board Division.

(2) The new regulations limiting liquid industrial discharges to surface water bodies and waterways become effective in September 2006.

(3) Process waters are channeled and accumulated in a pond to be recirculated later. Wastewater is treated and discharged in an industrial tank.

(4) These results correspond to the discharge of the plant that treats the wastewater from the Board Division, plus wastewater and process water from the Solid Wood Division.

PARAMETERS IN EFFLUENTS AND LEGAL COMPLIANCE

BOD5 (mg/liter)				Legal Compliance discharges of BOD5	Suspended Solids (mg/liter)				Legal Compliance Discharges of Suspended Solids
2001	2002	2003	2004		2001	2002	2003	2004	
	Recirculation			Does not apply (due to recirculation)		Recirculation			Does not apply (due to recirculation)
	Recirculation (1)			Does not apply (due to recirculation)		Recirculation (1)			Does not apply (due to recirculation)
	Recirculation			Does not apply (due to recirculation)		Recirculation			Does not apply (due to recirculation)
59,0	155,0	56,0	59,0	No norm (2)	66,0	112,0	75,0	62,0	No norm (2)
Not measured	Not measured	70,0	69,5	No norm (2)	Not measured	Not measured	Not measured	Not measured	No norm (2))
	Recirculation (3)			Does not apply (due to recirculation)		Recirculation			Does not apply (due to recirculation)
	Recirculation			Does not apply (due to recirculation)		Recirculation			Does not apply (due to recirculation)
Not measured	Not measured	19-26	7-45 (4)	Norm 60mg/liter met. In 2005 measurement was 22-24 mg/liter	Not measured	Not measured	4 - 50	40,0	Norm 80mg/liter met. (5))
	Recirculation (6)			Does not apply (due to recirculation)		Recirculation (7)			Does not apply (due to recirculation)
242,5	49,5	17,7	30,9	No norm (2)	Not measured	Not measured	Not measured	Not measured	No norm (2)
Not measured	Not measured	Not measured	Not measured	No norm (8)(2)	Not measured	Not measured	Not measured	Not measured	No norm (8)
Not measured	Not measured	Not measured	Not measured	No norm (9)	Not measured	Not measured	Not measured	Not measured	No norm (9)
Not measured	Not measured	Not measured	2 - 10 (10)	No norm (2)	Not measured	Not measured	Not measured	Not measured	No norm (2)
	Recirculation (11)			Does not apply (due to recirculation)		Recirculation (11)			Does not apply (due to recirculation)

(5) In 2005 measurement showed values in a range of 24 to 60 mg/liter

(6) Process waters are recycled and wastewater is discharged into the sewage system. Norm NOM002ECOL 1996 establishes a standard of 150 mg/liter for discharge of sanitary effluents into the sewage system. Measurement in 2005 showed a DBO5 of 127 mg/liter (August 2005).

(7) Process waters are recycled and wastewater is discharged into the sewage system. Norm NOM002ECOL 1996 establishes a standard of 150 mg/liters for discharge of sanitary effluents into the sewage network. Measurement in 2005 showed suspended solids of 29.27 mg/liters.

(8) Liquid industrial residues are infiltrated or used for irrigation. Reference used is norm DS 46/2002 (effective in 2006) and others (NCh 1.333).









These do not include the DBO5 or suspended solids among the parameters to be controlled.

(9) Liquid residues are infiltrated. The applicable norm (DS 46/2002) which will become effective in 2006, does not include this parameter among those to be controlled.

(10) The four discharge units (to a surface body of water) have concentrations between 2 and 10 mg/liter of DBO5.

(11) Process waters are channeled and accumulated in a pond and then recirculated. Wastewater is discharged into the public sewage system.

ENERGY USE AND EMISSIONS PARAMETERS

Energy Use (MWh)					NOX in emissions (tonnes/year)				Legal Compliance NOX Emissions
Country	Plant	2003	2004	2005	2001	2002	2003	2004	
SOLID WOOD DIVISION									
	Rio Negrinho	164.093	143.171	191.085	Not measured	8,1	Not measured	19,5	No applicable norm exists (1)
	Macapaima	16.908	16.067	15.349	Not measured				No applicable national norm exists (1)
	Charleston	31.252	8.133	9.146	Not measured	5,6	4,9	6,8	Meets applicable national norms
	Cabrero	368.266	368.185	408.160	Not measured	Not measured	Not measured	Not measured	Meets applicable national norms
	Chillán	6.158	5.087	5.689	Not measured	Not measured	Not measured	Not measured	
BOARD DIVISION									
	Concórdia	400.979	424.068	380.224	Not measured	Not measured	619,8	608,0	Legislation guidance level National =0.432 tonne/hour met (3)
	Ponta Grossa	489.341	577.687	568.170	Not measured	Not measured	87,9	132,1	Norm 500 mg mg/Nm3 met
					Not measured	Not measured	Not measured	155,1	
					Not measured	Not measured	4,5	37,8	
					Not measured	Not measured	Not measured	47,0	
	Macapaima	319.736	477.505	519.703	Not measured	Not measured	Not measured	25,0	Norm 150 ppm met (4)
	Durango	53.844	53.218	43.325	Not measured	Not measured	26,0	102,5	Meets applicable national norms
	Cabrero	175.213	183.075	171.284	Not measured	10,7	Not measured	14,8	No applicable national norm exists
	Chiguayante	56.660	56.791	55.894	Not measured	Not measured	107,0	Not measured	
	Mapal	279.140	274.869	288.613	Not measured	Not measured	221,5	Not measured	
	Ranco	44.774	75.870	87.428	Not measured	Not measured	Not measured	97,4	
	Puschmann	101.726	66.896	58.988	4,9	Not measured	Not measured	97,7	

NOTES

(1) The parameter of 350 mg/Nm3 is used as reference (contained in PROSAMA, GrupoNueva manual), which was not exceeded.

(2) Fixed sources of emissions at the sawmill are physically located in the Board Division.

(3) Measurements in 2003 and 2004 showed 0.1 tonne/hr

(4) Measurements in 2004 showed values in the range of 1 to 75 ppm and in 2005 a range of 1 to 63 ppm.



Universidad Austral de Chile
Instituto de Tecnología de Productos Forestales

Valdivia (Chile), March 31, 2006

PRICEWATERHOUSECOOPERS
SANTIAGO, CHILE

In my capacity as observer of the verification process for the MASISA 2004/05 Sustainability Report, I have participated as witness in the process of validating information contained in said report, accompanying PricewaterhouseCoopers to a meeting with the mayor of the community of Cabrera, Chile, Mr. Hassan Spag, on a visit to the MASISA Foundation, two MASISA plants – specifically, the MDF and Solid Wood plants located in that community – and with management of the Forestry Division.

During the course of the work performed, it has been possible to note PricewaterhouseCoopers' rigor and exhaustive analysis, as well as the objectivity with which pertinent explanations were requested in order to carry out this task. I have also been able to observe that MASISA clarified and added information, and presented proof when so requested.

The information requested primarily concerned aspects of a social and environmental nature and the efficiency of the processes. These points have been clarified and expanded on through clear and precise questions, requests for paper or electronic documentation, and direct observation on the ground.

From all of the information gathered during this work on the ground, this observer perceived that MASISA maintains a close and positive relation with the communities with which it is associated, collaborating directly with urban, rural and indigenous communities, committed to respect for the environment through initiatives for compliance with current environmental regulations in Chile, responsive to community needs, with processes whose efficiencies and productivity are continuously increasing and with trained personnel.

Following is a synthesis of the work carried out on the ground and this observer's main assessments:


MASISA exhibits a strong commitment to the community in which it exists. Plant managers articulate and integrate the different community entities to address their most important problems and find a joint solution. The company collaborates in developing and following up on different programs for improved education, training and poverty reduction, and in different forums of dialogue.

The ETRURIA project underway during 2004 has continuous, clear records of the different activities carried out and the number of participants who benefited from the project. Its different actions led to increased capacities of autonomous development and leadership in urban and rural populations of the community as a means of surmounting the poverty afflicting them.

The managers and staff of the MDF plant, Solid Wood and Forestry possess full knowledge, records and control of the processes involved, regulations and staff, with documentation on certification, training, agreements and other subjects, duly filed out and current. Each stage of the processes is monitored with respect to yields, raw materials use, generation of residues, water and energy consumption, accidents, etc., with numerical values and observations found in easily-accessed electronic payrolls, and while not expressed in the form of indicators, interpretation was simple. In the environmental arena, they have carried out their own developments and investments to decrease the amount of residues generated and treat them adequately in compliance with current environmental regulations and to provide an effective response to community complaints. There are programs exclusively for the staff in training, industrial hygiene and occupational health.

The Forestry division has prepared and implemented new strategies for normal plantation and harvest activities, preventing conflicts with the indigenous communities (Mapuche) and resulting in better understanding and respect between the two entities.

Cordially,


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MANAGEMENT AND DISCHARGE OF LIQUID INDUSTRIAL RESIDUES

SOLID WOOD DIVISION

PLANT NAME	MANAGEMENT AND DISCHARGE OF LIQUID INDUSTRIAL RESIDUES
Brasil / Rio Negrinho	Recirculates 100% of its effluents; no discharge into natural surroundings.
Venezuela / Solid Wood Division, Macapaima Industrial Complex	Recirculates 100% of its effluents from the bits spraying yard; no discharge into natural surroundings. Other wastewater treated in the Board Division treatment plant.
USA / Charleston	Recirculates 100% of its effluents; no discharge into the natural surroundings.
Chile / Cabrero Solid Wood Division, Cabrero Industrial Complex	Treats and then discharges its effluents into a surface body of water. Currently there are no applicable regulations, but the plant is preparing for compliance with the norm to go into effect in 2006.
Chile/ Chillán	Has no process effluents. Treats and then discharges wastewater into a surface body of water. Currently there are no applicable regulations, but the plant is preparing for compliance with the norm to go into effect in 2006

BOARD DIVISION

PLANT NAME	MANAGEMENT AND DISCHARGE OF LIQUID INDUSTRIAL RESIDUES
Argentina/ Concordia	Recirculates 100% of its effluents; no discharge into natural surroundings.
Brasil/ Ponta Grossa	Recirculates 100% of its effluents; no discharge into natural surroundings.
Venezuela / Board Division, Macapaima Industrial Complex	Treats and then discharges its effluents into surface bodies of water. Complies with local regulations.
Mexico / Durango	Recirculates 100% of its effluents; no discharge into natural surroundings.
Chile / Cabrero Board Division, Cabrero Industrial Complex	Treats and then discharges its effluents into a surface body of water. Currently there are no applicable regulations, but the plant is preparing for compliance with the norm to go into effect in 2006.
Chile/ Chiguayante	Treats and then infiltrates effluents. Currently there are no applicable regulations, but the plant is preparing for compliance with the norm to go into effect in 2006.
Chile/ Mapal	Currently filters sanitary effluents and part of the process waters. In mid-2006 100% of its industrial effluents will be recirculated and sanitary effluents will be treated.
Chile/ Ranco	Currently discharges its process waters and a third of its domestic effluents after being treated into a body of surface water. The other part of its domestic effluents are filtered. In mid-2006 100% of its effluents will be recirculated.
Chile/ Puschmann	Recirculates 100% of its effluents; no discharge into natural surroundings.



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Santiago, March 31, 2006

Messrs
MASISA S.A.

Independent Report of Limited Verification - Sustainability Report 2005

MASISA S.A. has asked us to carry out an independent report of limited scope of the contents of the information and data presented in their 2005 Sustainability Report.

The preparation of the Sustainability Report is the responsibility of MASISA S.A. administration. Our responsibility lies in producing conclusions on the consistency and accuracy of the quantitative data and financial and non-financial information included in said report, in line with the tasks of verification and of limited scope described in the following paragraphs.

Basis, objective and scope of the verification

Our work was carried out according to the verification norms established by the International Federation of Accountants and the ISAE3000 international norm relating to limited assurance. This norm requires that the planning and carrying out of our work allows us to obtain a limited level of assurance on the information subject to verification. The objective of our work consisted of verifying that the information contained in the 2005 Sustainability Report:

- is consistent with the background evidence presented by administration; and
- is prepared according to the guidelines on content presented in Part C of the 2002 Sustainability Reporting Guidelines of the Global Reporting Initiative (GRI), and the World Wildlife Fund (WWF) guidelines specific to the forestry industry.

In the carrying out of this task, we limited ourselves to visiting the Cabrero Industrial Complex (Board Division-MDF, Solid Wood Division, and Forestal), and the Chillán plant (Solid Wood Division-doors), both located in the VIII Region, carrying out the majority of review work at the company headquarters. Given the limited nature of the verification, no visits were made to other subsidiaries, plants, or countries in which MASISA S.A. has operations.

We examined the data and information contained in the Report, on the basis of samples, in the following manner:

- interviews with MASISA S.A. staff,
- reliability analyses of the systems and processes to collect, compile and consolidate data,
- review of background documentation on the information supplied,
- verification of the consolidation of data and information,

- checking that the financial information included in the Sustainability Report is derived from or is consistent with audited financial statements of December 31, 2005.

Conclusion

Based on the results of the application of the previously mentioned verification procedures, no aspect has come to our notice that indicates the following affirmations are not correct in any significant way:

- Data on performance are consistent with background documentation that has been reviewed and/or originates from verifiable sources.
- The Report followed the guidelines on content presented in Part C of the 2002 Sustainability Reporting Guidelines of the Global Reporting Initiative (GRI), and complied with indicators established in the World Wildlife Fund (WWF) guidelines specific to the forestry industry.

Recommendations

MASISA S.A. shows a consistent evolution and continuous improvements to their sustainability reports that are prepared on a bi-annual basis. In this context we consider that MASISA S.A. should continue advancing in:

- consolidating the Sustainability Report process with routines and procedures incorporated in the company's systematic and on-going practices;
- reviewing and perfecting current systems for the capture, control and consolidation of information required for reporting, with a view to its integration in its management system, and to ensure the availability of appropriate and timely backup information for the verification processes.

Luis Perera Aldama
Partner

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