

SCOPE

Vigeo Eiris was commissioned to provide an independent opinion on the sustainability credentials and management of the Green and Social Bond (hereafter the “Bond”) proposed to be issued by Aguas Andinas (the “Issuer”), according to Vigeo Eiris’ Environmental, Social and Governance (“ESG”) assessment methodology, and on the alignment with the Green Bond Principles and the Social Bond Principles voluntary guidelines (together with the “Sustainability Bond Guidelines”).

The opinion is based on the review of the two following components:

- **Issuer:** document-based evaluation of the sustainability profile of Aguas Andinas, including:
 - ▶ ESG performance, assessed in January 2018³ through the complete process of rating and benchmark developed by Vigeo Eiris Rating.
 - ▶ ESG controversies’ management, capacity to mitigate these risks and the implication of the issuer in controversial activities⁴ assessed at the hereby due diligence date.
- **Issuance:** analysis of the coherence between the Green and Social Bond framework and the issuer’s sustainability strategy and commitments, and document-based evaluation of the Green and Social Bond Framework.

Vigeo Eiris’ sources of information are gathered from our rating database, from Aguas Andinas, press content providers and stakeholders, and complemented by interviews with the involved departments and managers, held through a videoconference system. Vigeo Eiris has carried out its due diligence from March 16th to April 12th, 2018.

We were able to access all the appropriate documents and to speak to all the solicited people. We consider that the information provided enables us to establish our opinions with a reasonable level of assurance on their completeness, precision and reliability.

VIGEO EIRIS’ OPINION

Vigeo Eiris confirms that the Bond considered by Agua Andinas is a “Green and Social Bond” with positive contribution to sustainable development, aligned with the Green Bond Principles and Social Bond Principles.

Vigeo Eiris reaches a reasonable⁵ level of assurance on the Bond contribution to sustainability.

- **Issuer:** Aguas Andinas displays an overall good⁵ ESG performance (see Part I).
 - ▶ As of January 2018, Aguas Andinas ranks first in the “Waste & Water Utilities Emerging Market” Vigeo Eiris sector which covers four companies. Aguas Andinas displays heterogeneous levels of performance on the three ESG pillars: it achieves a good performance for its Governance and Social pillars, while the Environmental domain remains limited, although almost good. Vigeo Eiris’ assurance that ESG risk factors of Aguas Andinas are adequately managed is overall reasonable, including reputational, human capital, legal and operational risks.
 - ▶ As of today, Aguas Andinas faces occasional controversies related to Corporate Governance and Business Behaviour. The severity is considered significant according to the base of analysis of its impact on the company and on its stakeholders. Aguas Andinas’ capacity to respond is considered reactive: the company informed its position regarding the three cases.
 - ▶ Aguas Andinas is not involved in any of the 15 controversial activities analysed by Vigeo Eiris.

¹ This opinion is to be considered as the “Second Party Opinion” described by the Green and Social Bond Principles (‘External Review’s section). www.icmagroup.org

² The Green and Social Bond is to be considered as the potential forthcoming bond, which issuance is subject to market conditions.

³ Date of the last rating cycle for Aguas Andinas’ sector – all potential evolutions and data published since January 2018 are not included in the rating.

⁴ The 15 controversial activities analysed by Vigeo Eiris are: Alcohol, Animal Welfare, Hazardous Chemicals, Civilian Firearms, Fossil fuels, Coal, Tar sands, Gambling, Genetic engineering, Loans, Military Activities, Nuclear, Pornography, Reproductive Medicine and Tobacco.

⁵ Definition of Vigeo Eiris’ scales of assessment (as detailed in the Methodology section of this document):

Level of Evaluation: Advanced, Good, Limited, Weak.

Level of Assurance: Reasonable, Moderate, Weak.

- **Issuance:** The Issuer's Green and Social Bond Framework is coherent with Aguas Andinas' main strategic priorities and is considered to be good. The issuer is committed to make its Framework and this Second Party Opinion publicly available on its website⁶ (see Part II).
 - ▶ The net proceeds of the Bond issuance will be used to finance and refinance Eligible Projects already selected by the issuer, which contribute to the protection of water resources, climate change adaptation, environmental health and the access to drinking water and sanitation, in line with three United Nations Sustainable Development Goals (the "UN SDGs"). The environmental and social objectives associated to the selected Eligible Projects are defined, measurable, relevant and precise, with quantified targets for each Eligible Project. The environmental and social benefits will be assessed and quantified by the Issuer.
 - ▶ The process for projects' evaluation and selection is clearly defined. The process is good in terms of transparency and governance, and relies on relevant selection criteria. The identification of environmental and social risks related to the Eligible Projects is good. Processes and appropriate measures have been implemented to manage all the social risks and most of the environmental risks, except for measures to protect water resources and for the monitoring and internal control of ESG risk in all the projects.
 - ▶ The rules for the management of proceeds are clearly defined by the Issuer and would enable a transparent and robust allocation process.
 - ▶ The reporting commitments and process are good, covering the funds allocation and environmental and social benefits of Eligible Projects (outputs and impacts), reaching a reasonable level of assurance on the issuer's capacity to report on the Green and Social Bond's use and impacts.

EXTERNAL REVIEW

Aguas Andinas' Green and Social Bond issuance is supported by external reviews:

- The consultant review, i.e. the hereby Second Party Opinion performed by Vigeo Eiris, on the sustainability credentials of the Green and Social Bond, based on pre-issuance commitments and covering all features of the Bond, i.e. Issuer's commitments, expenditures (the use of funds and the integration of ESG criteria) and the reporting (process and indicators).
- An external verification (independent ESG verification and/or financial audit), covering the allocation of funds, the compliance in all material aspects, from the real assignation of funds to the Eligible Projects and its alignment with the eligibility criteria, until the full allocation of proceeds and later in the case of any material change.

This Opinion is valid as of the date of issuance limited to Aguas Andinas' Green and Social Bond issued in April 2018.

Paris, April 17th, 2018



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Disclaimer

Transparency on the relation between Vigeo Eiris and the Issuer: Aguas Andinas bought ESG rating services to Vigeo Eiris. Vigeo Eiris did not realized any audit mission or consultancy for Aguas Andinas and there were no relations (financial or others) between Vigeo Eiris and Aguas Andinas so far.

This opinion aims to explain for investors why the Green and Social Bond is considered as sustainable and responsible, based on the information which has been made available to Vigeo Eiris. Vigeo Eiris has neither interviewed stakeholders out of the Issuer's employees, nor performed an on-site audit nor other test to check the accuracy of the information provided by the Issuer. The correctness, comprehensiveness and trustworthiness of the information collected are a responsibility of the Issuer. Providing this opinion does not mean that Vigeo Eiris certifies the materiality, the excellence or the irreversibility of the projects financed by the Green and Social Bond. Aguas Andinas is fully responsible for attesting the compliance with its commitments defined in its policies, for their implementation and their monitoring. The opinion delivered by Vigeo Eiris neither focuses on financial performance of the Green and Social Bond, nor on the effective allocation of its proceeds. Vigeo Eiris is not liable for the induced consequences when third parties use this opinion either to make investments decisions or to make any kind of business transaction.

The opinion delivered on stakeholder-related ESG controversies is not a conclusion on the creditworthiness of Aguas Andinas or its financial obligations. We do not express an opinion as a score when controversial activities, products and services are not prohibited by international standards or treaties. The controversial activities research provides screening on companies to identify involvement in business activities that are subject to philosophical or moral beliefs. The information does not suggest any approval or disapproval on their content from Vigeo Eiris.

Restriction on distribution and use of this Opinion: the opinion is provided by Vigeo Eiris to the Issuer and can only be used by the Issuer. The distribution and publication is at the discretion of the Issuer, submitted to Vigeo Eiris approval.

⁶ www.aguasandinasinversionistas.cl

DETAILED RESULTS

Part I. ISSUER

Level of Aguas Andinas' ESG performance

As of January 2018 (date of the last rating cycle for this sector), Aguas Andinas' overall approach to manage ESG related issues is overall good.

Domain	Comments	Opinion
Environment	Aguas Andinas' performance in the Environment domain is considered limited, close to good.	Advanced
	The company's environmental strategy is good and covers all sector challenges, namely pollution prevention and industrial safety, protection of biodiversity, minimising environmental impacts from energy use, waste management, management of local pollution, management of atmospheric emissions not linked to energy consumption, water demand-side management, and protection of water resources. However, the company only displays quantitative targets regarding water efficiency and energy consumption.	
	Aguas Andinas has set up advanced technological systems to detect leakages. Moreover, Aguas Andinas has allocated significant measures for pollution prevention and control such as annual audits, training for operators, emergency plans, and neutralisation systems. Also, the company has taken significant measures to encourage reducing water consumption for its customers which include: audits of larger water users, campaigns to help behavioural changes, and tariff systems that encourages water savings. The company has implemented some measures to limit the impacts of its operations on biodiversity, such as the responsible vegetation management surrounding infrastructure and actions to monitor and mitigate the impact of effluents on biodiversity.	Good
	One of the company's water treatment plant has an ISO 14001 certified environmental management system. Moreover, Aguas Andinas has set up biogas and cogeneration systems at its main wastewater treatment plants. The implementation of measures to protect water resources remains an area for improvement.	Limited
	Aguas Andinas shows mixed results when it comes to environmental indicators. Water leakages, emissions related to energy consumption and greenhouse gas emissions not related to energy consumption have decreased during the last three years; whereas the biochemical oxygen demand (BOD) and energy consumption have increased during the same period.	Weak
Social	Aguas Andinas' performance on the Social pillar is good.	Advanced
	Aguas Andinas obtains an advanced performance in the Human Rights domain. The company publishes a formal commitment towards non-discrimination in its Code of Ethics and has set quantitative targets to increase the share of women in its workforce. Aguas Andinas has set up advanced measures to prevent discrimination and promote diversity, including the monitoring of salary disparities and the set up of child care facilities. The share of women in management has increased in the last three years. Although the company fails to publish a commitment towards freedom of association and the right to collective bargaining, Aguas Andinas reports to commission external agencies to conduct audits on the respect of labour rights and to work with unions to prevent eventual violations to these rights.	
	Aguas Andinas' performance in the Community Involvement domain is advanced. The company has formalised commitment to address water poverty in vulnerable populations and access to water in developing countries, and allocates significant measures to address both challenges, including dedicated human and financial resources, transfer of knowledge and technology, flexible tariff structures, among others.	Limited
	The company's performance in Human Resources is good. The company displays general commitments to promote labour relations, responsibly manage reorganisations and promote career management; and a formalised commitment when it comes to improving health and safety conditions, together with quantitative targets to reduce frequency and severity accident rates. The company reports significant measures to address all these challenges, including trainings leading to certifications and the set up of variable remuneration based on health and safety targets. Although both frequency and severity accident rates have decreased during the past three years, the absenteeism rate has increased during this period.	Weak
	Finally, the company is committed to water safety and responsible relationship with customers, through its Code of Conduct, and has set up comprehensive measures to address both issues. In terms of results, the client satisfaction rate has improved over the past three years, but the number of clients affected by unplanned water cuts has increased during this period. Moreover, Aguas Andinas faces a controversy regarding water cut in Santiago.	

Governance	<p>Aguas Andinas' performance in Corporate Governance is good.</p> <p>The company's performance in the Corporate Governance domain is good. Directors are elected every three years and the Board meets frequently, with an attendance rate of 98% last year. The main ESG challenges relevant to the sector are discussed at Board level and Directors receive trainings regularly, including on these topics. However, the Board's level of independency is low (28%) and its diversity is only partial, no women is part of the Board. Moreover, the company has not set up any Nomination Committee. On the other hand, the Audit Committee is composed by a majority of independent Directors, its role is exhaustive and the company counts with strong internal control systems to manage ESG risks. Although Aguas Andinas respects the "one share-one vote" principle, restrictions to shareholder rights have been identified, when it comes to submit proposals to AGM and to call for EGM. Finally, Aguas Andinas lacks transparency on executive remuneration.</p> <p>Aguas Andinas' performance in the Business Behaviour domain is good. Through its Code of Ethics, the company commits to prevent corruption and anti-competitive practices. It has implemented internal and external controls including a whistle-blowing system, but the majority of these measures do not appear to be extended to suppliers. Although Aguas Andinas commits to responsible lobbying practices in its Interaction Procedure with Public Officials and Lobby, related measures implemented remain limited and the company does not disclose its budget dedicated to lobbying practices.</p>	Advanced
		Good
		Limited
		Weak

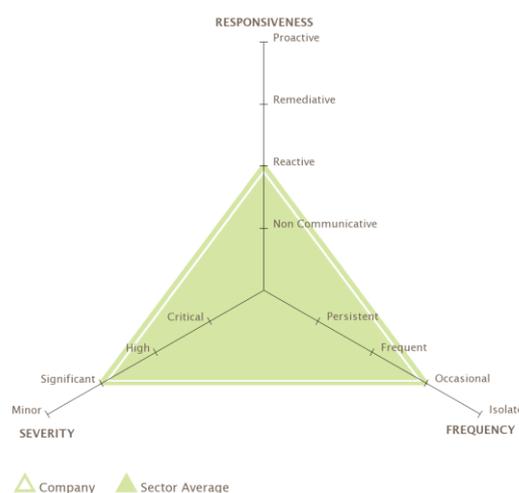
Stakeholder-related ESG controversies

Frequency: Aguas Andinas faces occasional allegations: The Company is involved in three stakeholder-related ESG controversies, on two domains:

- Business Behaviour, namely on Responsible Customer Relations
- Corporate Governance, namely on Audit & Internal Controls

Severity: The level of severity is significant for the three cases based on the analysis of their impact on the company and its stakeholders.

Responsiveness: Aguas Andinas is overall reactive: the company communicates in a detailed way on its position on the three cases.



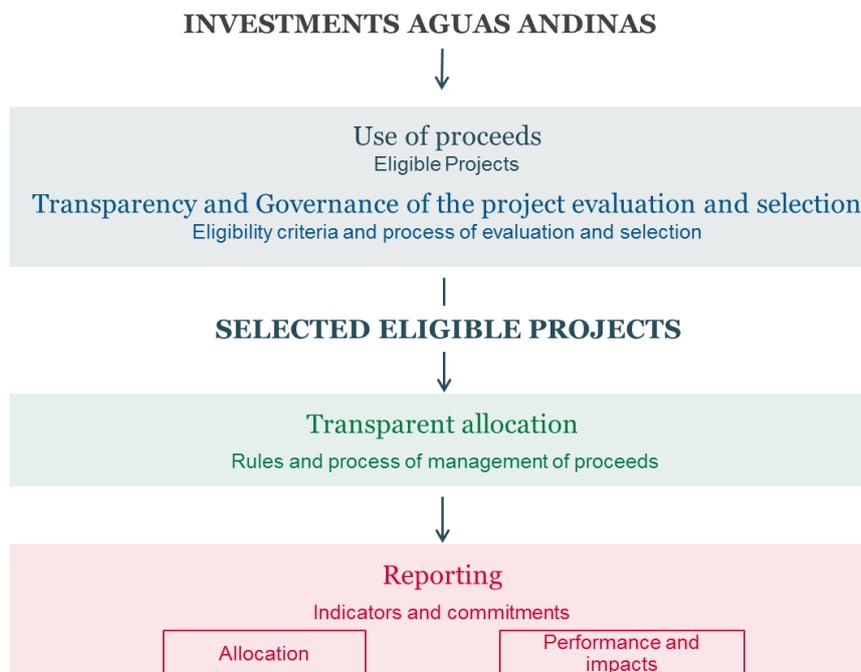
Involvement in controversial activities

Aguas Andinas is not involved in any of the 15 controversial activities analysed by Vigeo Eiris.

Part II. ISSUANCE

Aguas Andinas has established a framework which applies to the contemplated Green and Social Bond issuance. The issuer is committed to make its Green and Social Bond Framework and this Second Party Opinion publicly available on its website.

The framework is composed of four steps, aligned with the Green Bond Principles and Social Bond Principles, as presented in the following process:



Coherence of the issuance

Aguas Andinas Green and Social Bond’s framework is coherent with the sustainable priorities and objectives of the company and contributes to achieve them.

Vigeo Eiris has a reasonable level of assurance on Aguas Andinas’ capacity to integrate relevant issues in terms of environmental and social responsibility with its investments.

Aguas Andinas is the biggest water and sanitation services company in Chile. The company supplies drinking water and provides sanitation services for more than 2 million clients (about 8 million people) in Santiago de Chile.

The sustainable development priorities of the drinking water supply and sanitation services sector are the fight against the water resources degradation, the lack of drinking water and appropriate sanitation services, and the control and reduction of atmospheric emissions.

Aguas Andinas has a long-term sustainability strategy called “Santiago deserve a 7”, which objective is to transform the company into a strategic partner for Chile for the sustainable management of natural resources and climate change adaptation and mitigation. This strategy has seven strategic pillars: Business Model, Resilience, Digitalisation, Circular Economy, Social Legitimacy, Innovation and People, Water and Quality of Life; each of these pillars have quantitative goals to be achieved by 2022. Among the seven pillars, five have relevant targets for the development of sustainable businesses, namely:

Objectives of the Business Model pillar:

- Support the development of socially and environmentally responsible contractors and suppliers
- Promote a responsible business model with positive climate and social impact

Objectives of the Resilience pillar:

- Implement a climate change adaptation strategy, strengthening the operational resilience of the company
- Promote the use of alternative sources for the activities that do not require the quality of drinking water (reuse of treated waste water, grey water).

Objectives of the Circular Economy pillar:

- Achieve zero impact on climate change through the reduction of GHG emissions and water footprint.
- Achieve energy sustainability, through reducing energy consumption in processes, autogeneration of renewable energy and maximisation of renewables in the company's energy mix.
- Achieve zero waste, through the promotion of reuse and valuation of waste transforming to secondary raw material.

Objectives of the Social Legitimacy pillar:

- Contribute to local development
- Guarantee water access to vulnerable people

Objectives of Water and Quality of Life pillar:

- Facilitate the improvement of the citizens' quality of life
- Preserve ecosystems' biodiversity

Furthermore, Aguas Andinas incorporated the Sustainable Development Goals (SDGs) of the United Nations in its strategic plan "Santiago merece un 7" through the creation of a chart that explains the synergies between this plan and the SDGs.

By issuing a Green and Social Bond to finance the defined Eligible Projects categories related to drinking water supply, resilient infrastructures and sanitation, Aguas Andinas coherently responds to the above-mentioned commitments. In addition, the sustainability benefits of the Eligible Projects to be financed by Aguas Andinas' first Green and Social Bond address the sector's main sustainability issues, namely the access to drinking water and sanitation services and water resources protection.

Use of proceeds

The Eligible Projects categories are clearly defined and include general sustainability objectives and benefits.

The net proceeds of the Bond will be used to finance and refinance Eligible Projects already selected by the issuer, which contribute to water resource protection, climate change adaptation, environmental health and access to drinking water and sanitation services.

The social and environmental objectives related to the Eligible Projects to be financed by the first Green and Social Bond of Aguas Andinas have been clearly defined and are precise, measurable and relevant with quantified targets for each of the Eligible Projects. The Issuer will assess and quantify the environmental benefits.

As a result, the use of funds is considered aligned with the Green and Social Bonds' Principles.

The net proceeds of the Green and Social Bond will be used to finance and refinance, in whole or in part, recent or future disbursements for the construction, renovation and expansion of Projects already identified by the issuer and corresponding to three categories of Eligible Projects (see table on the next page), namely:

- Drinking Water Supply
- Infrastructure Resilience
- Sanitation

The already selected Eligible Projects are located in Chile:

- “Recent” disbursements mean the disbursement made during the 24 months before the issuance date.
- “Future” disbursements mean the disbursement to be made 12 months after the issuance date.

The Issuer states that the refinancing share could be around 60%.

Vigeo Eiris has analysed the engagements made by the issuer in terms of Use of Proceeds:

- The Eligible Project categories are clearly defined, are aligned with the sustainability strategy of Aguas Andinas, they have sustainability objectives and benefits, and target identified populations.
- The environmental and social objective of the already selected Eligible projects are clearly defined, measurable, relevant and precise, the issuer has defined quantified goals for each one of the Eligible Projects. This information is publicly available on Aguas Andinas website.
- The already selected Eligible Projects have environmental and social benefits, which will be assessed and quantified by the issuer.

Eligible Projects Categories	Definitions	Selected Eligible Projects	Sustainability Objectives	Environmental Benefits	Social Benefits
Drinking Water Supply	<ul style="list-style-type: none"> - Construction, expansion and adaptation of drinking water treatment plants, including civil works, materials and equipment supply. <p>The projects target the population of the city of Santiago (Chile) which has experienced a large demographic growth.</p>	Planta de Agua Potable Chamisero (Canal Batuco)	Ensure continuous and quality drinking water supply to the new areas of urban growth	Non- applicable	Access to drinking water to the areas of the city of Santiago that have experienced a large demographic growth
Resilient Infrastructure	<ul style="list-style-type: none"> - Construction and adaptation infrastructure projects (e.g. ponds and wells) to increase the number of hours of autonomy of the drinking water treatment plants in cases of extreme turbidity in the Maipo and Mapocho rivers. <p>The projects target the population of the City of Santiago (Chile).</p>	<p>Obras de emergencia eventos de turbiedad</p> <p>Estanque Pirque</p>	Strengthen operational resilience to ensure safe drinking water supply in the event of droughts and climate change events by improving operational security conditions	Climate Change Adaptation	Continued access to safe drinking water to City of Santiago’s population in the event of extreme turbidity and other climate change-related events.
Sanitation	<ul style="list-style-type: none"> - Construction, expansion and adaptation of wastewater treatment plants (STPs), including civil works, materials and equipment supply. <p>The projects target the population of the Metropolitan Region of the City of Santiago (Chile). In particular, communities and areas far from the city centre.</p>	<p>Ampliación PTAS Curacavi</p> <p>Ampliación PTAS Talagante II</p> <p>Ampliación Tercera PTAS</p> <p>Ampliación PTAS Buin-Maipo</p> <p>Ampliación PTAS El Monte</p>	<p>Ensure the access to sanitation services to the growing demand to improve the quality of life of citizens</p> <p>Prevent contamination of water ecosystems due to sewage discharge</p>	Water Resources Protection	Access to sanitation services to new areas of that have experienced urban, commercial and industrial growth in Santiago, with the aim of contributing to the quality of life and health improvement.

In addition, Vigeo Eiris considers that the defined Eligible Projects categories are in line with three United Nations Sustainable Development Goals.



Contribution to achieving the UN SGD 6. Clean Water and Sanitation

The UN SDG 6 consists in ensuring the availability and sustainable management of water and sanitation for all. More precisely, SDG 6 targets by 2030 include to:

- Achieve universal and equitable access to safe and affordable drinking water for all.
- Achieve access to adequate and equitable sanitation and hygiene for all and end open defecation
- Improve water quality by reducing pollution, eliminating dumping and minimizing release of hazardous chemicals and materials, halving the proportion of untreated wastewater and substantially increasing recycling and safe reuse globally
- Protect and restore water-related ecosystems, including mountains, forests, wetlands, rivers, aquifers and lakes

By using the Green and Social Bond proceeds to finance Eligible Projects related to the defined Drinking Water Supply and Sanitation categories, Aguas Andinas is contributing to the UN SDG 6, with regards to the above-mentioned targets.



Contribution to achieving the UN SGD 12. Responsible Consumption and Production

The UN SDG 12 consists in ensuring sustainable consumption and production patterns. More precisely, SDG 12 targets by 2030, include:

- Achieve sustainable management and efficient use of natural resources.
- Achieve the environmentally sound management of chemicals and all wastes throughout their life cycle, in accordance with agreed international frameworks, and significantly reduce their release to air, water and soil to minimize their adverse impacts on human health and the environment.

By using the Green and Social Bond proceeds to finance Eligible Projects related to the defined Drinking Water Supply and Sanitation categories, Aguas Andinas is contributing to the UN SDG 12, with regards to the above-mentioned targets.



Contribution to achieving the UN SGD 13. Climate action

The UN SDG 13 consists in taking urgent action to combat climate change and its impacts. More precisely, SDG 13 targets by 2030, include strengthening the resilience and adaptive capacity to climate-related hazards and natural disasters in all countries.

By using the Green and Social Bond proceeds to finance Eligible Projects related to the defined Resilient Infrastructure category, Aguas Andinas is contributing to the UN SDG 13, with regards to the above-mentioned targets.

Process for project evaluation and selection

Vigeo Eiris estimates that the process for project evaluation and selection is clearly defined. The process is good in terms of transparency and governance.

As a result, the process is considered aligned with the Green and Social Bond Principles.

- The process for the evaluation and selection of Eligible Projects to be financed and refinanced is clearly defined and formalised in Aguas Andinas' Green and Social Bond Framework.
- The evaluation and selection of Eligible Projects is based on relevant internal expertise with well-defined internal roles and responsibilities:
 - At corporate level, there is an Investments and Expenditures Committee under the supervision of Aguas Andinas CEO
 - The Investments and Expenses Committee is in charge of the assessment and the approval of the investments of the company that exceed 1.000 UF before VAT (about 26.9 million of Chilean pesos), and 500 UF (about 13.5 million of Chilean pesos) for informatic services.
 - For the emission of Green and Social Bonds, Aguas Andinas has established a Green and Social Financing Committee integrated by the Chief of Finance and Investor Relations, the Circular Economy Manager, the Sustainability Manager, the Financial Analysis Manager, the Head of Investor Relations, the Head of Financial compliance and the Financial Analyst.

- The Green and Social Financing Committee is in charge of the writing and the approval of the mandate of green and social bonds, the selection of the external verifier who will provide the Second Party Opinion, the determination of selection criteria for the Eligible Projects, the selection of the Eligible Projects, the supervision of funds management, the selection of auditors for an annual external verification and review of the report, the publication of information on the bond in Aguas Andinas' website.
- Aguas Andinas' evaluation and selection process is reasonably structured:
 - The Investments and Expenses Committee conducts the first filter to select projects to be funded by Aguas Andinas.
 - The identification and pre-selection of the projects to be funded by the Green and Social Bond is conducted by the Green and Social Financing Committee who solicit the occasional contribution of relevant personnel, namely, the Head of Environment and Biodiversity, the Head of Major Constructions and the Engineer department.
 - The evaluation of projects is based on eligibility criteria established and alignment of projects with the Integrated Management System that includes means of identification and management of environmental and social risks.
 - The Eligible Projects are selected by the Green and Social Financing Committee
- The verification and traceability are ensured throughout the process:
 - The Committee will organize monthly meetings to verify that the projects still meet the eligibility criteria. In case a project doesn't fulfil the commitment established in the Framework, the Green and Social Committee will be in charge to replace it with an alternate and eligible project.
 - The traceability of the decision will be ensured by the Secretary of the Committee, who will elaborate and disseminate the minutes of every meetings held by the Green and Social Financing Committee.
 - An external and independent auditor will check the achievement of the selection process and the respect of the eligibility criteria.

The process relies on relevant eligibility criteria. The identification of the environmental and social risks associated with the Eligible Projects is good. Measures implemented to manage social risks and most of environmental risks are good, except for the protection of water resources risk factor.

- The eligibility criteria are based on the definitions of the Eligible Projects categories, that have been defined by the issuer in its Green and Social Bond Framework.
- The issuer undergoes an environmental and social risks factors' analysis as part of the projects evaluation and selection process, which allows an appropriate identification of all the environmental and social risks associated to the Eligible Projects categories.
- The issuer has implemented appropriate processes and measures to manage social risks and most of environmental risks, except for the protection of water resources risk factor and for the monitoring and internal control of the ESG risks' management of all the projects, namely:
 - Environment: environmental management of the projects, prevention and control of environmental emergencies and incidents, pollution prevention and control, protection of biodiversity, atmospheric emissions' management in the sewage treatment plants, climate change adaptation and management of local pollution (odours and noise).
We recommend the implementation of measures to protect water resources, namely technical, management and monitoring and control measures to prevent its overexploitation.
 - Social: respect of human and labour rights, health & safety management measures covering all project workers, quality of working conditions for all projects' workers, respect of local communities' rights, stakeholders' dialogue and community involvement, and responsible procurement.
 - Governance of the projects: business ethics and integrity.
We recommend to reinforce ESG risk management monitoring and control at project level and to carry out the environmental and social risk mapping at project level.
- We recommend to add exclusion criteria for the Eligible Projects that face ESG controversies.

Management of proceeds

Vigeo Eiris considers that Aguas Andinas' rules for management of proceeds are clearly defined and would enable a documented, transparent and good allocation process.

As a result, the management of proceeds is considered aligned with the Green and Social Bond Guidelines.

- An equal amount of the net proceeds of the Green and Social Bond will be credited to a sub-account managed by the Green and Social Financing Committee, to ensure an appropriate segregation of proceeds. Aguas Andinas commits to allocate around 60% of proceeds to the Eligible Projects at settlement and complete full allocation within 12 months thereof.
- The Issuer commits to disclose the types of temporary placements for the balance of unallocated proceeds, which will be aligned with market practices (Climate Bonds Standard), i.e. cash, or short-term investments, or cash equivalent instruments with low level of risk, according to internal policies of financial risk management, or reduce indebtedness of a revolving nature before being redrawn for investments or disbursements to Eligible Projects.
- The tracking and balance of the allocated proceeds will be ensured by the Green and Social Financing Committee, using a defined and relevant internal system, enabling the verification of the compliance of allocated proceeds to Eligible Projects.
- In case of project ceases to comply with eligibility criteria or in case of project divestment, the Issuer commits to replace this project with another Eligible Project selected by the Green and Social Financing Committee within a 12 months period. An ad hoc report will be provided to investors to transparently disclose the potential changes in the Bond portfolio.
- In addition, an independent party will verify the compliance of the allocation of funds with all material aspects of the Green and Social Bond framework after full allocation, and at the latest in case of project replacement.

Monitoring & Reporting

The reporting process and commitments are good, covering the funds allocation and environmental and social benefits of Eligible Projects (outputs and impacts), reaching an overall reasonable level of assurance on the issuer's capacity to report on the Green and Social Bond's use and impacts.

As a result, the reporting is considered aligned with the Green and Social Bond Guidelines.

The process for monitoring, data collection, consolidation, and reporting are clearly defined and formalized in the Green and Social Bond framework.

This process relies on relevant internal expertise:

- The Green and Social Financing Committee will use an internal project management software for project monitoring, data collection at project level and consolidation of outputs and impacts of the Green and Social Bond, and then for reporting.

The reporting will be performed on an annual basis and publicly available on the issuer's website and its content will be externally verified.

The selected reporting indicators related to the fund allocation and environmental and social benefits are relevant for all defined Eligible Green Projects categories.

- Calculations methodologies will be defined and included in each reporting.
- The Issuer commits to transparently report at project level, until the bond maturity, on:
 - Use of proceeds
 - Environmental and social outputs and impacts

Beyond the Green and Social Bond Guidelines, the Issuer will monitor and report on responsible management of each project at corporate level only. We have recommended to strengthen the reporting using other ESG qualitative and quantitative indicators to report at project level on the management of environmental and social risks associated with the projects, according to information available and relevance of ESG issues.

METHODOLOGY

In Vigeo Eiris' view, Environmental, Social and Governance (ESG) factors are intertwined and complementary. As such they cannot be separated in the assessment of ESG management in any organization, activity or transaction. In this sense, Vigeo Eiris writes an opinion on the Issuer's Corporate Social Responsibility as an organization, and on the objectives, management and reporting of the projects to be (re)financed by this transaction.

Vigeo Eiris' methodology to define and to assess corporate's ESG performance is based on criteria aligned with public international standards, in compliance with the ISO 26000 guidelines, and organized in 6 domains: Environment, Human Resources, Human Rights, Community Involvement, Business Behavior and Corporate Governance. The evaluation framework has been customized regarding material issues, based on the Waste & Water Utilities Emerging Market assessment framework, projects specificities and emerging issues.

Vigeo Eiris reviewed information provided by the Issuer, press content providers and stakeholders (partnership with Factiva Dow Jones: access to the content of 28,500 publications worldwide from reference financial newspapers to sector-focused magazines, local publications or Non-Government Organizations). Information gathered from these sources will be considered as long as they are public, documented and traceable. Vigeo Eiris has reviewed documents and websites of the Issuer (included, but not limited to, Sustainability Report 2016, Sustainability roadmap, presentation on the Green and Social Financing Committee, notes on the selected projects) and interviewed members from several departments of the Issuer.

Our research and rating procedures are subject to internal quality control at three levels (analysts, heads of cluster sectors, and internal review by the audit department for second party opinions) complemented by a final review and validation by the Direction of Methods. A right of complaint and recourse is guaranteed to all companies under our review, including three levels: first, the team linked to the company, then the Direction of Methods, and finally Vigeo Eiris' Scientific Council. All collaborators are signatories of Vigeo Eiris' Code of Ethics.

Part I. ISSUER

NB: The Issuer performance, i.e. commitments, processes, results of the Issuer, related to ESG issues have been assessed through a complete process of rating and benchmark developed by Vigeo Eiris Rating.

Level of the Issuer's ESG performance

The Issuer has been evaluated by Vigeo Eiris on its Corporate Social Responsibility (CSR) performance, based on 25 relevant ESG drivers organized in the 6 sustainability domains. Aguas Andinas' performance has been assessed by Vigeo Eiris on the basis of its:

- **Leadership:** relevance of the commitments (content, visibility and ownership).
- **Implementation:** coherence of the implementation (process, means, control/reporting).
- **Results:** indicators, stakeholders' feedbacks and controversies.
 - Scale for assessment of ESG performance: Advanced, Good, Limited, Weak.

Stakeholder-related ESG controversies and involvement in controversial activities

A controversy is an information, a flow of information, or a contradictory opinion that is public, documented and traceable, allegation against an Issuer on corporate responsibility issues. Such allegations can relate to tangible facts, be an interpretation of these facts, or constitute an allegation on unproven facts.

Vigeo Eiris provides an opinion on companies' controversies risks mitigation based on the analysis of 3 factors:

- **Severity:** the more a controversy will relate to stakeholders' fundamental interests, will prove actual corporate responsibility in its occurrence, and will have adverse impacts for stakeholders and the company, the highest its severity. Severity assigned at corporate level will reflect the highest severity of all cases faced by the company (scale: Minor, Significant, High, Critical).
- **Responsiveness:** ability demonstrated by an Issuer to dialogue with its stakeholders in a risk management perspective and based on explanatory, preventative, remediating or corrective measures. At corporate level, this factor will reflect the overall responsiveness of the company for all cases faced (scale: Proactive, Remediate, Reactive, Non- Communicative).
- **Frequency:** reflects for each ESG challenge the number of controversies faced. At corporate level, this factor reflects on the overall number of controversies faced and scope of ESG issues impacted (scale: Isolated, Occasional, Frequent, Persistent).

The impact of a controversy on a company's reputation reduces with time, depending on the severity of the event and the company's responsiveness to this event. Conventionally, Vigeo Eiris' controversy database covers any controversy with Minor or Significant severity during 24 months after the last event registered and during 48 months for High and Critical controversies.

In addition, 15 controversial activities have been analysed following 30 parameters to verify if the company is involved in any of them. The company's level of involvement (Major, Minor, No) in a controversial activity is based on:

- An estimation of the revenues derived from controversial products or services.
- The precise nature of the controversial products or services provided by the company.

Part II. ISSUANCE

The Green and Social Bond framework has been evaluated by Vigeo Eiris according to the Green and Social Bond Principles and our methodology based on international standards and sector guidelines applying in terms of ESG management and assessment.

Use of proceeds

The use of proceeds guidelines are defined to ensure that the funds raised are used to finance and/or refinance an Eligible Projects and are traceable within the issuing organisation. Each Project endorsed shall comply with at least one of the Eligible Projects category definition in order to be considered as an Eligible Project. Vigeo Eiris evaluates the relevance, visibility, and measurability of the associated environmental and/or social objectives. The sustainability purpose of the Green and Social Bond related Eligible Projects has been precisely defined, with regard to the Issuer's commitments, and assessed based on the described and estimated benefits of Eligible Projects. The contribution of Eligible Projects to sustainable development is evaluated based on the United Nations Sustainable Development Goals.

Process for project evaluation and selection

The evaluation and selection process has been assessed by Vigeo Eiris regarding its transparency, governance and efficiency. The relevance and exhaustiveness of selection criteria and associated supporting elements integrated in the Green and Social Bond framework, and the coherence of the process are analysed based on material issues considered in Vigeo Eiris' methodology.

Management of proceeds

The rules for the management of proceeds and the allocation process have been evaluated by Vigeo Eiris regarding their transparency, coherence and efficiency.

Reporting

Reporting indicators, processes and methodologies are defined by the Issuer to enable annual reporting on fund allocation, environmental benefits (output and impact indicators) and on the responsible management of the Eligible Projects financed by the Green and Social Bond proceeds, collected at project level and potentially aggregated at Green and Social Bond level. Vigeo Eiris has evaluated the relevance of the reporting framework according to three principles: transparency, exhaustiveness and effectiveness.

- Scale of assessment for processes and commitments: Weak, Limited, Good, Advanced.
- Scale of level of assurance on Issuer's capacity: Reasonable, Moderate, Weak.

VIGEO EIRIS' ASSESSMENT SCALES

Performance evaluation		Level of assurance	
Advanced	Advanced commitment; strong evidence of command over the issues dedicated to achieving the objective of social responsibility. Reasonable level of risk management and using innovative methods to anticipate emerging risks.	Reasonable	Able to convincingly conform to the prescribed principles and objectives of the evaluation framework
Good	Convincing commitment; significant and consistent evidence of command over the issues. Reasonable level of risk management.	Moderate	Compatibility or partial convergence with the prescribed principles and objectives of the evaluation framework
Limited	Commitment to the objective of social responsibility has been initiated or partially achieved; fragmentary evidence of command over the issues. Limited to weak level of risk management.	Weak	Lack or unawareness of, or incompatibility with the prescribed principles and objectives of the evaluation framework
Weak	Commitment to social responsibility is non-tangible; no evidence of command over the issues. Level of insurance of risk management is weak to very weak.		



vigeo eiris
Rating

vigeo eiris
Enterprise

Vigeo Eiris is a global provider of environmental, social and governance (ESG) research to investors and public and private corporates. The agency evaluates the level of integration of sustainability factors into organisations' strategy and operations, and undertakes a risk assessment to assist investors and companies' decision-making.

Vigeo Eiris offers two types of services through separate business units

- ▶ **Vigeo Eiris rating** offers databases, sector-based analyses, ratings, benchmarks and portfolio screening, to serve all ethical and responsible investment strategies.
- ▶ **Vigeo Eiris enterprise** works with organisations of all sizes, from all sectors, public and private in order to support them in the integration of ESG criteria into their business functions and strategic operations.

Vigeo Eiris is committed to delivering client products and services with high added value: a result of research and analysis that adheres to the strictest quality standards. Our methodology is reviewed by an independent scientific council and all our production processes, from information collection to service delivery, are documented and audited. Vigeo Eiris has chosen to certify all its processes to the latest ISO 9001 standard. Vigeo Eiris is an approved verifier for CBI (Climate Bond Initiative). Vigeo Eiris' research is referenced in several international scientific publications.

Vigeo Eiris is present in Paris, London, Boston, Brussels, Casablanca, Hong Kong, Milan, Montreal, Santiago, Stockholm and Tokyo and has a team of 200. The agency works with partners through its Vigeo Eiris Global Network.

For more information: www.vigeo-eiris.com