

Second-Party Opinion

AES Andes Green Financing Framework



Evaluation Summary

Sustainalytics is of the opinion that the AES Andes Green Financing Framework is credible and impactful and aligns with the four core components of the Green Bond Principles 2021 and the Green Loan Principles 2023. This assessment is based on the following:



USE OF PROCEEDS The eligible categories for the use of proceeds - Renewable Energy, Energy Storage and Green Hydrogen - are aligned with those recognized by the Green Bond Principles and the Green Loan Principles. Sustainalytics considers that investments in the eligible categories will lead to positive environmental impacts and advance the UN Sustainable Development Goals, specifically SDG 7.



PROJECT EVALUATION AND SELECTION AES Andes has established an internal committee that will be responsible for evaluating and selecting eligible green projects. AES Andes' local internal functional teams and the finance team will be responsible for reviewing and approving the selected projects. AES Andes' finance team will also be responsible for tracking the allocated proceeds. AES Andes has established internal policies and processes to mitigate environmental and social risks commonly associated with the eligible projects. Sustainalytics considers the project selection process in line with market practice.



MANAGEMENT OF PROCEEDS AES Andes' finance team will be responsible for the management of proceeds. The net proceeds will be tracked using an internal tracking system. AES Andes intends to allocate net proceeds to eligible projects or assets as soon as practicable. Pending full allocation, AES Andes may temporarily use unallocated proceeds to prepay existing debt or will hold the unallocated proceeds in cash or cash equivalents or as per AES Andes' general liquidity policy. AES Andes has communicated to Sustainalytics that it will not refinance debt associated with carbon-intensive assets and activities. Sustainalytics considers this process to be in line with market practice.



REPORTING AES Andes commits to report on the allocation of proceeds and impact annually until full allocation. The allocation and impact report will be made publicly available in a Green Finance Report on AES Andes' website. Allocation reporting may include the amount of net proceeds allocated to eligible projects, eligible project categories and amount of unallocated proceeds. AES Andes commits to report on relevant impact metrics. Sustainalytics views AES Andes' allocation and impact reporting as aligned with market practice.

Evaluation date	November 02, 2023
Issuer Location	Santiago, Chile

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Introduction

AES Andes (“AES Andes” or the “Company”), an affiliate of the AES Corporation,¹ is a South American energy company that generates and sells electricity in Chile, Colombia and Argentina. Its primary customers include mining, industrial, commercial and distribution companies. The Company also sells energy to the spot market and to other electricity generation companies. AES Andes is headquartered in Santiago, Chile and has 1120 employees as of 31 December 2022.²

AES Andes has developed the AES Andes Green Financing Framework dated October 2023 (the “Framework”) under which AES Andes or its subsidiaries or affiliates³ intend to obtain green loans, issue green bonds and other financial instruments,⁴ and use the proceeds to finance or refinance, in whole or in part, existing or future projects that may contribute to promoting renewable energy in Chile, Colombia and Argentina. The Framework defines eligibility criteria in three areas:

1. Renewable Energy
2. Energy Storage
3. Green Hydrogen

AES Andes engaged Sustainalytics to review the Framework and provide a Second-Party Opinion on the Framework’s environmental credentials and its alignment with the Green Bond Principles 2021 (GBP)⁵ and the Green Loan Principles 2023 (GLP).⁶ The Framework will be published in a separate document.⁷

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

Sustainalytics’ Second-Party Opinion reflects Sustainalytics’ independent⁸ opinion on the alignment of the reviewed Framework with current market standards and the extent to which the eligible project categories are credible and impactful.

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

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

For the use of proceeds assessment, Sustainalytics relied on its internal taxonomy, version 1.14, which is informed by market practice and Sustainalytics’ expertise as an ESG research provider.

As part of this engagement, Sustainalytics held conversations with various members of AES Andes’s management team to understand the sustainability impact of its business processes and planned use of proceeds, as well as the management of proceeds and reporting aspects of the Framework. AES Andes representatives have confirmed that: (1) they understand it is the sole responsibility of AES Andes to ensure that the information provided is complete, accurate and up to date; (2) that they have provided Sustainalytics with all relevant information and (3) that any provided material information has been duly disclosed in a timely manner. Sustainalytics also reviewed relevant public documents and non-public information.

¹ AES “Meet AES”, at: <https://www.aes.com/about-us/meet-aes>

² AES Andes, “Integrated Annual Report”, (2022), at: https://s27.q4cdn.com/957035463/files/doc_financials/2022/ar/AES-Andes-2022-Integrated-Annual-Report.pdf

³ For issuances by AES Andes’ subsidiaries and affiliates, the Company has communicated to Sustainalytics that it has operational control over these entities and that it will be responsible for ensuring continual alignment of such issuances with the criteria defined in the Framework.

⁴ AES Andes has communicated to Sustainalytics that loans will include non-multi-tranche term loans only. Sustainalytics has reviewed only those financial instruments that are specified in the Framework.

⁵ The Green Bond Principles are administered by the International Capital Market Association and are available at <https://www.icmagroup.org/green-social-and-sustainability-bonds/green-bond-principles-gbp/>.

⁶ The Green Loan Principles are administered by the Loan Market Association, Asia Pacific Loan Market Association and Loan Syndications and Trading Association and are available at <https://www.lsta.org/content/green-loan-principles/>

⁷ The AES Andes Green Financing Framework is available at: <https://www.aesandes.com/es/recursos-para-inversores>

⁸ When operating multiple lines of business that serve a variety of client types, objective research is a cornerstone of Sustainalytics and ensuring analyst independence is paramount to producing objective, actionable research. Sustainalytics has therefore put in place a robust conflict management framework that specifically addresses the need for analyst independence, consistency of process, structural separation of commercial and research (and engagement) teams, data protection and systems separation. Last but not the least, analyst compensation is not directly tied to specific commercial outcomes. One of Sustainalytics’ hallmarks is integrity, another is transparency.

This document contains Sustainalytics' opinion of the Framework and should be read in conjunction with that Framework.

Any update of the present Second-Party Opinion will be conducted according to the agreed engagement conditions between Sustainalytics and AES Andes.

Sustainalytics' Second-Party Opinion, while reflecting on the alignment of the Framework with market standards, is no guarantee of alignment nor warrants any alignment with future versions of relevant market standards. Furthermore, Sustainalytics' Second-Party Opinion addresses the anticipated impacts of eligible projects expected to be financed with bond and loan proceeds but does not measure the actual impact. The measurement and reporting of the impact achieved through projects financed under the Framework is the responsibility of the Framework owner. AES Andes is encouraged to update the Framework after 24 (twenty-four) months from the evaluation date, if necessary, and seek an update to the Second-Party Opinion to ensure ongoing alignment of the Framework with market standards and expectations.

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

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

Sustainalytics' Opinion

Section 1: Sustainalytics' Opinion on the AES Andes Green Financing Framework

Sustainalytics is of the opinion that the AES Andes Green Financing Framework is credible and impactful, and aligns with the four core components of the GBP and GLP. Sustainalytics highlights the following elements of the Framework:

- Use of Proceeds:
 - The eligible categories - Renewable Energy, Energy Storage and Green Hydrogen - are aligned with those recognized by the GBP and GLP.
 - The projects financed will be located in Chile, Colombia and Argentina.
 - AES Andes has established a look-back period of 24 months for its refinancing activities. Sustainalytics considers this to be in line with market practice.
 - Under the Renewable Energy category, AES Andes intends to finance or refinance development, construction, installation or acquisition of: i) photovoltaic solar and wind energy projects; and ii) transmission lines and supplementary equipment dedicated to renewable energy generation. AES Andes confirmed that transmission lines and equipment will support or integrate 100% renewable energy. Sustainalytics views expenditure under this category to be aligned with market practice.
 - Under the Energy Storage category, AES Andes may finance or refinance the installation, maintenance and operation of energy storage systems and technologies, including battery energy storage systems associated with renewable energy generation. Sustainalytics considers expenditures under this category to be aligned with market practice.
 - Under the Green Hydrogen category, AES Andes may finance or refinance installation, maintenance, operation and storage of hydrogen systems and technologies. These may include: i) electrolyzers and associated systems to produce hydrogen using renewable sources; ii) charging stations dedicated to green hydrogen or green ammonia; and iii) port infrastructure, such as pipes and storage tanks, wholly dedicated to the transport and delivery of green hydrogen. Sustainalytics views the expenditures under this category to be aligned with market practice.
 - Sustainalytics notes that the Framework excludes the following: i) investments that received an allocation of proceeds under any other green finance instrument issued by AES Andes; ii) projects including fossil fuel generation and fossil fuel energy efficiency investments; and iii) projects involving gas transmission and distribution infrastructure.

- Project Evaluation and Selection:
 - AES Andes has established an internal committee that will be responsible for evaluating and selecting eligible green projects. The internal committee will include members from the Company’s sustainability, finance and development teams. The Company’s local internal functional teams and the finance team will be responsible for reviewing and approving the selected projects and the Company’s finance team will also be responsible for tracking the allocated proceeds.
 - AES Andes has established internal policies and processes to mitigate environmental and social risks commonly associated with the eligible projects. For additional details, please refer to Section 2.
 - Based on the establishment of a cross-functional internal committee, a clearly defined process for project evaluation and selection and the presence of policies and processes to mitigate risks, Sustainalytics considers this process to be in line with market practice.
- Management of Proceeds:
 - The Company’s finance team will be responsible for the management of proceeds. The net proceeds will be tracked using an internal tracking system.
 - AES Andes intends to allocate net proceeds to eligible projects or assets as soon as practicable. Sustainalytics considers it to be good practice to allocate proceeds within no more than 36 months. Pending full allocation, the Company may temporarily use unallocated proceeds to prepay existing debt or will hold the unallocated proceeds in cash or cash equivalents, or as per the Company’s general liquidity policy. AES Andes has communicated to Sustainalytics that it will not refinance debt associated with carbon-intensive assets and activities.
 - AES Andes has communicated to Sustainalytics that instruments issued under the Framework may include multi-tranche loan facilities. The Company intends to label only those tranches whose proceeds will be allocated according to the eligibility criteria in the Framework.
 - Based on the presence of an internal tracking system and the disclosure of the temporary use of proceeds, Sustainalytics considers this process to be in line with market practice.
- Reporting:
 - AES Andes commits to report on the allocation of proceeds and impact annually until full allocation. The allocation and impact report will be made publicly available in a Green Finance Report on the Company’s website.
 - Allocation reporting may include the amount of net proceeds allocated to eligible projects, eligible project categories and the amount of unallocated proceeds.
 - Where feasible, impact reporting may include expected annual GHG emissions avoided (measured in mtCO₂), expected annual renewable electricity output (measured in GWh) and expected energy storage capacity (measured in MW per hour).
 - Based on the commitment to allocation and impact reporting, Sustainalytics considers this process to be in line with market practice.

Alignment with Green Bond Principles 2021 and Green Loan Principles 2023

Sustainalytics has determined that the AES Andes Green Financing Framework aligns with the four core components of the GBP and GLP. For detailed information please refer to Appendix: Green Bond/Green Bond Programme External Review Form.

Section 2: Sustainability Strategy of AES Andes

Contribution to AES Andes’ sustainability strategy

AES Corporation, the parent company of AES Andes, has established the following sustainability goals of achieving: i) carbon intensity in line with a well-below 2°C scenario for its electricity generation portfolio by 2030; ii) net zero emissions from electricity sales by 2040; and iii) net zero emissions for its entire business portfolio by 2050. To achieve these goals, AES Corporation plans to focus on, among other initiatives, the expansion of its renewable energy capacity and energy storage and the promotion of hydrogen use and synthetic fuels to serve industries that are difficult to electrify.⁹

AES Andes also demonstrated a commitment to sustainability by launching the Greentegra transformation strategy in 2018, which focuses on the achievement of the following environmental goals by 2025: i)

⁹ AES Corporation, “Climate Scenario Report”, (2021), at: https://www.aes.com/sites/aes.com/files/2023-03/2021_aes_climate_scenario_vfinal_web_2.pdf

decarbonization of customers' electricity supply, mainly by increasing renewable energy capacity from 1,374 MW in 2017 to 4,149 MW in 2025 through investment in solar, wind, hydropower and battery storage; and ii) more than 50% reduction in the CO₂ intensity of the Company's business portfolio.¹⁰

To reduce the CO₂ intensity of AES Andes' business portfolio, the Company added 1.5 GW of renewable energy capacity since 2018. Moreover, the Company has an additional 0.5 GW of renewable energy capacity under construction, which is scheduled to begin operations between 2023 and 2024. As of 31 December 2022, the Company had energy storage systems under construction that can potentially support 299 MW of renewable energy storage. The Company invested more than USD 480 million in wind, solar and battery storage in 2022.¹¹

In 2022, the Company launched its first hydrogen project in the Antofagasta region in Chile through its subsidiary, Empresa Eléctrica Angamos, to produce green hydrogen through electrolysis using renewable energy and desalinated water. The Company expects this hydrogen plant to start operations in 2024 and to have a production capacity of 1,000 kg of green hydrogen per day, which equates to approximately 2.5 MW of renewable energy. The Company also plans to install two fuelling stations to promote the use of green hydrogen as fuel for vehicles used in the port and mining industries.¹²

AES Andes plans to fully phase out coal power plants by 2025 by way of retirement, technology conversion or potential asset sales. The Company has also entered into an agreement with the Chilean government in 2019, under which it has retired or has committed to retire 1,693 MW of coal plants.¹³

Based on the above, Sustainalytics is of the opinion that the AES Andes Green Financing Framework is aligned with AES Corporation's and the Company's overall sustainability strategy and initiatives and will further the Company's action on its key environmental priorities.

Approach to managing environmental and social risks associated with the projects

Sustainalytics recognizes that the proceeds from the instruments issued under the Framework will be directed towards eligible projects that are expected to have positive environmental impacts. However, Sustainalytics is aware that such eligible projects could also lead to negative environmental and social outcomes. Some key environmental and social risks possibly associated with the eligible projects may include issues involving land use and biodiversity issues associated with large-scale infrastructure development; emissions, effluents, and waste generated during construction; occupational health and safety; and community relations.

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

- To manage or mitigate risks related to biodiversity issues and waste, emissions and effluents generated during construction, the Company has established a group-level Environment Management Policy,¹⁴ which, along with relevant national laws and regulations, is applicable to all AES Andes' operations and facilities. Under the policy, AES Andes analyzes, monitors, and manages environmental impacts, prevents and mitigates potential effects; and promotes environmental stewardship, efficient use of natural resources, conservation of areas of high biodiversity value near its operations, and protection of species of conservation concern in areas of operation. The Company has outlined biodiversity commitments that aim to ensure the implementation of appropriate actions, such as a commitment to not building new production facilities in areas that are part of the UNESCO World Heritage List of Natural Sites and IUCN-protected areas (categories I-IV). Additionally, AES Andes has an environmental management system in place in accordance with the ISO14001:2015 standard.¹⁵
- To manage or mitigate risks associated with occupational health and safety (OHS), AES Andes has a group-level integrated policy in place, which is applicable to all its operations. The policy outlines the Company's commitment to minimizing health and safety risks, complying with legislation in all jurisdictions in which it operates and continually improving its OHS management systems. Under this policy, AES Andes provides all employees with the necessary supervision, training, instruction and equipment. Additionally, AES Andes is compliant with ISO 45001:2018, which demonstrates the presence of established processes and safety protocols to minimize work-related injuries and ill health.¹⁶

¹⁰ AES Andes, "Integrated Annual report - 2022", at: https://s27.q4cdn.com/957035463/files/doc_financials/2022/ar/AES-Andes-2022-Integrated-Annual-Report.pdf

¹¹ Ibid.

¹² Ibid.

¹³ Ibid.

¹⁴ AES Andes, "Integrated Annual Report 2022", at: https://s27.q4cdn.com/957035463/files/doc_financials/2022/ar/AES-Andes-2022-Integrated-Annual-Report.pdf

¹⁵ Ibid.

¹⁶ Ibid.

- AES Andes conducts stakeholder engagement to promote collaboration and cooperation with all stakeholders, including local communities. The Company intends to undertake surveys to identify and prioritize stakeholders with interests in areas of operation and engage directly with them to prevent and mitigate emerging project-related risks at a regional level.¹⁷

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

Section 3: Impact of Use of Proceeds

All three use of proceeds categories are aligned with those recognized by the GBP and GLP. Sustainalytics has focused on one below where the impact is specifically relevant in the local context.

Importance of renewable energy in Argentina, Chile and Colombia

The implementation of renewable energy sources in the transportation, heat, and power sectors is one of the primary factors for limiting the average global temperature rise to 1.5°C. Renewable energy sources have the potential to enable nearly total decarbonization of power generation in the Net Zero Emissions by 2050 scenario.¹⁸ However, global CO₂ emissions connected to energy have increased by 321 MT or 0.9% in 2022, hitting a record high of nearly 36.8 GT.¹⁹ To reduce emissions, Argentina aims to increase the production of energy from renewable sources and reach 20% of the country's demand by 2025,²⁰ while Chile and Colombia commit to obtaining 70% of their energy from renewable sources by 2030 as part of the Renewables in Latin America and the Caribbean initiative.²¹

In Argentina, the energy sector accounts for 53% of total GHG emissions as of 2019.²² Moreover, 60% of the country's electricity generation is produced from fossil fuels as of 2023. Argentina aims to reduce this to 35% by 2030 through the expansion of renewables such as hydropower, wind and solar. Argentina has also set a target to produce 57% of its energy from renewable sources by 2030.²³ To encourage the production of power from renewable sources, the Argentine Congress issued Law No. 27,191 in 2015, establishing timebound targets to increase the share of renewable energy, including an 8% share of renewable energy sources by the end of 2018, 12% by 2019 and 20% by 2025.²⁴

In the case of Chile, as a signatory to the Paris Agreement, the country has committed to achieving absolute GHG emissions of 95 MtCO_{2e} by 2030 and carbon neutrality by 2050 according to its Nationally Determined Contribution (NDC) updated in 2020.²⁵ According to the Climate Action Tracker, if Chile implements its currently planned policies, such as an early coal phase-out by 2030, the country could be on track to being 1.5°C compatible.²⁶ In 2022, Chile adopted a framework law on climate change, which codifies Chile's long-term climate strategy, mandating more than 400 measures to meet targets to reduce GHG emissions in all sectors,²⁷ in addition to internalizing the country's NDC and setting rules on financial guidelines to address climate change.²⁸

In the case of Colombia, in 2021, the country established its climate pledge at COP26 with an unconditional and ambitious emissions reduction target of 51% below the business-as-usual scenario for 2030, as well as by introducing a ceiling on total emissions of 169.44 Mt CO_{2e} in 2030.²⁹ Colombia intends to attain net zero emissions by 2050 by reducing GHG emissions by 90% from 2015 levels and balancing the remaining 10%

¹⁷ Ibid.

¹⁸ IEA, "Renewables", at: <https://www.iea.org/energy-system/renewables>

¹⁹ IEA, "CO₂ Emissions in 2022", at: <https://www.iea.org/reports/co2-emissions-in-2022>

²⁰ KPMG, "Development of Renewable Energy In Argentina", (2019), at: <https://assets.kpmg.com/content/dam/kpmg/ar/pdf/development-renewable-energy-argentina-2019.pdf>

²¹ HUB DE ENERGIA, "Renewables in Latin America and the Caribbean", at: <https://hubenergia.org/en/relac>

²² Koop, F. (2023), "Argentina targets huge expansion of renewable energy by 2030", Diálogo Chino, at: <https://dialogochino.net/en/climate-energy/374748-argentina-targets-huge-expansion-of-renewable-energy-by-2030/#:~:text=The%20goal%20is%20to%20generate,modest%20target%2C%20according%20to%20Villalonga.>

²³ Ibid.

²⁴ KPMG, "Development of Renewable Energy In Argentina", (2019), at: <https://assets.kpmg.com/content/dam/kpmg/ar/pdf/development-renewable-energy-argentina-2019.pdf>

²⁵ UNFCCC, "Chile's Nationally Determined Contribution – Update 2020", at: https://www4.unfccc.int/sites/ndcstaging/PublishedDocuments/Chile%20First/Chile%27s_NDC_2020_english.pdf

²⁶ Climate Action Tracker, "Chile", (2022), at: <https://climateactiontracker.org/countries/chile/>

²⁷ Ibid.

²⁸ Grantham Research Institute on Climate Change and the Environment, "Framework Law on Climate Change - Chile", at: https://climate-laws.org/document/framework-law-on-climate-change-chile_dc8a

²⁹ IEA, "Colombia 2023: Energy Policy Review", at: <https://iea.blob.core.windows.net/assets/2fa812fe-e660-42f3-99bc-bd75be3ca0b5/Colombia2023-EnergyPolicyReview.pdf>

with land use, land-use change and forestry.³⁰ Colombia released 80 MT of CO₂ into the atmosphere in 2021 as a result of fossil fuel combustion from energy sector activities. The Colombian government's institutional and legal framework for adapting to and mitigating climate change was established by the 2018 Climate Change Law wherein every ministry is required to prepare and implement a comprehensive sector climate change management plan.³¹ Additionally, the Colombian government has a Renewable Energy Integration Program in place that expects to leverage between USD 280 million and USD 560 million to meet its goal of indirectly integrating more than 100 MW of solar and wind capacity, as well as further developing green hydrogen production capacities.³²

Based on the above context, Sustainalytics is of the opinion that AES Andes Green Financing Framework will provide financing for projects that are expected to promote the integration of low-carbon energy in Argentina, Chile and Colombia and can help in achieving carbon reduction targets in all three countries.

Contribution to SDGs

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

Use of Proceeds Category	SDG	SDG target
Renewable Energy	7. Affordable and Clean Energy	7.2 By 2030, increase substantially the share of renewable energy in the global energy mix
Energy and Resource Efficiency		7.3 By 2030, double the global rate of improvement in energy efficiency

Conclusion

AES Andes has developed the AES Andes Green Financing Framework under which it may obtain green loans, issue green bonds and other financial instruments, and use the proceeds to finance or refinance projects under the Renewable Energy, Energy Storage and Green Hydrogen categories. Sustainalytics considers that the projects funded by the green finance proceeds may contribute to promoting renewable energy in Chile, Colombia and Argentina.

The AES Andes Green Financing Framework outlines a process by which proceeds will be tracked, allocated, and managed, and commitments have been made for reporting on the allocation and impact of the use of proceeds. Furthermore, Sustainalytics believes that the Framework is aligned with the overall sustainability strategy of the Company and that the green use of proceeds categories will contribute to the advancement of the UN Sustainable Development Goal 7. Additionally, Sustainalytics is of the opinion that AES Andes has adequate measures to identify, manage and mitigate environmental and social risks commonly associated with the eligible projects funded by the proceeds.

Based on the above, Sustainalytics is confident that AES Andes is well positioned to issue green bonds and obtain green loans and that the AES Andes Green Financing Framework is robust, transparent, and in alignment with the four core components of the Green Bond Principles 2021 and Green Loan Principles 2023.

³⁰ Ibid.

³¹ Ibid.

³² Planas Marti, M.A. and Cárdenas, J. (2023), , "Colombia Launches the Climate Investment Funds' Renewable Energy Integration Program in Latin America", IDB, at: <https://blogs.iadb.org/sostenibilidad/en/colombia-launches-the-climate-investment-funds-renewable-energy-integration-program-in-latin-america/>

Appendix

Appendix 1: Green Bond / Green Bond Programme - External Review Form

Section 1. Basic Information

Issuer name:	AES Andes
Green Bond ISIN or Issuer Green Bond Framework Name, if applicable:	AES Andes Green Financing Framework
Review provider's name:	Sustainalytics
Completion date of this form:	November 02, 2023
Publication date of review publication:	

Section 2. Review overview

SCOPE OF REVIEW

The review:

- assessed the 4 core components of the Principles (**complete review**) and confirmed the alignment with the GBP/SBP/SBG (*delete where appropriate*).
- assessed only some of them (**partial review**) and confirmed the alignment with the GBP/SBP/SBG (*delete where appropriate*); please indicate which ones:
 - Use of Proceeds
 - Management of Proceeds
 - Process for Project Evaluation and Selection
 - Reporting
- assessed the alignment with other regulations or standards (CBI, EU GBS, ASEAN Green Bond Standard, ISO 14030, etc.); please indicate which ones:

ROLE(S) OF INDEPENDENT REVIEW PROVIDER

- Second Party Opinion
- Verification
- Other (please specify):
- Certification
- Scoring/Rating

Does the review include a sustainability quality score?

- Of the issuer
- Of the Framework
- Of the project
- Other (please specify):

- No scoring

ASSESSMENT OF THE PROJECT(S)

Does the review include:

- The environmental and/or social features of the type of project(s) intended for the Use of Proceeds?
- The environmental and/or social benefits and impact targeted by the eligible Green and/or Social Project(s) financed by the Green, Social or Sustainability Bond?
- The potentially material environmental and/or social risks associated with the project(s) (where relevant)?

ISSUER'S OVERARCHING OBJECTIVES

Does the review include:

- An assessment of the issuer's overarching sustainability objectives and strategy, and the policies and/or processes towards their delivery?
- An identification and assessment of environmental, social and governance related risks of adverse impact through the Issuer's [actions] and explanations on how they are managed and mitigated by the issuer?
- A reference to the issuer's relevant regulations, standards, or frameworks for sustainability-related disclosure and reporting?

CLIMATE TRANSITION STRATEGY

Does the review assess:

- The issuer's climate transition strategy & governance?
- The alignment of both the long-term and short/medium-term targets with the relevant regional, sector, or international climate scenario?
- The credibility of the issuer's climate transition strategy to reach its targets?
- The level/type of independent governance and oversight of the issuer's climate transition strategy (e.g. by independent members of the board, dedicated board sub-committees with relevant expertise, or via the submission of an issuer's climate transition strategy to shareholders' approval).
- If appropriate, the materiality of the planned transition trajectory in the context of the issuers overall business (including the relevant historical datapoints)?
- The alignment of the issuer's proposed strategy and targets with appropriate science-based targets and transition pathways that are deemed necessary to limit climate change to targeted levels?
- The comprehensiveness of the issuer's disclosure to help investors assess its performance holistically?

Overall comment on this section:

Section 3. Detailed review

1. USE OF PROCEEDS

Does the review assess:

- the environmental/social benefits of the project(s)?
- whether those benefits are quantifiable and meaningful?
- for social projects, whether the target population is properly identified?

Does the review assess if the issuer provides clear information on:

- the estimated proceeds allocation per project category (in case of multiple projects)?
- the estimated share of financing vs. re-financing (and the related lookback period)?

Overall comment on this section:

The eligible categories for the use of proceeds - Renewable Energy, Energy Storage and Green Hydrogen - are aligned with those recognized by the Green Bond Principles and the Green Loan Principles. Sustainalytics considers that investments in the eligible categories will lead to positive environmental impacts and advance the UN Sustainable Development Goals, specifically SDG 7.

2. PROCESS FOR PROJECT EVALUATION AND SELECTION

Does the review assess:

whether the eligibility of the project(s) is aligned with official or market-based taxonomies or recognised international standards? Please specify which ones.

Sustainalytics has a proprietary taxonomy which is influenced by the EU taxonomy, Climate Bonds Initiative taxonomy as well as international standards.

whether the eligible projects are aligned with the overall sustainability strategy of the issuer and/or if the eligible projects are aligned with material ESG-related objectives in the issuer's industry?

the process and governance to set the eligibility criteria including, if applicable, exclusion criteria?

the processes by which the issuer identifies and manages perceived social and environmental risks associated with the relevant project(s)?

any process in place to identify mitigants to known material risks of negative social and/or environmental impacts from the relevant project(s)?

Overall comment on this section:

AES Andes has established an internal committee that will be responsible for evaluating and selecting eligible green projects. AES Andes' local internal functional teams and the finance team will be responsible for reviewing and approving the selected projects. AES Andes' finance team will also be responsible for tracking the allocated proceeds. AES Andes has established internal policies and processes to mitigate environmental and social risks commonly associated with the eligible projects. Sustainalytics considers the project selection process in line with market practice.

3. MANAGEMENT OF PROCEEDS

Does the review assess:

the issuer's policy for segregating or tracking the proceeds in an appropriate manner?

the intended types of temporary investment instruments for unallocated proceeds?

Whether an external auditor will verify the internal tracking of the proceeds and the allocation of the funds?

Overall comment on this section:

AES Andes' finance team will be responsible for the management of proceeds. The net proceeds will be tracked using an internal tracking system. AES Andes intends to allocate net proceeds to eligible projects or assets as soon as practicable. Pending full allocation, AES Andes may temporarily use unallocated proceeds to prepay existing debt or will hold the unallocated proceeds in cash or cash equivalents or as per AES Andes' general liquidity policy. AES Andes has communicated to Sustainalytics that it will not refinance debt associated with carbon-intensive assets and activities. Sustainalytics considers this process to be in line with market practice.

4. REPORTING

Does the review assess:

- the expected type of allocation and impact reporting (bond-by-bond or on a portfolio basis)?
- the frequency and the means of disclosure?
- the disclosure of the methodology of the expected or achieved impact of the financed project(s)?

Overall comment on this section:

AES Andes commits to report on the allocation of proceeds and impact annually until full allocation. The allocation and impact report will be made publicly available in a Green Finance Report on AES Andes' website. Allocation reporting may include the amount of net proceeds allocated to eligible projects, eligible project categories and amount of unallocated proceeds. AES Andes commits to report on relevant impact metrics. Sustainalytics views AES Andes' allocation and impact reporting as aligned with market practice.

Section 4. Additional Information

Useful links (e.g. to the external review provider's methodology or credentials, to the full review, to issuer's documentation, etc.)

Analysis of the contribution of the project(s) to the UN Sustainable Development Goals:

Additional assessment in relation to the issuer/bond framework/eligible project(s):

ABOUT ROLE(S) OF INDEPENDENT REVIEW PROVIDERS AS DEFINED BY THE GBP

- i. **Second-Party Opinion:** An institution with environmental expertise, that is independent from the issuer may issue a Second-Party Opinion. The institution should be independent from the issuer's adviser for its Green Bond framework, or appropriate procedures, such as information barriers, will have been implemented within the institution to ensure the independence of the Second-Party Opinion. It normally entails an assessment of the alignment with the Green Bond Principles. In particular, it can include an assessment of the issuer's overarching objectives, strategy, policy and/or processes relating to environmental sustainability, and an evaluation of the environmental features of the type of projects intended for the Use of Proceeds.
- ii. **Verification:** An issuer can obtain independent verification against a designated set of criteria, typically pertaining to business processes and/or environmental criteria. Verification may focus on alignment with internal or external standards or claims made by the issuer. Also, evaluation of the environmentally sustainable features of underlying assets may be termed verification and may reference external criteria. Assurance or attestation regarding an issuer's internal tracking method for use of proceeds, allocation of funds from Green Bond proceeds, statement of environmental impact or alignment of reporting with the GBP, may also be termed verification.
- iii. **Certification:** An issuer can have its Green Bond or associated Green Bond framework or Use of Proceeds certified against a recognised external green standard or label. A standard or label defines specific criteria, and alignment with such criteria is normally tested by qualified, accredited third parties, which may verify consistency with the certification criteria.
- iv. **Green Bond Scoring/Rating:** An issuer can have its Green Bond, associated Green Bond framework or a key feature such as Use of Proceeds evaluated or assessed by qualified third parties, such as specialised research providers or rating agencies, according to an established scoring/rating methodology. The output may include a focus on environmental performance data, the process relative to the GBP, or another benchmark, such as a 2-degree climate change scenario. Such scoring/rating is distinct from credit ratings, which may nonetheless reflect material environmental risks.

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