



SECOND PARTY OPINION¹

ON THE SUSTAINABILITY OF THE GREEN BOND OF THE REPUBLIC OF CHILE

April 26, 2019

SCOPE

Vigeo Eiris was commissioned to provide an independent opinion ("Second Party Opinion") on the sustainability credentials and management of the Green Bond (the "Bond") proposed to be issued by the Republic of Chile ("Chile" or the "Issuer").

Our opinion is established according to our Environmental, Social and Governance ("ESG") exclusive assessment methodology and to the International Capital Market Association's Green Bond Principles ("GBP") voluntary guidelines edited in June 2018.

Our opinion is based on the review of the following components:

- 1) **Issuer:** we have assessed the sustainability performance of the Issuer (*Sovereign Sustainability Rating*®).
- 2) **Issuance:** we have assessed the coherence between the Bond and the Issuer's sustainability strategy, the contribution of the Bond to sustainability and its alignment with the Green Bond Principles.

Our sources of information are multichannel, combining public information, press content, stakeholder information, information from our ESG rating database; information provided by the Issuer through documents and data, and from interviews with managers of the Government of Chile held at their offices and via a telecommunications system.

We carried out our due diligence assessment from March 18th to April 26th, 2019. We consider that we could access all the appropriate documents and speak with all the interviewees we solicited. We consider that the information provided enables us to establish our opinion with a reasonable level of assurance on its completeness, precision and reliability.

VIGEO EIRIS' OPINION

Vigeo Eiris considers that the Green Bond considered to be issued by the Republic of Chile is aligned with the four core components of the Green Bond Principles voluntary guidelines (June 2018).

Vigeo Eiris expresses a reasonable² assurance (our highest level of assurance) on the Bond's contribution to sustainable development.

1) **Issuer** (see Part I):

- ▶ According to the latest *Sovereign Sustainability Rating* © published by Vigeo Eiris in November 2018, Chile's sustainability performance is considered advanced (69/100). In particular, Chile shows a good performance in the Environmental Responsibility pillar and an advanced performance in the Social Responsibility and Solidarity, and Institutional Responsibility pillars. Chile ranks 39th out of 178 qualified countries.

2) **Issuance** (see Part II):

Chile has formalized the main characteristics of its Green Bond within a Green Bond Framework (the "Framework", dated April 25th, 2019). The Issuer has committed to making this document publicly accessible on its website³ before the Bond issuance, in line with good market practices.

We are of the opinion that the Green Bond contemplated by Chile is coherent with the country's strategic priorities of sustainable development, and that the Bond contributes to the realization of its commitments and targets in terms of climate change mitigation and sustainable development.

¹ This opinion is to be considered as the "Second Party Opinion" described by the International Capital Market Association (www.icmagroup.org).

² 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.

³ www.hacienda.cl

2) **Issuance** (continued):

Use of Proceeds:

- ▶ The Issuer has formalized six categories of eligible Green Sectors in the Framework, namely: Clean Transport, Energy Efficiency, Renewable Energy, Living Natural Resources, Land Use and Marine Protected Areas, Water Management and Green Buildings. We consider that the categories of eligible Green Sectors have been clearly defined.

The net proceeds from Chile's first Green Bond will exclusively finance and refinance, in part or in full, a portfolio (the "Green Portfolio") of 14 Eligible Green Expenditures already selected by the Issuer, which belong to four of the six categories of eligible Green Sectors. We consider that the Eligible Green Expenditures are clearly defined.

Eligible Green Expenditures are intended to contribute to three environmental objectives, namely: climate change mitigation, air quality improvement, conservation and sustainable use of water resources. These objectives are considered clearly defined and relevant.

Eligible Green Expenditures have the potential to provide clear environmental benefits. The Issuer has evaluated and quantified the expected environmental benefits of the Eligible Green Expenditures of the Clean Transport, Renewable Energy and Green Buildings Sectors. This information is formalized in internal documentation. The Issuer has committed to evaluate and, where feasible, quantify the real environmental benefits of all Eligible Green Expenses one year after issuance.

In addition, Vigeo Eiris considers that the first Green Bond of Chile is likely to contribute to six United Nations Development Goals ("UN SDGs"), namely: Goal 3. Good Health and Well-being, Goal 6. Clean Water and sanitation, Goal 7. Affordable and Clean energy, Goal 9. Industry, Innovation and Infrastructure, Goal 11. Sustainable Cities and Communities and Goal 13. Climate Action.

The Issuer has transparently communicated the look-back period for refinanced Eligible Green Expenditures, which will not exceed 24 months prior to the date of issuance, in line with best market practices. According with the current Green Portfolio, the estimated refinancing share of Chile's first Green Bond issuance will be approximately 13%.

Process for Project Evaluation and Selection:

- ▶ The governance and the process for the evaluation and selection of the Eligible Green Expenditures are considered transparent and relevant. They have been clearly defined and formalized in the Framework.

The process is based on explicit eligibility criteria (selection and exclusion), relevant to the environmental objectives of the Bond.

The identification of the environmental risks associated with Eligible Green Expenditures is considered good, while its monitoring and control is considered limited. The identification, monitoring and control of social is considered limited. The areas for improvement include the integration of environmental and social responsibility contractual clauses into contracts with contractors/suppliers, and the monitoring and control of at least all Eligible Green Expenditures financed and refinanced by the Bond.

Management of Proceeds:

- ▶ The rules established for the management of proceeds are clearly defined. We consider that they would enable a transparent and documented allocation process. The allocation of funds to Eligible Green Expenditures will be verified by an independent external auditor.

Reporting:

- ▶ The reporting processes and commitments are considered good. The selected indicators cover in a complete and relevant manner the allocation of funds and the environmental benefits (outputs and/or impacts) of the Bond.

The Issuer has committed to support its Green Bond issuance with the following external reviews:

- A pre-issuance consultant review: the hereby Second Party Opinion (“SPO”) delivered by Vigeo Eiris, covering all the features of the Bond, based on pre-issuance assessment and commitments. The Issuer has committed to publish the SPO Issuer on its website.
- Certification: Climate Bond Initiative (CBI) pre-issuance certification according to Climate Bonds Standard V2.1 (Limited Assurance Procedure). The Issuer will perform a post-issuance verification within one year of the issuance.
- An external verification: performed by an independent third party, to annually verify that an amount equal to the net proceed of the Bond has been allocated to Eligible Projects, until full allocation.

This Second Party Opinion is valid for the 1st Green Bond issuance of the Republic of Chile, scheduled for 2019 and for the possible "tap" issuances of this Bond whose Use of Proceeds respects the same types of Eligible Green Expenditures falling into the categories of Clean Transport, Renewable Energy, Water Management and Green Buildings.

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DETAILED RESULTS

Part I. ISSUER

Sustainability performance of the Issuer

According to the latest Sovereign Sustainability Rating © published by Vigeo Eiris in November 2018, Chile's sustainability performance is considered advanced (69/100). In particular, Chile shows a good performance in the Environmental Responsibility pillar and an advanced performance in the Social Responsibility and Solidarity, and Institutional Responsibility pillars. Chile ranks 39th out of 178 countries evaluated.

| Pillar | Comments | Performance level |
|--------------------------------------|---|-------------------|
| Environmental Responsibility | Chile's performance in the Environmental Responsibility pillar is considered good, albeit almost advanced (59/100), ranking 75 out of 178 countries evaluated. | Advanced |
| | Chile has ratified most relevant international environmental conventions, such as the Paris Agreement, the Kyoto Convention, the United Nations Framework Convention on Climate Change, the Convention on Biological Diversity and the United Nations Framework Convention to Combat Desertification. | Good |
| | Chile pledged to reduce its greenhouse gas emissions by 30% to 45% compared to 2007 levels by 2030. With emissions of 0.20 kgCO ₂ eq. per dollar of GDP in 2014, Chile's performance in this regard is in line with the average of OECD member countries, while Chile's CO ₂ emissions per capita (4.68 tons in 2014) are lower than in most OECD countries. The production of electricity from renewable sources represents more than 36% ⁴ of total production. However, Chile continues to provide post-tax fossil fuels subsidies (equivalent to about 3.32% of its GDP according to IMF methodology ⁵). | Limited |
| | Chile's environmental strengths are related to air pollution mitigation. Areas for improvement are the promotion of environmental taxes, the development of sustainable agriculture and the protection of endangered species. | Weak |
| Social Responsibility and Solidarity | Chile's performance in the Social Responsibility and Solidarity pillar is considered advanced (61/100), ranking 52 out of 178 countries evaluated. | Advanced |
| | Chile demonstrates a good performance in the promotion of workers' rights (union density rate, minimum wage), unemployment rates and benefits (percentage of unemployed receiving regular periodic social security benefits), promoting education (primary education), reduction of malnutrition, and the country obtains the best scores in tuberculosis treatment and access to electricity. The percentage of women in the labour force is in line with the average among OECD countries. | Good |
| | However, Chile has the highest Gini coefficient (0.45 in 2015) among OECD countries. In addition, Chile's public spending on health accounts for 3.9% of the country's GDP, below an OECD average (6.7%), and the concentration of doctors is only 1 per 1,000 people, the lowest reported. | Limited |
| | | Weak |
| Governance Responsibility | Chile's performance in the Governance Responsibility pillar is considered advanced (87/100), ranking 15th out of 178 countries evaluated. | Advanced |
| | Chile demonstrates a good performance in promoting democracy, freedom and justice, and has ratified all the fundamental conventions of the International Labour Organization relating to human rights and respect for the rights of children, the prevention of corruption and organized crime, and the prohibition and prevention of the proliferation of weapons. | Good |
| | Chile is not considered an uncooperative tax haven by the IMF or the OECD and, according to the Tax Justice Network, the level of financial secrecy is average in a global context. | Limited |
| | | Weak |

⁴ According to World Bank's indicator "Renewable electricity output (% of total electricity output)" 2012:

<https://data.worldbank.org/indicator/EG.ELC.RNEW.ZS?end=2012&start=1990>

⁵ "Post-tax energy subsidies, which arise when consumer prices are below supply costs plus a tax to reflect environmental damage and an additional tax applied to all consumption goods to raise government revenues". <https://www.imf.org/external/pubs/ft/wp/2015/wp15105.pdf>

Part II. ISSUANCE

Coherence of the issuance

Context: Climate change represents one of the greatest challenges of the 21st century. The IPCC's special report on global warming of 1.5°C published at the end of 2018 warns of the evident and significant changes already being experienced in Latin America, including changes in temperature and precipitation causing natural catastrophes. Fighting climate change requires the transition of all sectors of the economy towards sustainable development models and the immediate action of all public and private actors. National governments must lead action to limit global warming to below 1.5°C and achieve the objectives of the Paris Agreement through the establishment of public policies and national action plans aimed at the promotion of renewable energies, clean transport, sustainable urban planning, ecological buildings, energy efficiency, sustainable waste and water management, and the protection and sustainable use of natural resources.

We are of the opinion that the Green Bond contemplated by Chile is coherent with the country's strategic priorities of sustainable development, and that the Bond contributes to the realization of its commitments and targets in terms of climate change mitigation and sustainable development.

Chile seems to acknowledge its role in facing the aforementioned challenges and has formalized several environmental policies and action plans, which in some cases have quantitative targets:

- Ratification of the Paris Agreement in February 2017. Through its Determined National Contribution, Chile established commitments in five areas: mitigation, adaptation, capacity building and strengthening, technology development and transfer, and financing. In particular, Chile established quantitative targets in terms of climate change mitigation:
 - Reduce its CO₂ emissions per PIN unit by 30% by 2030, and between 35% and 45% if international monetary contributions are obtained, with respect to the level reached in 2007.
 - Sustainably manage and recover 100,000 hectares of forest, mainly native, which will represent capture and reduction of Greenhouse Gas (GHG) in about 600,000 tons of CO₂ equivalent per year, starting in 2030.
 - Forest 100,000 hectares, mostly with native species, which will represent capture of between 900,000 and 1,200,000 tons of CO₂ equivalent per year, starting in 2030.
- National Strategy for Climate Change and Vegetable Resources (ENCCRV).
 - Adaptation targets: To reduce the vulnerability associated with the risk of land degradation through the management of vegetational resources, through the intervention of at least 264,000 hectares, directly between 2017 and 2025.
 - Mitigation targets: Reduce GHG emissions associated with degradation and deforestation by 20% by 2025, based on emissions for the period 2001-2013, and increase the capacity of vegetational resources as a carbon sink.
- National Action Plan on Climate Change 2017-2022 (PANCC-II).
- National Plan of Adaptation to Climate Change.
- Climate Change Adaptation and Mitigation Plan for Infrastructure Services 2017-2022
- Climate Change Adaptation Plan for the Forestry and Livestock Sector.
- Plan for Adaptation to Climate Change in Biodiversity.
- Greenhouse Gases Mitigation Plan for the Energy Sector.
- National Action Programme against Desertification, Land Degradation and Drought 2016-2035 (PANCD).
- National Electromobility Strategy.
 - Mitigation target: To achieve that 100% of public transport vehicles are electric by 2050.

By issuing a Green Bond for the financing and refinancing of Eligible Green Expenditures related to the categories of Clean Transport, Renewable Energies, Living Natural Resources, Land Use and Marine Protected Areas, Water Management and Green Buildings, Chile responds coherently to its national commitments and targets mentioned above, and addresses the main challenges in terms of sustainable development of national governments.

Beyond the voluntary guidelines of the Green Bond Principles, an area for improvement is that the Issuer assess and quantifies the contribution of the Bond to Chile's national objectives.

Use of Proceeds

The Issuer has formalized six categories of eligible Green Sectors in the Framework, namely: Clean Transport, Energy Efficiency, Renewable Energy, Living Natural Resources, Land Use and Marine Protected Areas, Water Management and Green Buildings. We consider that the categories of eligible Green Sectors have been clearly defined.

The net proceeds from Chile's first Green Bond will exclusively finance and refinance, in part or in full, a portfolio (the "Green Portfolio") of 14 Eligible Green Expenditures already selected by the Issuer, which belong to four of the six categories of eligible Green Sectors. We consider that the Eligible Green Expenditures are clearly defined.

Eligible Green Expenditures are intended to contribute to three environmental objectives, namely: climate change mitigation, air quality improvement, conservation and sustainable use of water resources. These objectives are considered clearly defined and relevant.

Eligible Green Expenditures have the potential to provide clear environmental benefits. The Issuer has evaluated and quantified the expected environmental benefits of the Eligible Green Expenditures of the Clean Transport, Renewable Energy and Green Buildings Sectors. This information is formalized in internal documentation. The Issuer has committed to evaluate and, where feasible, quantify the real environmental benefits of all Eligible Green Expenses one year after issuance.

The Issuer has transparently communicated the look-back period for refinanced Eligible Green Expenditures, which will not exceed 24 months prior to the date of issuance, in line with best market practices. According with the current Green Portfolio, the estimated refinancing share of Chile's first Green Bond issuance will be approximately 13%.

The Issuer has clearly defined six categories of eligible Green Sectors in the Framework, namely:

- Clean Transportation
- Energy Efficiency
- Renewable Energies
- Living Natural Resources, Land Use and Marine Protected Areas
- Water Management
- Green Buildings

However, the Issuer has stated that 100% of the net proceeds from its first Bond will be used to finance and refinance, in part or in whole, a Green Portfolio comprised of 14 recent, current and future Eligible Green Expenditures corresponding to four of the six categories of eligible Green Sectors. Therefore, the scope of this Opinion is limited to these categories:

- Clean Transport
- Renewable Energies
- Water Management
- Green Buildings

"Recent" Eligible Green Expenditures refers to expenditures made within the year prior to issuance, which therefore shall not exceed 24 months prior to issuance of the Bond, in line with best market practices.

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The Issuer has formalized the main characteristics of the categories of eligible Green Sectors in the Framework, which have been analysed by Vigeo Eiris in the following table:

| Green Bond Framework of the Republic of Chile | | | Analysis of Vigeo Eiris |
|---|--|--|---|
| Green Sectors | Definition of Eligible Green Expenditures | Environmental objectives and benefits | |
| Clean Transportation | <p>Green Eligible Expenditures include:</p> <ul style="list-style-type: none"> - Investment in public infrastructure and assets enhancing modal shift, electric public passenger transport: <ul style="list-style-type: none"> - Electrified metro lines: new lines, extension and renovation - Electric buses, charging stations for electric vehicles - Other public transportation like tramways and trains - Intermodal infrastructure to connect different clean public transportation, system monitoring and control, passenger safety and security infrastructure and bicycle paths and parking - Subsidies or incentives to promote public transportation | <p>Climate change mitigation</p> <p>Air quality improvement</p> <p>---</p> <p><i>Reducing GHG emissions through the promotion of low-carbon public transport and support for multimodal public transport solutions</i></p> | <p>The definition of the Clean Transport Sector is considered clear.</p> <ul style="list-style-type: none"> - The Eligible Green Expenditures selected by the Green Bond Committee to integrate the Green Portfolio have been clearly defined and are in line with best international standards (Climate Bonds Initiative): <ul style="list-style-type: none"> - 4 Eligible Green Expenditures related to the construction/extension of metro lines. - 4 Eligible Green Expenditures related to the incorporation of electric buses in the Santiago Public Transport System. - 1 Eligible Green Expenditures related to the renovation/construction of electric public transportation. <p>Eligible Green Expenditures intend to contribute to environmental objectives, which have been formalized in the Framework. These objectives are considered clearly defined and relevant.</p> <p>Eligible Green Expenditures have the potential to provide clear environmental benefits. The Issuer has assessed and quantified the expected environmental benefits of the Eligible Green Expenditures. This information is formalized in internal documentation. In addition, the Issuer has committed to assess and, where feasible, quantify the real environmental benefits of Eligible Green Expenditures one year after issuance.</p> |

| Green Bond Framework of the Republic of Chile | | | Analysis of Vigeo Eiris |
|---|--|---|---|
| Green Sectors | Definition of Eligible Green Expenditures | Environmental objectives and benefits | |
| Renewable Energy | <p>Green Eligible Expenditures include:</p> <ul style="list-style-type: none"> • Investments in projects from renewable non-fossil sources such as: <ul style="list-style-type: none"> - Wind energy (onshore) - Solar energy (onshore) - Small run-of-river hydro plants (under 25MW) <p>Wind and solar energy installations shall not have more than 15% of the electricity generated from non-renewable sources.</p> <ul style="list-style-type: none"> - Investments in solar energy (onshore) projects that integrate energy generation and storage (batteries) - Training programs to increase technical knowledge in vocational education centres in renewable energies installation | <p>Climate change mitigation</p> <p>---</p> <p><i>Reduction of GHG emissions by promoting the development of renewable energy technologies</i></p> | <p>The definition of the Renewable Energy Sector is considered clear.</p> <ul style="list-style-type: none"> - The Eligible Green Expenditures selected by the Green Bond Committee to integrate the Green Portfolio have been clearly defined and are in line with best international standards (Climate Bonds Initiative): <ul style="list-style-type: none"> - Subsidies to 2,578 social housing for the installation of Solar Thermal Systems (SST). - Construction of 151 auto generation PV systems (home). - Technical assistance program for technical high schools for the development and implementation of photovoltaic projects in public institutions. <p>Eligible Green Expenditures intend to contribute to environmental objectives, which have been formalized in the Framework and internal documentation. These objectives are considered clearly defined and relevant.</p> <p>Eligible Green Expenditures have the potential to provide clear environmental benefits. The Issuer has assessed and quantified the expected environmental benefits of the Eligible Green Expenditures. This information is formalized in internal documentation. In addition, the Issuer has committed to assess and, where feasible, quantify the real environmental benefits of Eligible Green Expenditures one year after issuance.</p> |

| Green Bond Framework of the Republic of Chile | | | Analysis of Vigeo Eiris |
|---|---|--|--|
| Green Sectors | Definition of Eligible Green Expenditures | Environmental objectives and benefits | |
| Water Management | <p>Green Eligible Expenditures include:</p> <ul style="list-style-type: none"> - Water distribution: Installation or upgrade of water efficient irrigation systems, construction or upgrade of sustainable infrastructure for drinking water (including research or studies) - Waste water management: Installation or upgrade of waste water infrastructure including transport, treatment and disposal systems - Water resources conservation: including protection of water catchment areas and prevention of pollution affecting water supplies - Flood defence systems against river floods: including construction of reservoirs for the control of water flows | <p>Conservation and sustainable use of water resources</p> <p>---</p> <p><i>Promote sustainable water management to ensure water supply</i></p> <p><i>Reduction of water consumption</i></p> <p>Climate change adaptation</p> <p>---</p> <p><i>Strengthen the resilience of the infrastructure in the event of severe weather conditions</i></p> | <p>The definition of the Water Management Sector is considered clear.</p> <ul style="list-style-type: none"> - The Eligible Green Expenditures selected by the Green Bond Committee to be part of the Green Portfolio have been clearly defined and are in line with best international standards (Climate Bonds Initiative): <ul style="list-style-type: none"> - 21 small projects related to monitoring, analysis, diagnostics and studies for the conservation and sustainable use of water resources. <p>Eligible Green Expenditures are intended to contribute to environmental objectives, which have been formalized in the Framework. These objectives are considered defined and relevant.</p> <p>Eligible Green Expenditures have the potential to provide clear environmental benefits. The Issuer has committed to assess and, where feasible, to quantify the environmental benefits of the Eligible Green Expenditures one year after the issuance. Beyond the voluntary guidelines of the Green Bond Principles, an area for improvement is defining ex ante environmental targets or estimate the environmental benefits of the Eligible Green Expenditures.</p> |

| Green Bond Framework of the Republic of Chile | | | Analysis of Vigeo Eiris |
|---|---|--|---|
| Green Sectors | Definition of Eligible Green Expenditures | Environmental objectives and benefits | |
| Green Buildings | <p>Green Eligible Expenditures include:</p> <p>Green Building construction and retrofits, that are on track or already certified in accordance with “Certificación Edificio Sostenible” and with a minimum of 30% carbon reduction in line with CBI standard</p> <ul style="list-style-type: none"> - Design and construction of public buildings certified under “Sistema Nacional de Certificación de Calidad Ambiental y Eficiencia Energética para Edificios de Uso Público” - Costs associated with retrofits to existing public buildings to meet “Certificación Edificio Sustentable” or improve the current certification level | <p>Climate change mitigation</p> <p>---</p> <p><i>Energy savings</i></p> <p><i>Reduction of GHG emissions</i></p> | <p>The definition of the Green Building Sector is considered clear</p> <ul style="list-style-type: none"> - The Green Bond Committee has identified and prioritized 41 public buildings to obtain the Sustainable Building Certification (CES⁶), which have already obtained or seek to obtain at least a 30% carbon reduction, in line with best international standards (Climate Bonds Initiative). <p>Eligible Green Expenditures are intended to contribute to environmental objectives, which have been formalized in the Framework. These objectives are considered clearly defined and relevant.</p> <p>Eligible Green Expenditures have the potential to provide clear environmental benefits. The Issuer has assessed and quantified the expected environmental benefits of the Eligible Green Expenditures. This information is formalized in internal documentation. In addition, the Issuer has committed to assess and, where feasible, quantify the real environmental benefits of Eligible Green Expenditures one year after issuance.</p> |

⁶ CES assess the environmental performance of a building based on five thematic aspects: indoor environment quality, energy, water, waste and management. In order to obtain the certification, mandatory requirements must be met in each of these thematic aspects and, in addition, a minimum score of 30 points on a scale of 100 points must be obtained regarding the voluntary requirements. There are three level of certification: Certified Building (30 a 54,5 points), *Destacada* certification (55 a 69,5 points) and *Sobresaliente* certification (70 a 100 points).

In addition, Vigeo Eiris considers that the first Green Bond of Chile is likely to contribute to six United Nations Development Goals (“UN SDGs”), namely: Goal 3. Good Health and Well-being, Goal 6. Clean Water and sanitation, Goal 7. Affordable and Clean energy, Goal 9. Industry, Innovation and Infrastructure, Goal 11. Sustainable Cities and Communities and Goal 13. Climate Action

| Green Sectors | SDG Identified | Goal |
|----------------------|--|------------|
| Clean Transportation | SDG 3. Good Health and Well-being | 3.9 |
| | SDG 9. Industry, Innovation and Infrastructure | 9.4 |
| | SDG 11. Sustainable Cities and Communities | 11.2, 11.6 |
| | SDG 13. Climate Action | |
| Renewable Energy | SDG 7. Affordable and Clean Energy | 7.2 |
| | SDG 13. Climate Action | |
| Water Management | SDG 6. Clean Water and Sanitation | 6.6 |
| Green Buildings | SDG 7. Affordable and Clean Energy | 7.3 |
| | SDG 13. Climate Action | |



UN SDG 3 consists ensuring healthy lives and promote well-being for all at all ages. More precisely, SDG 3 targets by 2030 include:

- 3.9 Substantially reduce the number of deaths and illnesses from hazardous chemicals and air, water and soil pollution and contamination



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

- 6.6 protect and restore water-related ecosystems, including mountains, forests, wetlands, rivers, aquifers and lakes



UN SDG 7 consists in ensuring access to affordable, reliable, sustainable and modern energy for all, SDG 7 targets by 2030 include:

- 7.2 Increase substantially the share of renewable energy in the global energy mix
- 7.3 Double the global rate of improvement in energy efficiency



UN SDG 9 consists in building resilient infrastructure, promoting sustainable industrialization and fostering innovation. More precisely, SDG 9 targets by 2030 include:

- 9.4 Upgrade infrastructure and retrofit industries to make them sustainable, with increased resource-use efficiency and greater adoption of clean and environmentally sound technologies and industrial processes, with all countries taking action in accordance with their respective capabilities



UN SDG 11 consists in making cities inclusive, safe, resilient and sustainable. More precisely, SDG 11 targets by 2030 include:

- 11.2 Provide access to safe, affordable, accessible and sustainable transport systems for all, improving road safety, notably by expanding public transport, with special attention to the needs of those in vulnerable situations, women, children, persons with disabilities and older persons
- 11.6 Reduce the adverse per capita environmental impact of cities, including by paying special attention to air quality and municipal and other waste management



UN SDG 13 consists in taking urgent action to combat climate change and its impacts. States can contribute to this goal by investing in renewable energy, green buildings and reducing greenhouse gas emissions from transport operations through the transition to electric and public transport.

Process for Project Evaluation and Selection

The governance and the process for the evaluation and selection of the Eligible Green Expenditures are considered transparent and relevant. They have been clearly defined and formalized in the Framework.

- The process for the evaluation and selection of Eligible Green Expenditures is reasonably structured.
 - The evaluation and selection of Eligible Green Expenditures is based on relevant internal expertise, with well-defined roles and responsibilities:
 - The Issuer has created an inter-ministerial committee, the Green Bond Committee, led by the Ministry of Finance with the support of the Ministry of Environment. The Green Bond Committee is composed of representatives responsible for the execution of the public budget of the Ministry of Environment, the Ministry of Public Works, the Ministry of Energy, the Ministry of Transport, the Ministry of Agriculture, and any other relevant ministry in charge of an Eligible Green Expenditure.
 - The Green Bond Committee is responsible for overseeing the implementation of the Framework, evaluating and approving the selection of Eligible Green Expenditures, monitoring the allocation of funds, managing potential changes to the Framework and preparing the Bond's post-issuance reports.
 - The verification and traceability are ensured throughout the process:
 - The Ministry of Finance will verify annually that all Eligible Green Expenditures in the Green Portfolio continue to meet the eligibility criteria.
 - The traceability of decisions will be ensured by the creation of minutes of each of the meetings of the Ministry of Finance and the Green Bond Committee.
 - An area for improvement is that an independent external auditor verifies the compliance of Eligible Green Expenditures with the evaluation and selection process, including the eligibility criteria.

The process is based on explicit eligibility criteria (selection and exclusion), relevant to the environmental objectives of the Bond.

- The eligibility requirements are based on definitions of the Eligible Green Expense categories.
- All Eligible Green Expenditures are located in Chile.
- Eligible Green Expenditures may include:
 - Tax expenses (subsidies and tax exemptions).
 - Operational expenses (funding from state agencies, local authorities and companies' instrumental to deploying the country's climate and environmental strategy).
 - Investments in real assets (land, energy efficiency, infrastructure, etc.) and maintenance costs of public infrastructure.
 - Intangible assets (research and innovation, human capital and organisation).

- We consider that the exclusion criteria are relevant to the environmental benefits expected by the Bond and in terms of social and environmental responsibility, and that these are in line with best market practices. The Issuer has undertaken to exclude all types of activities related to:
 - Exploration and production of fossil fuels
 - Burning of fossil fuels as unique source of power generation or hybrid plants with a fossil related back up higher than 15%
 - Construction of rail infrastructure dedicated for transportation of fossil fuels
 - Generation of Nuclear power
 - Electricity transmission infrastructure and electricity systems where an average of 25% or more is fossil-fuel-generated;
 - Alcohol, weapons, tobacco, gaming, or palm oil industries
 - Production or trade in any product or activity deemed illegal under national laws or regulations or international conventions and agreements
 - Deforestation, degradation of forest.

Areas for improvement are to exclude all types of activities in protected natural areas or areas of importance for the protection of biodiversity and in indigenous peoples' territories; as well as to establish a process of identification of possible controversies or events that may call into question the environmental and/or social responsibility of Eligible Green Expenses, thus allowing the Issuer to take appropriate corrective measures.

The identification of the environmental risks associated with Eligible Green Expenditures is considered good, while its monitoring and control is considered limited. The identification, monitoring and control of social is considered limited. The areas for improvement include the integration of environmental and social responsibility contractual clauses into contracts with contractors/suppliers, and the monitoring and control of at least all Eligible Green Expenditures financed and refinanced by the Bond.

Environmental Risks:

Chile has created the Environmental Evaluation Service ("Servicio de Evaluación Ambiental", SEA), a decentralized public body with legal personality and its own patrimony. The central function of the SEA is to administer the environmental management instrument known as the "Environmental Impact Assessment System" (SEIA). The SEIA has established common criteria for evaluating all projects and activities carried out in the country, for both public and private sectors, in which the State has an influence, with the objective of ensuring the protection of the environment.

The SEIA is considered transparent and relevant; all processes and documents related to the SEIA are digitalized and publicly available on SEA's website, including sector guides for environmental assessment, criteria, requirements, conditions, certificates, procedures, technical requirements and environmental procedures established by ministries and other state agencies. In addition, all Environmental Qualification Resolutions (RCA) issued by the SEIA from 2013 can be consulted by the general public through the SEA website.

- The Issuer has confirmed that all Eligible Green Expenses included in the Bond Green Portfolio, for which it is relevant in accordance with the provisions of the Law, have been or will be subject to the environmental assessment process conducted by the SEIA. This process is considered reasonably structured and is carried out by representatives of the different ministries and State agencies with relevant experience in environmental matters:
 - Chile's Law No. 19.300 on General Environmental Basics and the SEIA Regulation have formalized the list of projects/activities that must be submitted to the SEIA, either through the presentation of an Environmental Impact Declaration (DIA) or an Environmental Impact Assessment (EIA), in accordance with additional criteria established by the regulations.
 - The SEIA can conduct field visits to verify the information provided by project holders in the DIA/EIA, however, there is no evidence that these visits are carried out on all projects.
 - Representatives of ministries or state bodies involved in environmental assessment are required to make a Law declaration upon entering government positions in order to report on potential conflicts of interest.

- The SEA collects the information and prepares an evaluation report or, if necessary, a report requesting clarifications, corrections or additional information from the project/activity holder. In the event that adequate information is not obtained, the SEA issues an Early Termination Resolution, which explains why the information submitted is not sufficient to perform the environmental assessment and the project is not approved.
- The SEA proposes the environmental qualification of the project/activity to the Evaluation Commission or to the Executive Directorate of the SEA, which approves or rejects the project/activity and issues a RCA.
- In terms control, the SEIA has an internal audit process that reviews that the environmental evaluation processes comply with what is established in the regulations. In addition, the Comptroller's Office and the Environmental Courts may intervene in the process if necessary.
- The Superintendence of Environment is responsible for monitoring and controlling projects/activities. If it detects the non-compliance of a project/activity with national regulation, the Superintendence is responsible for establishing compliance plans, warnings or even cancelling projects/activities. It is worth mentioning that the Superintendence does not monitor and control all projects/activities; this decision is made according to the characteristics of the project/activity, capacity and available budget.

The areas for improvement are the integration of contractual clauses of environmental responsibility in contracts with contractors/suppliers, that at least all Eligible Green Expenditures financed and refinanced by the Bond be monitored and controlled, and that the Public Registry of Consultants be mandatory for all consultants who submit a DIA/EIA to the SEIA in order to guarantee their technical expertise in the corresponding sector (as of today this registry is optional and not all consultants go through a process of evaluation of their experience in the sector and professional ethics).

Social Risks

- The SEIA considers some aspects related to the social responsibility of projects/activities, namely the potential health risk of local populations, resettlement of communities and impact on local and indigenous communities. The SEIA has a public consultation mechanism that must be activated if the project/activity represents an "environmental burden" as established in the SEIA Law and Regulation. In addition, any natural or legal person may present a grievance or complaint about any project/activity to the SEA. The SEA has a digital grievance platform and is responsible for following up and responding to the grievances presented, which can be included in the RCA if considered relevant.

The areas for improvement are i) the integration of social responsibility factors in the evaluation and selection of contractors/suppliers in charge of construction and/or operation of projects through minimum selection criteria in terms of respect for human and labour rights, working conditions and health and safety measures; ii) monitoring and controlling the performance of contractors/suppliers on these criteria throughout the life of the projects, and iii) carrying out analysis on the possible impact of Eligible Green Expenditures on local socioeconomic development (job creation, education, improvement in quality of life, etc.).

Business ethics:

- In terms of business ethics, all Eligible Green Expenditures in the Green Portfolio have been subject to public contracting procedures, which include mandatory evaluation criteria, i.e., economic, technical and administrative criteria. The administrative criteria include the presentation of administrative and legal documents, which are considered minimum requirements and the non-compliance disqualifies the offer.
- In addition, in order to be a supplier/contractor of the State, it is necessary to be registered in the Suppliers Registry of the Purchasing and Public Contracting Directorate, and, if required, in the relevant registry of the ministry in charge of the project. The Suppliers Registry evaluation process verifies the veracity of the documents submitted and seeks to determine if there is any cause for inability of the supplier/contractor to contract with the State. The causes of inability include: conviction for crimes of bribery or for anti-union practices, tax debts or pension/health debts for more than 12 months of their dependent workers, presentation of false documents, having been declared bankrupt or eliminated from the Register, for violation of fundamental labour rights, and for crimes of money laundering, financing of terrorism and bribery.

An area for improvement is the monitoring and control of suppliers/contractors throughout the life of Eligible Green Expenditures to prevent conflicts of interest, corruption, fraud, etc.

Management of Proceeds

The rules established for the management of proceeds are clearly defined. We consider that they would enable a transparent and documented allocation process. The allocation of funds to Eligible Green Expenditures will be verified by an independent external auditor.

The allocation and tracking processes are clearly defined:

- An amount equal to the net proceeds of the Bond will be credited to the General Account of Chile ("Recursos Generales de la Nación"). The proceeds of the Bond will be managed in a nominal way. The Issuer has established a Green Portfolio whose total amount is almost two times greater than the net proceeds of the Bond. The Issuer declares that it is unable to determine an allocation period for future expenses due to the nature of the Eligible Green Expenditures in the Portfolio, which may require long-term investments (e.g., the construction and expansion of subway lines). An area for improvement is committing to allocate the entire net proceeds of the Bond within 24 months of the issuance date, in line with best market practices.
- The tracking and periodic balance of the allocated proceeds will be properly managed by the Ministry of Finance, which will verify that the allocation of the net proceeds of the Bond nominally matches with the disbursements made to the Eligible Green Expenditures, without earmarking the operations, until full allocation of proceeds.
- The unallocated proceeds will be held in the General Account of Chile⁷ in instruments issued by the Central Bank of Chile, repurchase agreements, bank term deposits, mutual funds investing in short-term debt instruments, sovereign titles, among others. An area of improvement is maintaining a nominal amount equivalent to the unallocated proceeds in the General Account of Chile to prevent the Bond from financing GHG-intensive activities or controversial activities, in line with best market practices.
- If an expenditure fails to comply with the eligibility criteria, the Issuer has committed to remove this expenditure from the Green Portfolio and not consider it as an Eligible Green Expenditure to be financed or refinanced by the Bond. Similarly, any changes in the Green Portfolio will be publicly disclosed in the annual reports of the Bond.

Traceability and verification are guaranteed throughout the process

- The Green Bond Committee will annually verify that the Eligible Green Expenditures in the Green Portfolio continue to comply with the eligibility criteria, until the Bond's maturity date.
- An external auditor will verify, annually and until the Bond's maturity date, the allocation of the Bond's proceeds to Eligible Green Expenditures.

Reporting

The reporting processes and commitments are considered good. The selected indicators cover in a complete and relevant manner the allocation of funds and the environmental benefits (outputs and/or impacts) of the Bond.

The process for monitoring, data collection, consolidation, and reporting are clearly defined and formalized in the Framework.

This process relies on relevant internal expertise:

- The Ministry of Finance will request the necessary information for the elaboration of the Bond reports from the Treasury, DIPRES and the Ministry of the Environment, who in turn will collect and consolidate the relevant information from the different Ministries in charge of the implementation of the Eligible Green Expenditures in order to provide the report on the allocation of funds and impact of the Bond to the Ministry of Finance.
- The Ministry of Finance will be responsible for creating the Bond reports.

The Bond reports will be published on the website of the Ministry of Finance.

⁷ The investment of the Chile's General Account (Recursos Generales de la Nación) is regulated by article 12 of the Law No. 20,128 on Fiscal Responsibility, which establishes that the investment of the resources shall be defined by the Minister of Finance, in accordance with the powers and rules regulating the investment of resources, contained in article 3 of Decree-Law No. 1,056 of 1975, and subsequent amendments.

The Issuer commits to annually report and in a transparent manner on the allocation of the Bond's proceeds until full allocation and on the environmental benefits of the Bond until its maturity date:

- Use of Proceeds: The indicators selected to report on the allocation of the proceeds of the Bond are relevant.

| Use of Proceeds indicators |
|---|
| <ul style="list-style-type: none"> - A brief description of the Eligible Green Expenditures and the amounts disbursed; - Percentage of proceeds allocated per Eligible Green Expenditure or program; - Percentage of proceeds allocated for financing and refinancing; - The remaining balance of unallocated proceeds; - Percentage of co-financing per Green project or program. |

- Environmental benefits (outputs and impact) by Eligible Green Expenditure and by Green Sector in the case of programmes: The selected indicators are considered relevant.

| Green Sector | Environmental benefits indicators | |
|----------------------|---|--|
| Clean Transportation | <u>Outcome:</u> <ul style="list-style-type: none"> - Number of km of new electric train lines created / maintained - Number of km of new electric bus lines created / maintained - Number of people using the new public clean transportation means | <u>Impact:</u> <ul style="list-style-type: none"> - Annual GHG emissions reduced/avoided (tCO₂e) - Tons of particles avoided PM 2.5 |
| Renewable Energy | <u>Outcome:</u> <ul style="list-style-type: none"> - Installed Capacity (MW) - Annual renewable energy generation (MWh) - Number of people benefited from training programs | <u>Impact:</u> <ul style="list-style-type: none"> - Annual GHG emissions reduced/avoided (tCO₂e) |
| Water Management | <u>Outcome:</u> <ul style="list-style-type: none"> - Number of efficient pumps installed - Km of new sewage pipes installed - Number of new reservoirs/flood defences built - Number of studies (research) - Annual absolute (gross) amount of wastewater treated, reused or avoided before and after the project (m³/a) - Annual volume of clean drinking water in m³/a supplied for human consumption | <u>Impact:</u> <ul style="list-style-type: none"> - Reduction in water use in % |
| Green Buildings | <u>Outcome:</u> <ul style="list-style-type: none"> - Number of Buildings with Green Certification, indicating the specific level of certification obtained | <u>Impact:</u> <ul style="list-style-type: none"> - % of annual energy saving - Annual GHG emissions reduced/avoided (tCO₂e) |

The calculation methodologies will be included in the Bond's Reports.

The areas for improvement are that the content of the reports (data on the environmental benefits obtained) be verified by an independent third party, reinforcing the Bond reports with the inclusion of quantitative or qualitative ESG performance indicators to report on the management of environmental and social risks in the Eligible Green Expenditures and inform, at least to investors, in case of a material event or controversy related to the Eligible Green Expenditures.

METHODOLOGY

In Vigeo Eiris' view, Environmental, Social and Governance/Institution (ESG/I) factors are intertwined and complementary. As such they cannot be separated in the assessment of ESG management in any organisation or activity, including the issuance of bonds. In this sense, Vigeo Eiris writes an opinion on the Issuer's sustainability performance, and on the Issuance's objectives, management and reporting of the expenditures (re)financed by this transaction.

Part I. ISSUER

Level of the Issuer's sustainability performance

Vigeo Eiris has revised its *Sustainability Sovereign Rating*®, resulting from a continuous improvement process and based on permanent monitoring of international normative developments as well as stakeholder expectations and debates. This enhanced version includes 69 new factors to meet market needs. The 172 indicators are put into perspective with the UN Sustainable Development Goals and are organized into 56 criteria, 17 sub-domains and 3 rating domains. Of note, the new methodology leads to a decrease in the absolute scores of the majority of countries.

Vigeo Eiris' methodology, the *Sustainability Sovereign Rating*®, measures and compares the levels of integration of international public law and soft law frameworks, including for the recent period the Sustainable Development Goals (SDGs), and the action programmes of Agenda 21, adopted by 173 countries at the Rio Earth Summit in 1992. We pay particular attention to the commitments, policies and impacts of public policies in terms of respect of fundamental human rights, access to economic, social, cultural and environmental rights, quality of governance, as well as international solidarity and cooperation. Based on the analysis of a universe composed of 178 countries, the results provide a comparative view of risks and performances, with regard to universally acknowledged sustainability objectives.

The sustainability performance of the Republic of Chile was evaluated by Vigeo Eiris in November 2018 based on three rating domains, all equally weighted in the model: Environment (i.e. environmental protection), Social (i.e. social protection and solidarity) and Institutions (i.e. rule of law and governance):

- Commitment indicators: reflecting the state's level of commitment to the goals and principles set by major international agreements: Conventions, recommendations and statements of the ILO; UN Charters and treaties; guiding principles of the OECD; regional instruments (assuming their full compliance with the United Nations Charter); the Universal Declaration of Human Rights and its related protocols and treaties.
- Result indicators: measuring the efficiency of the country's sustainable development actions. Vigeo Eiris gathers information from diversified sources including international organisations such as intergovernmental organisations, international trade unions and NGOs.

Part II. ISSUANCE

Use of proceeds

The use of proceeds guidelines is defined to ensure that the funds raised are used to finance and/or refinance 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 contribution of Eligible Projects to sustainable development is evaluated based on the United Nations Sustainable Development Goals.

Process for evaluation and selection

The evaluation and selection process have 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 Bond's 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 and social benefits (outcomes and impact indicators) and on the responsible management of Eligible Projects financed by the Bond proceeds, collected at project level and potentially aggregated at Bond level. Vigeo Eiris has evaluated the relevance of the reporting framework according to three principles: transparency, exhaustiveness and effectiveness.

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 is an independent international provider of environmental, social and governance (ESG) research and services for investors and public & private organizations. We undertake risk assessments and evaluate the level of integration of sustainability factors within the strategy and operations of organizations.

Vigeo Eiris offers a wide range of services:

- ▶ **For investors:** decision making support covering all sustainable and ethical investment approaches (including ratings, databases, sector analyses, portfolio analyses, structured products, indices and more).
- ▶ **For companies & organizations:** supporting the integration of ESG criteria into business functions and strategic operations (including sustainable bonds, corporate ratings, CSR evaluations and more).

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 9 001 standard. Vigeo Eiris is an approved Verifier for CBI (Climate Bond Initiative). Vigeo Eiris' research is referenced in several international scientific publications.

With a team of more than 240 experts of 28 different nationalities, Vigeo Eiris is present in Paris, London, Boston, Brussels, Casablanca, Hong Kong, Milan, Montreal, Rabat, Santiago and Stockholm.

The Vigeo Eiris Global Network, comprising 6 exclusive research partners, is present in Australia, Brazil, Germany, Israel, Japan and Mexico.

For more information: www.vigeo-eiris.com

Disclaimer

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This opinion aims at providing an independent opinion on the sustainability credentials and management of the Bond, 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 accuracy, comprehensiveness and trustworthiness of the information collected are a responsibility of the Issuer. Providing this opinion does not mean that Vigeo Eiris certifies the effectiveness, the excellence or the irreversibility of the assets to be financed by the Bond. The Issuer 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 the financial performance of the 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.

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