

SECOND PARTY OPINION¹

ON THE SUSTAINABILITY OF LA SOCIÉTÉ WALLONNE DES EAUX'S GREEN FINANCE FRAMEWORK

June 2019

SCOPE

Vigeo Eiris was commissioned to provide an independent opinion (hereafter “Second Party Opinion” or “SPO”) on the sustainability credentials and management of the Green Finance Framework (the “Framework”) created by La Société wallonne des eaux (“SWDE” or the “Issuer/Borrower”) to govern all potential Green Bonds and Green Loans to be issued under the Framework (together “Green Finance Instruments”).

Our opinion is established according to our Environmental, Social and Governance (“ESG”) exclusive assessment methodology, to the International Capital Market Association’s Green Bond Principles (“GBP”) edited in June 2018, and to the Loan Market Association’s Green Loan Principles (the “GLP”) edited in December 2018.

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

- 1) **Issuer/Borrower:** we assessed the Issuer/Borrower’s ESG performance, its management of potential stakeholders-related ESG controversies and its involvement in controversial activities².
- 2) **Framework:** we assessed the Framework, including the coherence between the Framework and the Issuer/Borrower’s environmental commitments, its potential contribution to sustainable development and its alignment with the four core components of the GBP and GLP.

Our sources of information are multichannel, combining (i) information gathered from public sources, press content providers and stakeholders, (ii) information from Vigeo Eiris exclusive ESG rating database, and (iii) information provided by the Issuer/Borrower through documents and interviews conducted with the Issuer/Borrower’s managers and stakeholders, held *via* a telecommunications system.

We carried out our due diligence assessment from May 20th to June 25th, 2019. We consider that we were provided with access to all the appropriate documents and people we solicited. We consider this information enables us to establish our opinion with a reasonable level of assurance on its completeness, precision and reliability.

VIGEO EIRIS’ OPINION

Vigeo Eiris is of the opinion that the Green Finance Framework developed by the SWDE is overall aligned with the four core components of the Green Bond Principles 2018 and Green Loan Principles 2018.

We express a reasonable assurance³ (our higher level of assurance) on the Issuer/Borrower’s commitments and on the contribution of the Green Finance Instruments to sustainable development.

1) Issuer/Borrower (see Part I):

- ▶ We reach an overall moderate assurance on the existing capacity of the Issuer/Borrower to integrate relevant ESG factors in its strategy, and to account on them. Our assurance is reasonable on the Environmental and Social pillars, and moderate on the Governance pillar.
- ▶ As of today, SWDE is involved in 1 controversy. The frequency of the controversy is considered isolated. The severity of its impact on both the company and its stakeholders is considered significant and SWDE is considered overall remediative.
- ▶ The Issuer/Borrower is not involved in any of the 15 controversial activities assessed by Vigeo Eiris.

2) Framework (see Part II):

The Issuer/Borrower has described the main characteristics of the Green Finance Instruments within a formalised Framework (which last updated version was forwarded to Vigeo Eiris on June 25th, 2019), which covers the four core components of the GBP 2018 and SBP 2018. In addition, SWDE has committed to make the Framework publicly accessible on its website⁴ under an investor tab.

¹ This opinion is to be considered as the “Second Party Opinion” described in the GBP voluntary guidelines (June 2018) edited by the International Capital Market Association (www.icmagroup.org).

² The 15 controversial activities screened under Vigeo Eiris’ methodology are: Alcohol, Animal welfare, Chemicals of concern, Civilian firearms, Fossil Fuels industry, Coal, Tar sands and oil shale, Gambling, Genetic engineering, High interest rate lending, Military, Nuclear power, Pornography, Reproductive medicine, and Tobacco.

³ Definition of Vigeo Eiris’ scales of assessment (see details in the Methodology section).

⁴ www.swde.be

We are of the opinion that the contemplated Green Finance Instruments are coherent with SWDE's publicly disclosed strategic sustainability priorities and with the main sector's sustainability issues, and they contribute to achieving the Issuer/Borrower's environmental commitments.

Use of Proceeds

- ▶ The net proceeds of the Green Finance Instruments will exclusively finance or refinance, in part or in full, projects falling under 5 Eligible Green Project Categories ("Eligible Categories"), namely: Water management, Renewable energy, Energy efficiency & energy efficient buildings, Sustainable mobility, and Protection of water resources. The Eligible Categories are considered overall partially defined, except for two (Sustainable Mobility and Protection of water resources, considered clearly defined).
- ▶ The Eligible Categories of Projects are intended to contribute to 3 main environmental objectives: preservation of water resources, climate change mitigation, and pollution prevention. These objectives are considered clearly defined, and are considered relevant (except for one category, water management, for which the objective is partially relevant).
- ▶ The expected environmental benefits are overall clearly defined, but not quantified. Area of improvement consists in estimating the expected environmental benefits from each Eligible Category through ex ante quantified targets.
- ▶ The Eligible Categories of Projects are likely to contribute to eight United Nations' Sustainable Development Goals ("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, Goal 12. Responsible Consumption and Production, Goal 13. Climate Action, Goal 15. Life on Land.
- ▶ The Issuer/Borrower has not communicated transparently on the refinancing share. However, he has clearly defined that the accepted lookback period will be limited to the year preceding the issuance. Area of improvement is to communicate on the refinancing share, at least to the investors/lenders.

Process for Projects Evaluation and Selection

- ▶ The governance and process for the evaluation and selection of the Eligible Projects are formalised in the Framework. We consider that the process is reasonably structured and relevant, but partially transparent.

The process relies on partially explicit and relevant eligibility criteria (selection).

The identification and management of the environmental and social risks associated with the Eligible Projects are considered overall good, but appear limited for several environmental and social risks.

Management of Proceeds

- ▶ The rules for the management of proceeds are overall clear but partially verified. We consider that they would enable a documented and transparent allocation process.

Reporting

- ▶ The reporting process and commitments appear to be good, covering both the funds allocation and most of the environmental benefits of the Eligible Projects.

In addition, SWDE has committed that its Green Finance Instruments will be supported by external reviews:

- A pre-issuance consultant review: the hereby Second Party Opinion ("SPO") delivered by Vigeo Eiris, covering all the features of the Green Finance Instruments, based on pre-issuance assessment and commitments, to be made available on the Issuer's website.

Area of improvement includes to have an external reviewer verifying periodically the tracking method and allocation of the proceeds, and verifying the annually reported environmental metrics (outcomes and impacts).

This SPO is based on the review of SWDE's Framework, according to GBP & GLP voluntary guidelines (2018)

Paris, June 25th, 2019

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DETAILED RESULTS

Part I. ISSUER/BORROWER

SWDE is the main supplier of drinking water in Wallonia, supplying ± 65 % of its population. It's an association in the public interest, associated with the Walloon Region by a management contract. The registered capital of SWDE gathers 207 municipalities, 12 intercommunal associations, the 5 Walloon provinces, the Walloon Region, the Société Publique de Gestion de l'Eau as well as 2 public finance organisations.

SWDE's ESG commitments and policies

Vigeo Eiris has assessed the Issuer/Borrower's ESG commitments and policies.

We've reached an overall moderate assurance on the existing capacity of SWDE to integrate relevant Environmental, Social and Governance factors in its strategy.

Domain	Comments	Vigeo Eiris' Opinion
Environment	We reach a reasonable assurance on the Issuer/Borrower's capacity to integrate relevant Environmental factors in its strategy.	Reasonable
	SWDE has a formalised Environmental policy in which it notably commits to reduce water leaks and develop renewable energy.	
	Moreover, it has set a quantified CO2 reduction target translated into an action plan comprising further targets of decreasing electricity, gas and fuel consumption, among other.	Moderate
	In terms of ownership of these commitments, the department of Environment and Worker Protection reports directly to the Management Board and external stakeholders are involved as well. Indeed, the Management Contract with the Walloon government contains a significant number of environmental commitments, notably those related to biodiversity protection. In addition, SWDE has set up an Environmental Charter for its contractors that covers a large number of impacts and local pollution issues, including noise.	Weak
	The only issue on which the Issuer/Borrower does not seem to have any formalised commitment or target is water demand-side management.	
Social	We reach a reasonable assurance on the Issuer/Borrower's capacity to integrate relevant Social factors in its strategy.	Reasonable
	SWDE's vision includes an objective to ensure access to water throughout the Walloon territory at an affordable price. Moreover, in the Management Contract, SWDE commits to promote social fund and technical improvements among the most socially deprived clients. However, there does not seem to be any formalised policy on providing aid to access-to-water projects in developing countries.	
	In terms of workforce health & safety, although no quantified targets have been set, the global prevention plan 2018-2022 addresses the majority of relevant issues. In addition, trade union representatives are involved. The Management Contract includes a commitment to employees' skills development and line managers are reported to be evaluated in terms of HR management performance. Trade union status is reported to be rigorously applied and SWDE commits to avoid redundancies during workforce restructuring. However, there does not seem to be any formalised policy concerning promotion of labour relations, respect of freedom of association and discrimination.	Moderate
	SWDE has set quantified targets in terms of responsible customer relations and water safety.	Weak

Governance	<p>We reach a moderate assurance on the Issuer/Borrower's capacity to integrate relevant Corporate Governance factors in its strategy.</p> <p>The roles of CEO and Chairman are separated and all Board members are non-executive. Moreover, most directors appear to be independent. Directors are nominated by the Wallon government every 5 years, but there is no Nomination Committee. Board members meet 8 times a year and sustainability topics appear to be deliberated as a part of Management Contract discussions.</p>	Reasonable
	<p>There is an Audit Committee which is composed by non-executive members with sufficient financial, audit, sector and CSR experience. SWDE's internal control system covers strategic operational, financial and CSR risks. The Audit Committee is in charge of following up the financial reporting process, monitoring the effectiveness of internal controls and risks management systems and overseeing the activities of the external auditor. However, there is no confidential reporting system in place for employees to report financial malpractice or fraud. The Issuer/Borrower publishes some key CSR KPIs in its annual report, but no independent party assurance of those indicators is advertised.</p>	Moderate
	<p>A Remuneration Committee with no executive members is in place. 50% of executives' variable compensation is reported to be linked to strategic targets and Management Contract commitments, however the weight of sustainability metrics and targets is unclear. In addition, the ratio of CEO compensation vs. average employee salary has increased slightly.</p> <p>The company has not issued any formalised commitments to prevent corruption, anti-competitive practices or regarding transparent influence practices.</p>	Weak

Management of stakeholders-related ESG controversies

As of today, SWDE is involved in 1 stakeholders-related ESG controversy, linked to the Business Behaviour domain:

- "Water safety" criteria: increased bacterial levels of water supplied to a particular community.

Frequency: The controversy is considered isolated.

Severity: The severity of its impact on both the company and its stakeholders is considered significant.

Responsiveness: SWDE is overall remediative, by voluntarily taking specific corrective actions in relation to this case.

Involvement in controversial activities

The Issuer/Borrower is not involved in any of the other 15 controversial activities screened under our methodology, namely: Alcohol, Animal welfare, Chemicals of concern, Civilian firearms, Fossil Fuels industry, Coal, Tar sands and oil shale, Gambling, Genetic engineering, High interest rate lending, Military, Nuclear Power, Pornography, Reproductive Medicine and Tobacco.

The controversial activities research provides screening on companies to identify involvement in business activities that are subject to philosophical or moral beliefs. The information does not suggest any approval or disapproval on their content from Vigeo Eiris.

Part II. ISSUANCE/LOAN

Coherence of the Issuance/Loan

Context note: Being inherently serving the society's basic needs and linked to the environment, water utilities have the potential to drive significant positive changes towards sustainable development and environmental protection.

The water utilities companies' main challenges lie in reducing water losses caused by infrastructure failures and inefficiencies (such as leaking pipes), and in promoting responsible water consumption. Water supply systems obtain water from groundwater and surface water sources; thus, water scarcity and water source contamination can jeopardise access to sufficient water supplies. Companies in the industry must also ensure that water conforms to regulations, is in line with customer expectations, and is reliably delivered. Moreover, companies in the water utilities industry require significant energy inputs for the withdrawal, conveyance, treatment, and distribution of potable water. The use of renewable energy and on-site electricity generation can play an important role in reducing GHG emissions.

We are of the opinion that the contemplated Green Finance Instruments are coherent with SWDE's publicly disclosed strategic sustainability priorities and with its main sector's sustainability issues, and they contribute to achieving the Issuer/Borrower's environmental commitments.

SWDE appears to acknowledge its responsibility in contributing to the above-mentioned sustainability challenges:

- SWDE's Environmental Policy include objectives for the control of its environmental impacts and reduction of GHG emissions inherent to its activities. The Issuer/Borrower notably commits to prevent and manage environmental risks, accelerate the transition to renewable energy sources, modernise and rationalise its buildings, installations and equipment, optimise travel and reduce water leaks on the grid.
- In the Management contract signed with the Walloon Government for 2018-2022, quantified targets are set for energy consumption, GHG emissions, water quality, client satisfaction, and affordability.
 - o Reduction of energy consumption by 2 GWh/year (2%) representing an annual improvement of 0.012 kWh/m³ produced, achieved through:
 - An improvement in the energy performance of infrastructures: 1%/year
 - An increase of the installed renewable energy capacity: 1 MW/year.
 - o water quality analysis compliance rate: > 99%
 - o External client complaint rate: less than 0,7%
 - o Average ratio of water bill vs. average income rate: below 0,7%
- Finally, the 2017 Carbon Assessment report also set the following additional 2020 targets for the reduction of fuel consumption and of the number of vehicles:
 - o Reduction of fuel consumption: -17,500 litres / year
 - o Reduction of the number of vehicles by 5% compared to 2012, by optimising their use (geolocation project)

By issuing the Green Finance Instruments to finance or refinance projects related to water management, renewable energy, energy efficiency & low carbon buildings, sustainable mobility and protection of resources, land & biodiversity, SWDE appears to coherently follows its sustainability strategy and addresses the main issues of the sector in terms of environmental responsibility.

Use of proceeds

The net proceeds of the Green Finance Instruments will exclusively finance or refinance, in part or in full, projects falling under 5 Eligible Green Project Categories (“Eligible Categories”), namely: Water management, Renewable energy, Energy efficiency & energy efficient buildings, Sustainable mobility, and Protection of water resources. The Eligible Categories are considered overall partially defined, except for two (Sustainable Mobility and Protection of water resources, considered clearly defined).

The Eligible Categories of Projects are intended to contribute to 3 main environmental objectives: preservation of water resources, climate change mitigation, and pollution prevention. These objectives are considered clearly defined, and are considered relevant (except for one category, water management, for which the objective is partially relevant).

The expected environmental benefits are overall clearly defined, but not quantified. Area of improvement consists in estimating the expected environmental benefits from each Eligible Category of Projects through ex ante quantified targets.

The Issuer/Borrower has not communicated transparently on the refinancing share. However, the Issuer/Borrower has clearly defined that the accepted lookback period will be limited to the year preceding the issuance. Area of improvement includes to communicate transparently on the refinancing share, at least to the investors/lenders.

SWDE Framework			Vigeo Eiris Analysis
Eligible Category	Definition	Objectives and benefits	
Water management	<p>Investment expenditures, operating expenditures and R&D in Walloon region, in either in progress or to be started projects:</p> <ul style="list-style-type: none"> - Projects of infrastructure for the maintenance of SWDE's network - Investments contributing to the "Schéma regional des ressources en eau" (mains, treatment plant, water tower/reservoir) <p>Examples of projects:</p> <ul style="list-style-type: none"> • Investments contributing to the "Water highway" from Eupen to Wellin • Investments contributing to the water masterplan for East Brabant • Main renovations to achieve 1% of the network rehabilitated per year • Telemangement (SCADA, remote communication tool) installed in each of the production plants 	<p>Preservation of water resources</p> <ul style="list-style-type: none"> - Increase of the water yield, thus reducing: <ul style="list-style-type: none"> • Water losses • Electricity consumption • Chemical use - Better use of water reserve at the regional level: <ul style="list-style-type: none"> • Increase use of surface water versus underground water • Focus on most reliable and important resources to preserve smaller catchments 	<p>The definition of this category is partially clear. Areas of improvement include to specify eligibility thresholds (efficiency, financial, technical...) and/or the applying prioritisation rules.</p> <p>The environmental objective (protection of water resources) is clearly defined but partially relevant. Area of improvement includes to ensure the coherence between the objective aimed at and the examples of eligible projects (i.e "water highway").</p> <p>The environmental benefits are partially clear, and not quantified. Areas of improvement include:</p> <ul style="list-style-type: none"> - to specify how reducing the electricity consumption contributes to the protection of water resources - to specify the environmental benefit(s) expected from the reduction of "chemical use". <p>Another area of improvement consists in defining ex ante quantified targets for the expected benefits.</p>
Renewable energy	<p>Projects aiming at developing the production of renewable energy</p> <p>Examples:</p> <ul style="list-style-type: none"> • Installation and exploitation of photovoltaic panels, small hydro-electric turbine(s) (<1mW) • Or small on-shore wind turbine(s) (<50kW) 	<p>Climate change mitigation</p> <ul style="list-style-type: none"> - Increase renewable electricity production - GHG emissions avoided 	<p>The definition of this category is partially clear. Area of improvement includes to define what are the eligible "renewable energy" technologies (NB: a list of examples only provide illustration, it remain insufficient to define the eligible category).</p> <p>The environmental objective is clearly defined and relevant.</p> <p>The environmental benefits are clearly defined but not quantified. Area of improvement consists in defining ex ante quantified targets for the expected benefits.</p>

SWDE Framework			Vigeo Eiris Analysis
Eligible Category	Definition	Objectives and benefits	
Energy efficiency & energy efficient buildings	<p>Projects aiming at reducing the energy consumption of:</p> <ul style="list-style-type: none"> - Existing administrative facilities (R.O.I ≤5 years) - Existing water production facilities (R.O.I ≤5 years) - Construction of new energy efficient buildings (at least BREEAM: “Very good”) <p>Examples:</p> <ul style="list-style-type: none"> • Execution of Environment audit on water production facilities • Extension of Verviers HQ • Replacements of traditional lights by LED • Placement of energy efficient windows • Placements of more efficient pumping systems 	<p>Climate change mitigation</p> <ul style="list-style-type: none"> - GHG emissions reduced - Energy savings 	<p>The definition of this category is clear for the “energy efficient buildings”, but partially clear for energy efficiency projects for “existing administrative facilities” and “existing water production facilities”. Area for improvement includes to precise the definition of the corresponding eligible projects (such as: eligible works or technologies, eligible energy efficiency thresholds...)</p> <p>The environmental objective (climate change mitigation) is clearly defined and relevant</p> <p>The environmental benefits are clearly defined, but not quantified. Area of improvement consists in defining ex ante quantified targets for the expected benefits from the projects for the existing administrative and water production facilities.</p>
Sustainable mobility	<p>Acquisition of “green vehicles” (electric, hybrid or CNG) issuing less than 50gCO₂eq/km</p> <p>Examples:</p> <ul style="list-style-type: none"> • Purchase of hybrid, electric or CNG cars 	<p>Climate change mitigation</p> <ul style="list-style-type: none"> - Reduction of fossil fuel consumption - GHG emissions avoided 	<p>The definition of this category is overall clear. Area of improvement includes to define the eligible types of “green vehicles” (individual or collective / trucks, car or smaller vehicles, etc.)</p>

SWDE Framework			Vigeo Eiris Analysis
Eligible Category	Definition	Objectives and benefits	
		Pollution prevention - Air quality improvement	<p>The environmental objective (climate change mitigation) is clearly defined and relevant.</p> <p>The environmental benefits are clearly defined but not quantified. Area of improvement consists in defining ex ante quantified targets for the expected benefits.</p>
Protection of water resources	Investments contributing to the protection of underground or surface water resources: - Implementation of new catchment area protection - Maintenance of existing catchment area protection Examples: <ul style="list-style-type: none"> ● Digging of protection ditch ● Forest management ● Watertight lining ● Fences 	Pollution prevention and control - Water quality improvement (both for water fields and water distribution) - Reduce risks of pollution	<p>The definition of this category is overall clear. Area of improvement includes to precise the main eligible types of catchment area protections.</p> <p>The environmental objective (pollution prevention and control) is clearly defined and relevant.</p> <p>The environmental benefits are clear, but not quantified. Area of improvement consists in defining quantified targets for the expected benefits</p>

In addition, the Eligible Categories of Projects are likely to contribute to eight United Nations' Sustainable Development Goals, 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, Goal 12. Responsible Consumption and Production, Goal 13. Climate Action, Goal 15. Life on Land.



Eligible Projects	UN SDGs identified	UN SDGs targets
Water management	SDG 3. Good Health and Well-Being	3.3
	SDG 6. Clean Water and Sanitation	6.1, 6.4
Renewable energy	SDG 7. Affordable and Clean Energy	7.2
	SDG 12. Responsible Consumption and Production	12.2
	SDG 13. Climate Action	NA
Energy efficiency & energy efficient buildings	SDG 7. Affordable and Clean Energy	7.3
	SDG 9. Industry, Innovation and Infrastructure	9.1, 9.4
	SDG 11. Sustainable Cities and Communities	11.6
	SDG 13. Climate Action	NA
Sustainable mobility	SDG 3. Good Health and Well-Being	3.3
	SDG 9. Industry, Innovation and Infrastructure	9.4
	SDG 11. Sustainable Cities and Communities	11.2
	SDG 12. Responsible Consumption and Production	12.2
	SDG 13. Climate Action	NA
Protection of water resources	SDG 3. Good Health and Well-Being	3.3
	SDG 6. Clean Water and Sanitation	6.1, 6.3, 6.4, 6.6
	SDG 15. Life on Land	15.1, 15.2, 15.3, 15.5

Process for Projects Evaluation and Selection

The governance and the process for the evaluation and selection of the Eligible Projects are formalised in the Framework. We consider that the process is reasonably structured and relevant, but partially transparent.

The process for evaluation and selection of Eligible Projects is clearly defined in the Framework.

The evaluation and selection process is based on relevant internal expertise with well-defined roles and responsibilities:

- For the purpose of the Green Finance Instruments, a Green Committee (or “Committee”) has been created, to oversee the Framework.
- This Committee is chaired by SWDE’s CFO, assisted by an operational team composed of heads of relevant departments based on each Eligible Category (i.e. Department of Water distribution, Water production and Design office). The head of the Treasury department and the head of the Environment and workers’ protection department are also members of the Green Committee.
- The Green Committee is responsible for:
 - Defining and updating the Framework – as and when necessary – according to market standards and best market practices, to reflect any changes with regards to the environmental strategies and initiatives of SWDE;
 - Selecting and reviewing the pool of Eligible Projects, according to this Framework. The final decision will rest with the Board of Directors, based upon the Green Committee’s proposal. The Board of Directors will not be allowed to add a project to the list established by the Green Committee. They may suggest some, but the project will have to be approved by the Green Committee.
 - Recommending new issuances of Green Finance Instruments under the Framework.
 - If necessary, the Green Committee may decide to remove or include new projects (see below).

The verification and traceability are partially ensured throughout the process:

- The Green Committee will meet at least twice a year.
- Each meeting of the Green Committee will be documented with a report and a decision proposal will be handed over to the Board of Directors.

Areas for improvement include

- to document and communicate the decision making process for the Board of Directors, regarding the selection of projects (criteria and weighting);
- to ensure an external verification of the compliance of the selected Eligible Projects with the eligibility criteria and process as defined in the Framework.

The process relies on partially explicit and relevant eligibility criteria (selection)

- The selection of the Eligible projects is based on the Eligible Categories defined in the Use of Proceeds section of the Framework.

Areas of improvement include:

- to specify the weighting taken into consideration by the Green Committee and by the Board of Directors, to make their decision (e.g. prioritisation criteria for the selection of projects).
- to define exclusion criteria (e.g. technical or performance thresholds, non-eligible technologies or level of (in)efficiency, etc.)
- to define the predefined process and course of action to take (status quo, obligation of improvement, exclusion of the project, etc.) in case of material development relating to selected Eligible Projects (e.g. ESG controversy)

The identification and management of the environmental and social risks associated with the Eligible Projects are considered to be overall good, but appear to be limited for several environmental and social risks.

- At operational level, the projects managers are in charge of the identification of the main ESG risks associated to each project, and they are in charge of the management of these risks.
- The Control management department is responsible for the periodical internal control of the risks, and external audits are held on some of the ESG risks.

The identification and management of environmental risks associated to the Eligible Categories is overall good, but limited for the issues of water use, biodiversity conservation, and environmental impacts of end-of-life management (decommissioning, etc.):

- An Environmental Management System (ISO 14001) is in place for all SWDE activities, including the activities related to the Eligible categories of projects. External audits are regularly implemented.
- The energy use and energy efficiency are issues identified and addressed for all the Eligible categories of projects, most of them in the Service Contract signed by SWDE with the local authority.
- The GHG emission issues are identified and managed (a Bilan Carbone's scope covers all SWDE activities, and will include the Eligible categories of projects)
- The climate change issues are identified and managed for most Eligible categories of projects, in particular for the water management, renewable energy, and energy efficient buildings categories of projects. An area for improvement includes to anticipate the consequences of climate change on all aspects of SWDE's infrastructures operation (such as energy supply and price in the coming years, etc.).
- The water use and water efficiency risks are identified and managed for most Eligible categories of projects, with a strong focus on leakages reduction (water management projects) and on protection of water resources. Area of improvement includes to also promote water demand-side management.
- Some biodiversity issues are identified but only for some Eligible categories of projects, in particular for renewable energy projects (wind farms) and water catchment areas (reintroduction of indigenous trees and fishes). Moreover, they appear to be overall partially managed. Areas of improvement include to enhance biodiversity protection in all the Categories of projects, beyond the compliance with the laws, by promoting environmental continuity (e.g. on catchment areas), habitats conservation and improvement (on SWDE's buildings and sites); etc.
- The integration of environmental factors in the procurement process and practices appear to be in place.
- Regarding waste management and end-of-life environmental impacts, the Issuer/Borrower declares to comply with the national regulation, and that hazardous wastes are handled to authorised contractors. SWDE declares to ensure complete land restauration after the decommissioning of renewable energy facilities and buildings, but we haven't received supporting element for any of the Eligible categories.

The identification and management of social risks associated to the Eligible Categories of projects is overall limited:

- Fundamental human rights and fundamental labour rights are issues identified and managed at corporate level. Area of improvement includes to ensure a whistle blowing mechanism is in place, for complaints.
- The health and safety issues are identified though complete corporate level process, covering all aspects of the activity (e.g. overall risk prevention plan, etc.), including for psychosocial risks. Health security plans are implemented at early stage of all construction projects, and a dedicated Health and Safety Coordinator is in charge of the related issues, including to monitor the safety of contractors' employees. For the Eligible category "Sustainable mobility", the Issuer/Borrower declares to consult employees and to purchase company's vehicles based on safety and comfort criteria.
- The disturbances related to the construction and operation of the Eligible categories of projects are covered by procedures and actions aiming to reduce the harm for neighbours (noise, visual harm, etc.) in particular for "renewable energy" (wind farms) and "Sustainable mobility" (green vehicles).
- Regarding the safety of end-users and of third parties, several actions are in place, in particular to ensure the safety and quality of the drinking water for all users, and regarding the construction works. Areas of improvement include to set up a comprehensive identification of the risks faced by users and third parties, in particular risks associated to "Water Management" (prevention of water pipe bursts, water supply plants security) and "Sustainable mobility" (traffic accidents causes by SWDE employees or contractors).
- The prevention against corruption is identified and managed through SWDE's corporate procedures and practices (public procurement, etc.) and through external audits ensured by public authorities.
- Regarding the internal audit and control, environmental and financial risks are identified and managed by SWDE, but we have no information regarding the internal control and audit on social risks.

Management of proceeds

The rules for the management of proceeds are overall clear but partially verified. We consider that they would enable a documented and overall transparent allocation process.

The allocation and management of the proceeds are overall clear:

- The net proceeds of the Green Finance Instruments will be credited to the Issuer/Borrower's general treasury.
- The Issuer/Borrower has committed that at any time during the lifetime of the Green Finance Instrument, the outstanding amount will not exceed the value of the Eligible Green Projects.
- Pending the full allocation of the net proceeds to the Eligible Green Projects, within 2 years after the issuance of a Green Finance Instrument, the Green Committee will manage the remaining unallocated Proceeds in cash instruments in compliance with SWDE's Treasury Policy. Temporary placements of unallocated proceeds will not finance GHG intensive activities, nor controversial activities.
- In case of projects postponement, cancellation, divestment or ineligibility, the Issuer/Borrower has committed to replace the no longer Eligible Project by a new Eligible Project.

Traceability and verification of the proceeds are partially ensured throughout the process:

- SWDE has committed that the Green Committee is responsible for reviewing the effective disbursed amounts to Eligible Green Projects at the end of each fiscal year for annual reporting. He will keep record of the remaining balance of unallocated Green Proceeds. A register will monitor the allocation of proceeds to the Eligible Green Projects on a notional basis.
- Expenses approved by the Green Committee will be tracked in the Issuer/Borrower's internal accounting and disassociated from ineligible expenses.
- The Management Control department will regularly check that the expenditure is in line with the amount of the Green Finance Instruments.
- In order to avoid any possible double counting, the Green Committee will make sure that only are eligible expenditures net of any regional subsidies or loans, any financing from the European Investment Bank, or financed by any other mechanisms.

Area for improvement include to commit that an external independent third party will verify annually the internal tracking method and the allocation of the proceeds.

Monitoring & Reporting

The reporting process and commitments appear to be good, covering both the funds allocation and the environmental benefits of the Eligible Projects.

The processes for monitoring, data collection, consolidation and reporting are clearly defined by the Issuer/Borrower in internal documentation. Area of improvement includes to formalise the process in the Framework.

The process appears to involve relevant internal expertise and departments of the Issuer/Borrower:

- The Management Control department will be in charge of monitoring the Eligible Green Projects individually and will be reporting on them (both internally and externally).
- The project managers will have to report to the Green Committee any environmental problems, controversies, etc.
- The reporting will be established by the Green Committee and approved by the Board of Directors.

The Issuer/Borrower has committed to publish annual reports, made publicly accessible on SWDE's website, until the full allocation of the proceeds. Area of improvement includes to also commit to report on a timely basis, in case of material development (such as controversy faced by an Eligible Project, etc.).

The Issuer/Borrower has committed to transparently communicate on:

- The allocation of proceeds: in a consolidated manner and at Eligible Category level. The selected reporting indicators related to the fund's allocation are relevant and exhaustive.

Reporting indicators

- The list of Eligible Green Projects financed by the proceeds as well as a short description of those project
- The total net amount being allocated
- The breakdown between financing and refinancing amount
- Total net amount being unallocated (if relevant) on a consolidated basis
- Types of investment of unallocated funds (if relevant)

- Environmental benefits: the selected reporting indicators are partially relevant.

Eligible Category	Examples of environmental Indicators (output, outcomes, impacts)	Vigeo Eiris' opinion
Water management	<ul style="list-style-type: none"> - Water leakage index (m³/Km/day) - Water savings (m³ saved by increasing the network yield) - GHG emissions avoided - % of mains rehabilitated compared to the total size of the network 	<p>The KPIs are overall relevant, but partially exhaustive. Areas of improvement include</p> <ul style="list-style-type: none"> - to assess all the environmental benefits claimed for this category (energy savings, chemical use avoided/reduced, reduced pressure on small water catchments, % of surface water within the water production mix...) - to define the baseline/year of reference considered when assessing evolutions (savings, reductions...)
Renewable energy	<ul style="list-style-type: none"> - Renewable energy capacity installed in MW - Annual renewable energy generated or expected in MWh - GHG emissions avoided 	<p>The KPIs are relevant and exhaustive</p>
Energy efficiency & energy efficient buildings	<ul style="list-style-type: none"> - Energy savings (kWh saved/reduced) vs. previous years before works were undertaken - Energy used by m³ produced - GHG emissions avoided 	<p>The KPIs are overall relevant, but partially exhaustive.</p> <p>Area of improvement includes to assess the energy efficiency of "energy efficient buildings" (in kWh/m²/year)</p>
Sustainable mobility	<ul style="list-style-type: none"> - Total km with fossil fuel vehicle avoided - GHG emissions avoided 	<p>The KPIs are partially relevant. Area of improvement include</p> <ul style="list-style-type: none"> - to define the baseline/year of reference considered when assessing evolutions (savings, reduction...) - to assess the impact on air quality - to specify the unit, for each indicator
Protection of water resources	<ul style="list-style-type: none"> - Total number of water catchment: the end-goal is to decrease this number to show that we focus on the most reliable and efficient catchment and we decommission smaller ones. - Area of land protected around catchment: The goal is to increase this area to make sure we improve the protection around our catchment 	<p>The KPIs are partially relevant or exhaustive.</p> <p>Areas of improvement include</p> <ul style="list-style-type: none"> - to move all reference to "goals" to the Use of Proceeds chapter of the Framework

	<ul style="list-style-type: none"> - Water quality: number of compliant tests / number of tests 	<ul style="list-style-type: none"> - to specify if the water quality test are on the water resource or on the water distributed - to assess the reduction of the risk of pollution
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The key underlying methodologies and assumptions that will be used to calculate the benefits of the Eligible Projects will be disclosed by the Issuer/Borrower in the annual reporting.

Areas of improvement would include

- to engaging an independent third-party to verify the content of Reports regarding the environmental benefits metrics (indicators and results).
- To ensure that the environmental benefits of co-financed projects would be reported with a mention of the share of co-financing and share of environmental benefits to be linked to the issuance.
- to report on material ESG controversies associated to the Eligible projects, at least to investors/lenders.

METHODOLOGY

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

Vigeo Eiris' methodology for the definition and assessment of the corporate's ESG performance is based on criteria aligned with public international standards, in compliance with the ISO 26000 guidelines, and organised in 6 domains: Environment, Human Resources, Human Rights, Community Involvement, Business Behaviour and Corporate Governance. The evaluation framework has been customised regarding material issues, based on our generic Waste & Water Utilities' ESG assessment frameworks and specific issues considering the Issuer/Borrower's business activity.

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

Part I. ISSUER/BORROWER

NB: The Issuer/Borrower performance, i.e., commitments, processes, results of the Issuer/Borrower, related to ESG issues has not been assessed through a complete process of rating and benchmark developed by Vigeo Eiris Rating.

The assessment of ESG strategy has been conducted based on information provided by the Issuer/Borrower, public information and stakeholders' views and opinions collected from public documentation. The assessment of the Issuer/Borrower's ESG strategy has focused only on the Leadership item from Vigeo Eiris' rating methodology.

Level of the Issuer/Borrower's ESG commitments and policies

The Issuer/Borrower has been evaluated by Vigeo Eiris on its Corporate Social Responsibility (CSR) strategy, based on relevant ESG drivers organised in the 6 sustainability domains. SWDE's strategy has been assessed by Vigeo Eiris on the basis of its:

- Leadership: relevance of the commitments (content, visibility and ownership).
- Capacity to integrate main sector issues in the Issuer/Borrower's strategy.

Management of stakeholder-related ESG controversies

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

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

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

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

Involvement in controversial activities

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

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

Part II. ISSUANCE/LOAN

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

Use of proceeds

The use of proceeds guidelines is defined to ensure that the funds raised are used to finance and/or refinance Eligible Projects. The Projects endorsed shall comply with the eligibility criteria in order to be considered as Eligible Green, Social or Sustainability Projects. Vigeo Eiris evaluates the relevance, measurability and preciseness 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 has been assessed by Vigeo Eiris regarding its transparency, governance and efficiency. The explicitness of eligibility criteria and associated supporting elements integrated in the Green Finance Instruments' issuance, 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/Borrower to enable annual reporting on fund allocation, social benefits (output and impact indicators) and on the responsible management of Eligible Assets financed by the Green Finance Instruments' proceeds, collected at project level and potentially aggregated at Green Finance Instruments' and/or asset 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	
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.
Good	Convincing commitment; significant and consistent evidence of command over the issues. Reasonable level of risk management.
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	Commitment to social responsibility is non-tangible; no evidence of command over the

Level of assurance	
Reasonable	Able to convincingly conform to the prescribed principles and objectives of the evaluation framework
Moderate	Compatibility or partial convergence with the prescribed principles and objectives of the evaluation framework
Weak	Lack or unawareness of, or incompatibility with the prescribed principles and objectives of the evaluation framework



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

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 & organisations:** 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 9001 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

Transparency on the relation between Vigeo Eiris and the Issuer/Borrower: Vigeo Eiris has not carried out any audit mission or consultancy activity for SWDE. No established relationship (financial or other) exists between Vigeo Eiris and SWDE.

This opinion aims at providing an independent opinion on the sustainability credentials and management of the Green Finance Instruments, based on the information which has been made available to Vigeo Eiris. Vigeo Eiris has neither interviewed stakeholders out of the Issuer/Borrower's employees, nor performed an on-site audit nor other test to check the accuracy of the information provided by the Issuer/Borrower. The accuracy, comprehensiveness and trustworthiness of the information collected are a responsibility of the Issuer/Borrower. 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 Green Finance Instruments. The Issuer/Borrower 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 Green Finance Instruments, 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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