

1. Overview of Scope of IIC E&S Review: IIC undertook its environmental and social review, which included a revision of corporate policies, visits to five large infrastructure installations, and a review of small construction works representative of investments to occur under Interagua's fourth (2016-2021) Investment Plan. The Environmental and Social Due Diligence (ESDD) was carried out between April and October 2016, and was based on information and documentation provided by Interagua as well as a site visit that took place between April 26 and 28, 2016. The primary goal of the visit was to evaluate Interagua's corporate E&S performance, its compliance with E&S national applicable laws, regulations and permits, and its alignment with the IIC Sustainability Policy, which includes the International Finance Corporation (IFC) Performance Standards (PS) on Environmental and Social Sustainability and the Inter-American Development Bank environmental and social policies. The site visit included a tour to Flor de Bastion and Xavier Salitral sewage projects and Canal 69 storm drain project, all at varying stages of construction. In addition, there was a tour to La Toma potable treatment plant and Samanes Guayacanes oxidation plants, both of which are in operational. These projects investments occurred under the previous Investment Plan and were assessed in order to provide indication of corporate environmental and social practices. As part of the visit, IIC conducted interviews with local stakeholders as well as members of Interagua and its contractors. IIC is providing a corporate loan for purposes of refinancing of short-term debt, and construction of new infrastructure targeting largely residential users/access (17% in potable water, 79% in residential sewage connections and 4% in storm drainage). The total investment will be USD 470 Million, of which 23% is financed by Interagua and 77% by third party funds. The investments under this fourth Investment Plan are considered small-scale in nature and are not associated with large scale project infrastructure activities for which more significant environmental and social risks may be present.

2. Environmental and Social Categorization and Rationale The activities to be financed are likely to cause short-term negative environmental and associated social risks and impacts, which Interagua will manage through standard good-practice mitigation measures. Other environment and social (E&S) risks are present at the corporate level and in other infrastructure investments operated by Interagua. These investments may include physical displacement resulting from land acquisition (led and managed by the local government), noise, biodiversity impacts, air emissions and hazardous materials and waste generation, as well as workers and community health and safety, security, and contractor management issues associated risks during the construction and operational stages. The investments under this Fourth Investment Plan will contribute positively to the community through job generation, local economic growth, and increased provision of sanitation services. Therefore and in accordance with IIC's Sustainability Policy, this project has been classified as Category B. No individual investment activities under the current Investment Plan qualify as Category A.

3. Environmental and Social Context Interagua is a subsidiary of Veolia, the French multinational water and energy service provider, and is the current operator of Guayaquil's water and sanitation concession which was granted for a period of 30 years in 2001. The Municipal Enterprise for Potable Water and Sewerage of Guayaquil (Empresa Municipal de Agua Potable y Alcantarillado de Guayaquil (EMAPAG) is the project developer and transfers projects to Interagua post project completion. Interagua is responsible for the administration, operation, and general maintenance of the city's water and sanitation services. Interagua is located in the city of Guayaquil, Guayas province, Ecuador. The city has a population of about 2.72 million inhabitants. Guayaquil is located 10 km from the sea, along the Guayas River, 6 meters above sea level. It has a warm and humid tropical climate with an average annual temperature of 25.7 °C. Rainfall averages 917 mm per year, and the rainy season is from January to April. The humidity averages 76%, and peaks at 80% in the months of February and March. Guayaquil has threatened or endangered biodiversity in its forests and protected areas. Three of Interagua's existing projects intersect with protected areas registered in the National System of Protected Areas, Protector Forests and State Forest Heritage. Installation of sanitary and storm drainage infrastructure can involve displacement of local population located often illegally in their areas of influence. Resettlement and relocation is directed by EMAPAG as project developer, and is conducted in accordance with government-defined policies.

There are no indigenous communities located in the Interagua portfolio influence area. However, Guayaquil is known for its important areas with cultural heritage, including archaeological sites some of which are within Interagua's project area of influence.

#### 4. Environmental Risks and Impacts and Proposed Mitigation and Compensation Measures:

The below summarizes Interagua's general environmental and social performance and noted gaps relevant to the IIC Sustainability Policy in comparison with Interagua's corporate policies. An Environmental and Social Action Plan (ESAP) agreed with the Client defines actions to enhance corporate policies and represents significant environmental and social additionality (see Section 6 of this document).

#### 4.1 Assessment and Management of Environmental and Social Risks and Impacts

##### Environmental and Social Assessment and Management System:

Interagua has a robust Integrated Management System (SGI or ESMS), certified in ISO 9001: 2008, ISO 14001-2004 and OHSAS 18001: 2007. Its SGI covers the activities of water management in the water production, operation and service maintenance areas. Specifically, E&S management extends to maintenance works, potable water distribution and sewage, sewage treatment, builders and developers, services for capturing raw water wells, and purification and distribution of treated water for human consumption. The SGI requires the implementation of activities aimed to reduce accidents among workers and incorporate elements of social and community management activities.

##### Policy:

Interagua has an approved Quality, Environment, Occupational Safety and Health Policy. This policy, however, does not include a statement regarding social and community management.

##### Identification of Risks and Impacts:

Interagua identifies environmental and occupational safety and health risks and impacts through a matrix of legal requirements and procedures for the identification and evaluation of environmental aspects and hazard identification and risk assessment. Additionally, under the master plan disaster risk scenarios were evaluated in the original project planning.

##### Management Program:

Interagua has a Health, Safety and Environment (HSE) System in place certified in ISO 14001, ISO 9001 and OHSAS 18001 that includes: emergency plans, environmental management plans, procedures for operational waste management, hazardous materials, monitoring of occupational health, high-risk activities, industrial safety simulacrum, induction and training programs, occupational health surveillance and an environmental education program. Notwithstanding, Interagua does not have a Social and Community Management Plan, a Community Health and Safety Plan, a Supplemental Resettlement Plan, nor programs and schedules of activities aligned with the current 2016-2021 Investment Plan.

##### Organizational Capacity and Competency:

Interagua has an organizational chart that includes a professional and highly trained team focused in areas of water quality, health, safety, security, environment and community, and social Management. Inductions and trainings are provided periodically and cover the above-mentioned areas.

##### Emergency Preparedness and Response:

Interagua has emergency response plans to respond to environmental, safety and security issues as they arise in all administrative and commercial offices, and operational sites. All contractors are required to develop and maintain emergency response procedures specific to their assigned work areas, and all personnel is regularly trained on the emergency response procedures. Furthermore, Interagua takes part in an annual natural disaster simulation as part of a city-wide preparedness initiative.

##### Monitoring and Review:

Interagua monitors projects through the Operations and Construction Inspection Program, the results of which are reported in the SGI. Projects are subject to Environmental Compliance Audits (ECA) by an external consultant on an annual basis in order to verify compliance with the Environmental Management Plan of the EIAs as part of the obligations of the Environmental Licenses. In a review of these audits, no significant issues were identified. However, Interagua requires the implementation of environmental and social performance indicators aligned to the requirements of PS.

##### Stakeholder Engagement:

The Social and Community team of Interagua has executed several activities with local populations located within areas of influence of construction projects. Consultation takes place in the context of EIA preparation. At a corporate level, Interagua has not developed a Stakeholder Engagement Plan (SEP) with strategies for stakeholder identification, analysis and planning, disclosure and dissemination of information, consultation and participation, grievance mechanism and activities aligned with the investment

Plans. Planning of those activities is currently not incorporated into the company's annual Investment Plans and is a recommended action. External Communications and Grievance Mechanisms: Interagua has different kinds of community grievance mechanisms (permanent information offices, mobile offices, call center, website and mobile application) and keeps a grievance log to register and follow up on grievance redress. Interagua also has a Client Advocacy Working Group to promote the resolution of outstanding grievances not addressed through other means.

4.2. Labor and Working Conditions Interagua has 1,158 direct employees, of which 24, 61% are women and 75, 39% are men. At the level of senior management, among the 50 employees, 18 are women and 32 are men. In addition, Interagua has around 400 indirect employees hired for complementary activities of Cleaning and Security. Working Conditions: Interagua has an Internal Regulation for Employees that describes employment categories, general conditions, benefits, and professional conduct. The Regulation is consistent with local regulations and the requirements of PS2, and includes non-discrimination and equal opportunity, minimum employee age requirement, compensation, working hours and overtime allowances, as well as an employee grievance mechanism. Employees receive additional benefits such as: food subsidy, private health insurance for direct family and children up to 25 years old and a payment of annual profits to direct and indirect employees. Occupational Health and Safety (OHS): Interagua manages through the Safety, Health & Environmental Management System, activities related to hazard identification and risk assessment to ensure that OHS controls manage risk on site prior to starting the activity and necessary competency requirements for key roles are specified. In addition, reports for local authorities are prepared and submitted showing results of OHS monitoring, annual accidents reports and actions taken by the OHS committees. The number of significant accidents reported by Interagua in operations is high, registering 47 in 2015. Interagua is required to implement improvements aimed at reducing workplace accidents and sick days by updating procedures and training programs. Supply Chain: The construction workforce is largely comprised of contractors. Interagua hired supervisors to monitoring all works performed by contractors. In addition, the contractors follow a pre-qualification procedure in order to assure the compliance of the SIG requirements, and the contract has specific clauses regarding the compliance of the SGI policies. However, contracts do not include specific clauses related to social (resettlement) and archaeological matters, and do not have a procedure to audit the contractor after the conclusion of the projects.

4.3. Resource Efficiency and Pollution Prevention The SGI has plans and procedures that allow prevent environmental pollution and manage the efficient use of energy according to local regulations and PS3. Resource Efficiency: Interagua has implemented an Energy Efficiency Management System (ISO 50001) for certain processes of the La Toma water treatment plant, and have additionally designed a manual that includes equipment specifications aimed at reducing energy consumption. Annually, Interagua calculates GHG emissions generated by the use of fuel and energy, the results of which are reported to Veolia as part of a corporate-wide environmental management initiative. The Daule River is the main source of water catchment for Interagua. As part of the Investment Plan 2016-2021, Interagua will expand the service coverage for reducing illegal connections that generate water losses. Pollution Prevention: The risks and impacts regarding air emissions, noise, waste, hazardous materials, and spills are managed through preventive and mitigation measures established in the Environmental Management Plan (EMP) of the EIAs and in the Integrated Management System (SGI). These measures are implemented by contractors. The 14 wastewater treatment systems discharge treated effluent in the Daule and Guayas Rivers and in the Estero Salado. Under the Investment Plan 2016-2021 budget, 79% of the capital expenditure (CAPEX) funding will be for development of further sewage treatment connections with the aim to reduce residential discharge of untreated effluent. Hazardous and non-hazardous chemical inputs are managed in accordance to the procedures established in the Management System by quality laboratory certified in ISO 17025.

4.4. Community Health, Safety and Security Community Health and Safety: The community health and safety risks such as traffic accidents, construction and communicable diseases and other health and safety issues are not typically evaluated. Interagua

has not implemented a Community Health and Safety Plan. All Interagua's administrative, commercial and operational facilities have emergency plans that include the participation of visitors and users. At the corporate level, Interagua has a team that facilitates internal and external communication, and also has a Crisis Committee consisting of Veolia corporate staff. Security Personnel: Interagua's emergency plans state that security personnel will not use firearms or physical force and will seek police support to proceed according to law.

4.5. Land Acquisition and Involuntary Resettlement According to the Expropriation Convention (DAJ-EXP-2009-08821), the Municipality of Guayaquil through EMAPAG manages the land acquisition and expropriation processes for the construction and operation of water and sanitation infrastructures subsequently operated by Interagua. In light of certain gaps, a complementary policy and process is required of Interagua and defined within the Action Plan.

Private Sector Responsibilities Under Government-Managed Resettlement: Interagua, through its social team, participates as a facilitator of processes conducted by EMAPAG and its contractors during land acquisition. The inventory of affected lands is included in the EIAs of projects. The execution of a Compensation Plan for those affected is listed as part of the Environmental Management Plan (EMPs) within the EIAs. Despite an ad-hoc role as a participant in EMAPAG-led resettlement, Interagua does not have a policy or procedures that adequately clarify responsibility between Interagua and EMAPAG, or provide for periodic monitoring. In projects where EMAPAG undertakes land acquisition and resettlement, Interagua will be required to develop a complementary Action Plan that clarifies roles and responsibility, management, supervision and reporting procedures, among others.

4.6. Biodiversity Conservation and Natural Habitats Most Interagua projects are located outside protected areas. Of Interagua's existing facilities, three were found to intersect natural areas: (i) The Puerto Azul - Xavier Salitral project; (ii) the Tranche 3 Northwest Aqueduct project between Ciudad Victoria y Socio Vivienda; and (iii) Cerro Colorado Lote 2 project. Of those reviewed, the EIA of the Xavier Salitral- Puerto Azul, a historical project within its portfolio, was found to have gaps with PS6 in so far as the original documentation issued by the Ministry of Environment did not clearly clarify the zone of influence, define a compensation plan, or specify management measures for protection of the Wildlife Reserve Manglares. These issues were highlighted by the Ministry of Environment within the scope of the first environmental audit being performed to the project and Interagua has been requested to execute a limited Reforestation Plan to correct these issues[1]. Interagua maintains its responsibility is once removed as the Municipality is responsible at the level of planning and EIA preparation. Nevertheless, Interagua's SGI does not include a procedure for adequate biodiversity management during planning, construction and operational activities. This has been proposed within the Action Plan and Interagua will work to apply this in coordination with future EIA and construction planning processes within the scope of local legislation and eventual approvals required either by environmental authorities or its regulator.

4.7. Indigenous Peoples Issues and risks related to Indigenous Peoples are not present.

4.8. Cultural Heritage Interagua has not identified the management of archaeological heritage in the matrix of legal requirements of the SGI. Additionally, it lacks a chance findings procedure where Interagua is involved in small-scale construction specific to excavation for laying of pipe and residential household connection. EIAs audited did not include an archaeological assessment. Interagua will need to develop a policy that defines procedures for archaeological heritage.

5. The use of proceeds for this operation is for refinance of short-term debt and general corporate finance. As such, there is no project specific information to disclose.