

**Social Bond Framework**  
**Colegios Peruanos S.A. – Innova Schools**  
**May 2019**

Innova Schools aims to improve the quality of education for the emerging middle-class population in Peru, through the development of strong education programs that are up to par with international standards.

At this time, we are envisioning the issuance of a Social Bond to finance our expansion CapEx and therefore have developed a Social Bond Framework under which we plan to allocate the proceeds of the bond and track impact.

In the following pages, we will highlight the key aspects of our Social Bond Framework and how it aligns to the Social Bond Principles.

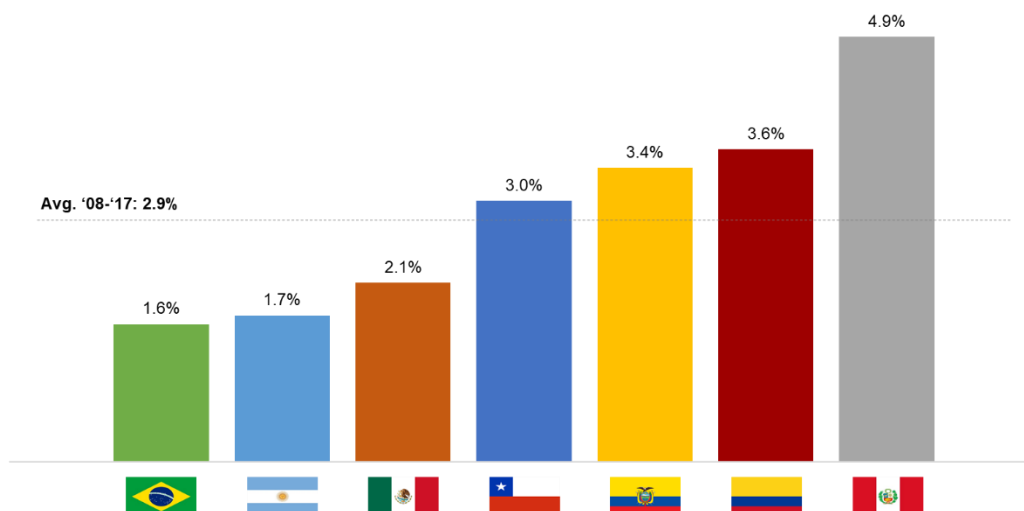
**1. Background on the issuer and purpose for issuing bonds**

**The Company:**

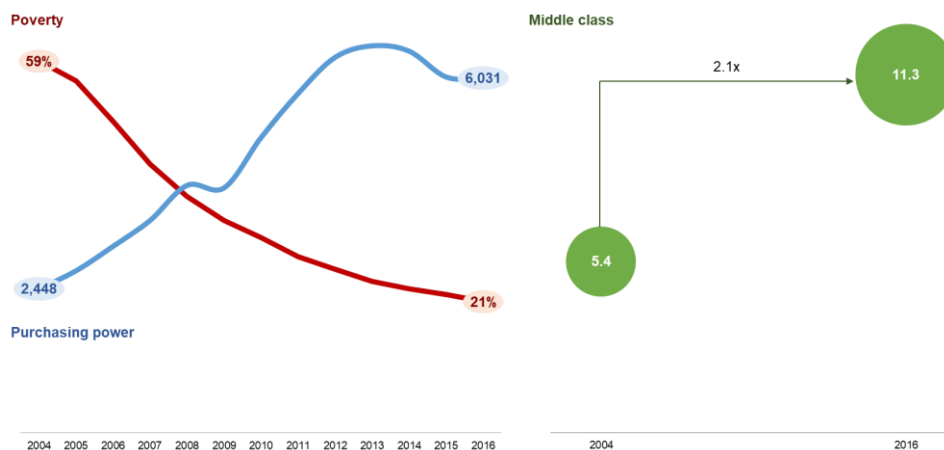
Colegios Peruanos S.A. (Innova Schools) is a K-12 private education company that provides an innovative educational model at affordable prices for the Peruvian emerging middle class.

It was created to solve the following problem:

- During the last decade Peru has been the fastest growing economy in LatAm:  
*(Avg. GDP growth for the period 2008-2017)*



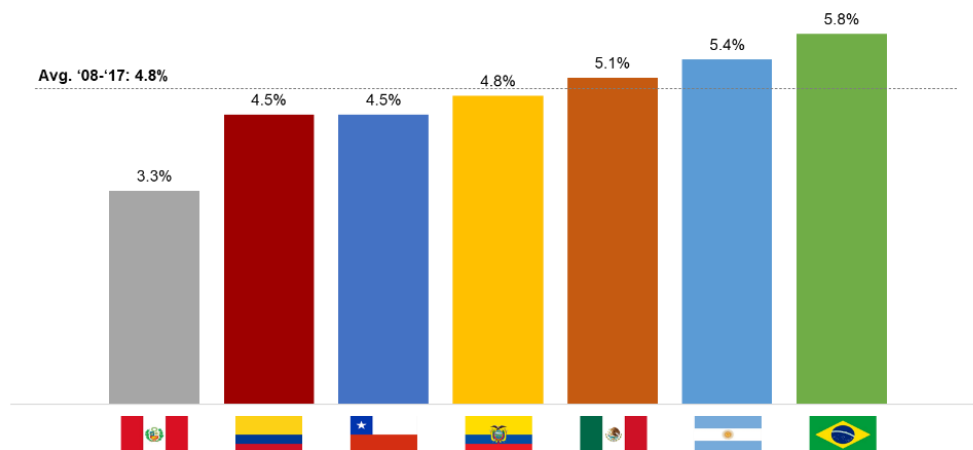
- Peru's sustained growth has reduced poverty and increased purchasing power, driving the middle-class growth:  
(Headcount ratio at poverty lines as a % of population vs. GDP per capita – Current USD, middle class in million people)



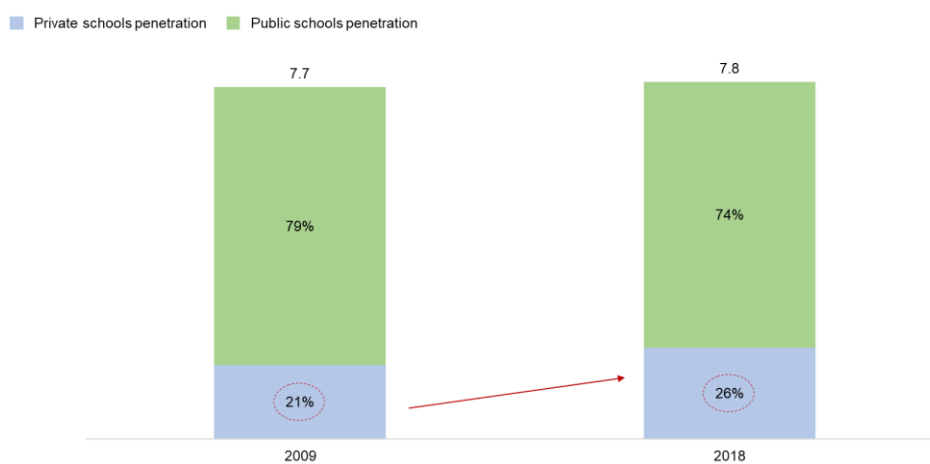
- Despite the economic growth, Peru remains in the last positions in the PISA test, as a result of its low-quality education system:  
(Ranking of countries according to their score in the PISA test)

PISA Results		
2000	2012	2015
37 Albania	61 Jordan	57 Georgia
62 Macedonia	62 Colombia	58 Jordan
63 Indonesia	63 Qatar	59 Indonesia
64 Brazil	64 Indonesia	60 Brazil
65 Peru	65 Peru	61 Peru
		62 Lebanon
		63 Tunisia
		64 Macedonia

- And, Government's spending on education remains the lowest in the region:  
(Avg. government expenditure on education as a % of total GDP for the period 2008-2017)



- Private sector remains informal and inadequate, and despite that, families turn to private sector looking for better education for their children:  
(Number of enrolled students in Peru by type of school – In millions of students)



Innova Schools was born from the urgent need to improve the quality of education in Peru for the emerging middle-class which has limited access to education of international standards:

- Our vision: To ensure children in Peru have access to education of international standards
- Our mission: Create an inspired, intelligent and ethical generation that will become the future leaders of Peru
- Our purpose: We inspire and train our students across the country, so they transform the world

***Purpose of issuing bond:***

In order to provide high quality education at affordable prices, Innova needs to be self-sustainable and scalable.

- Self-sustainable: To attract equity and debt from capital markets and private investors to finance growth; and
- Scalable: To benefit from operational efficiency and dilute costs of implementing education programs

It is estimated that the optimal Operational Cost (as a % of Sales) is < 63% (or EBITDA Margin of >37%), which is reached at approximately 90 schools. As of 2019, there are 54 schools and by 2023, the Company expects to reach 90 schools.

In order to reach 90 schools, Innova requires to invest ~\$540 million in CapEx:

- Each school is built on a land area of ~5,000 m<sup>2</sup>, whose cost is US\$ 3 million on average.
- The construction and equipment are carried out in 4 stages, being the first stage the most expensive (US\$ 1.8 million) and the remaining stages are less expensive (US\$ 500 thousand each).
- In the first stage, the common spaces and a large part of the classrooms are built. In the rest of the stages, only new classrooms are added.
- A school in its fourth stage has an accumulated investment of US\$ 6.3 million (average), 40 classrooms and capacity for 1,200 students.
- The accumulated investment by 2026 is expected to be US\$ 542 million.

CapEx will be financed with capital contributions and debt. The company expects to raise US\$ 430 million in debt from 2010 to 2026:

- From 2010 to 2018, Innova has made capital contributions for US\$ 144 million.
- From 2010 and 2026, it is expected to generate US\$ 324 million of operating cash flow (OCF).
- It is expected to issue debt for US\$ 430 million in total, mainly to finance Capex (US\$ 542 million).
- From 2019 and 2026 it is expected to raise US\$ 243 million in new debt in capital markets.

Bonds in capital markets are the most efficient way to finance Company expansion. In order to contribute to the Company's business model (self-sustainable and scalable) Innova requires debt with the following characteristics:

- Long Term: To match with the maturity of the asset (a stand-alone school takes 11 years to reach positive cumulative cash flow, this occurs because it is required an initial investment of ~US\$ 6.3 million in the first 4 years of the project)
- Low cost: Given the size of the required debt, if the company wants to be self-sustainable, it needs to raise debt at the lowest cost possible
- Size: Innova is expected to raise US\$ 430 million in debt, therefore, it needs to access the capital markets to secure this amount of debt at attractive conditions.

## 2. Use of Proceeds

### ***Eligible Category - Access to Essential Services***

The company uses all debt raised to finance Capital Expenditures (CapEx) for the construction of new schools and expansion of existing ones, schools that, as mentioned before, aim to provide education for the Peruvian emerging middle-class which has limited access to quality education.

## 3. Identification of target population

Innova Schools target families in Peru's emerging middle class as identified in Appendix 2.

## 4. Project selection / evaluation criteria

The evaluation process to open a new school takes 6 months on average. It starts by the identification of our target population through demographic and socioeconomic information, as well as data related to current supply of education in the area. The process, has 5 steps:

### 1) Evaluation of target population

The Company have ranked every city in the Country by the number of K-12 students that belong to the emerging middle class. In addition, it has gathered information of every school in a particular area (size, price, academic level) so it can identify areas in which the gap between demand for good education and supply is big, and therefore, a school like Innova is needed.

In this process, the following areas/departments participate: CEO, Operations, Commercial, Finance, Academic Department.

### 2) Select the zone and the ground

In order to choose the exact place where a school will be built, Innova looks for the exact places with higher concentration of emerging middle-class students within the targeted city/district. Then it evaluates the best lands to purchase considering size (3,250m<sup>2</sup> – 6,000sqm) and services available (main roads and basic services such as drinking water network, energy supply, internet access).

In this process, the following areas/departments participate: CEO, Operations, Commercial, Finance, Infrastructure.

### 3) Landbank Committee

The lands selected are evaluated by the Landbank Committee. The Landbank Committee is comprised by:

- CEO of Innova Schools.
- CFO of Innova Schools.
- Commercial Manager.

- Infrastructure Manager.
- Lawyer of Innova Schools.
- Inretail (a company specialized in the search of lands)

The Committee approves an IP (Investment Proposal) which describes the land bought or rented and all the assumptions under which the new school was approved (number of students, tuition, growth, etc).

#### 4) Fill the legal documents

The infrastructure and legal departments start the paperwork to have all in order (City hall permissions, registry for school use, construction project, contracts).

#### 5) Build a school

The schools construction starts on June of every year. By November, the construction is finished, and it starts the process for getting the licenses. There are several inspections by authorities:

- To evaluate the safety for the students.
- To determine if the school can handle the capacity of students.
- To check that the basic services are working.
- To measure the areas of the land, the school, the classrooms, etc.

It is worth mentioning that every year, the company re-visits the approved IP (Investment Proposal) in order to make sure each school is reaching the goals determined when they were approved. If not, the company analyses the actions needed to be taken to bring the project back on track.

## 5. Process for environmental and social risk mitigation

In order to open a school, Innova must follow and respect the next policies and laws:

Policies and laws (Original name)	Policies and laws (Name in english)	Brief description	Status
Ley N° 28976, Ley marco de licencia de funcionamiento	Ley N° 28976, Law operating lincese framework	It is a license that allows Innova Schools operates all their schools. It is granted by the city hall.	100% in compliance
Ley N° 29664 Ley de Sistema Nacional de Gestión del Riesgo de Desastres y su Reglamento D. S. N° 048-2011-PCM	Ley N° 29664 Law of national system of disaster risk management and its regulation D. S. N° 048-2011-PCM	It is the law that regulates the management of the risks caused by disasters.	100% in compliance
Ley N° 29783, Ley de seguridad y salud en el trabajo y su modificatoria Ley N° 30222	Ley N° 29783 Law of occupational safety and health and its modifying Law N° 30222	It regulates that the employer keep all the conditions in order to protect the life, the health and the wellness of the workers and others who provide services in the place of work.	100% in compliance
Ley N° 27314, Ley General de Residuos Sólidos	Ley N° 27314, General law on solid waste	It is the law the regulates the management of solid waste. Innova Schools has a Management plan for solid wastes.	100% in compliance

Legislación laboral, decretos y normas.	Labor legislation, decrees and norms.	Peru does not have a general law but it has many legislations, decrees and norms that regulate the rights of the workers.	100% in compliance
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Innova Schools have many policies and regulations that support the convivence in the work places (schools and back office):

Policies and laws	Brief description	Apply to	Status
Reglamento Interno	Contains all the norms that regulate the convivence in the schools.	Students	100% sent to workers and monitoring by HR
Código de conducta para el personal	Contains the norms that the workers must comply in the place of work.	Workers	100% sent to workers and monitoring by HR
Política de uso de recursos informáticos	Regulate the use of the informatic resources that were given to the workers for doing their functions.	Workers	100% sent to workers and monitoring by HR
Política de revisión y elaboración de contratos	Regulate the revision of the contract of suppliers. Once it is approved by the legal department, the contract can sign and the service can be executed.	Workers	100% sent to workers and monitoring by HR
Política de uso de taxis y movilidades	Regulate the use of taxis by the workers.	Workers	100% sent to workers and monitoring by HR
Código de ética y conducta de proveedores	Regulate the selection of suppliers, their behavior and the possible acts of corruptions that could originate between workers and suppliers.	Suppliers	100% sent to workers and monitoring by HR

## 6. Management of Proceeds

All funds raised by the company will be used according to section 2 of this document. The Company is planning to issue public bonds according to local capital markets regulation which obligates the company to inform potential investors the use of proceeds.

Once the funds raised enter the Company's accounts, they will be managed by the Finance Department and only 3 people (CFO, General Accountant and Chief of Strategic Planning) will have access to it, and the approval of at least two of them is required to make any transfers.

The funds will be allocated in each project (new schools or expansion of existing ones) according to a budget built at the moment the project is approved and will follow up monthly to make sure investment is on track.

Between the moment the funds are received, and the funds are invested in the projects, the company is committed to keep the funds in cash on its bank accounts or in short term deposits in investment grade local banks.

## 7. Reporting

Information on allocation reporting:

- Annual Report:
  - Company's Annual Report to Investors will include a section to describe how the funds were allocated on a portfolio basis
  - Frequency: Annually, every March 31

- Location of reporting: Annual Report, Superintendencia de Mercado de Valores ([www.smv.gob.pe](http://www.smv.gob.pe))

Key Performance Indicators (KPIs):

- Number of schools built
- Number of students enrolled per year
- % of students in academic "Satisfactory" level
- % of students by Socioeconomic Status
- Price of tuition
- CapEx per year (new schools and expansions)



### **Appendix 1: Proposed Expenditure for 2019 Bond Issuance**

In 2019, Innova plans to raise S/. 230 million in social bonds. The use of proceeds will be as follows:

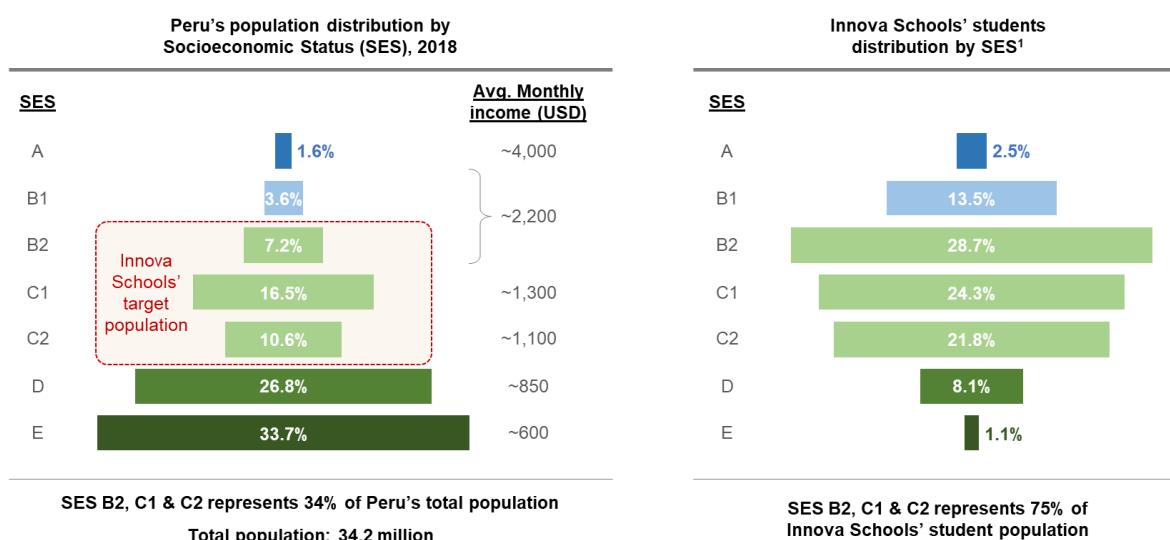
- S/. 100 million to finance the opening of 9 new schools and expand 29 existing schools for the upcoming 2020 school year
- S/. 80 million to finance the opening of 5 new schools and expand 22 existing schools for the 2019 school year (currently financed by a bridge loan)
- S/. 50 million to pre-pay a bank loan granted in 2016 which served to finance the opening of 8 new schools and expand 33 existing schools for the 2017 school year

## Appendix 2: Identification of target population

As we mentioned before, Innova Schools offers high quality and affordable education for the emerging middle-class, which is underserved by the educational offer nationwide.

### The emerging middle class:

Innova's target population are Socioeconomic Levels B2, C1 and C2 which are considered Peruvian emerging middle-class:



Peruvian emerging middle-class has a monthly household income between US\$ 1,000 and 2,200:

	Socioeconomic Status (SES)					
	A	B	C1	C2	D	E
<b>Monthly household income, on average (current USD, 2018)</b>	<b>3,971</b>	<b>2,153</b>	<b>1,306</b>	<b>1,073</b>	<b>836</b>	<b>602</b>
<b>Monthly household spending, on average (current USD, 2018)</b>	<b>2,396</b>	<b>1,456</b>	<b>994</b>	<b>828</b>	<b>669</b>	<b>494</b>
Food	463	439	394	364	317	245
Dress and footwear	114	78	52	45	37	31
Rent of housing, Fuel, Electricity and Conservation of housing	357	208	133	111	90	62
Furniture, Fixtures and Maintenance of the home	268	80	43	34	28	23
Care, Conservation of health and Medical services	203	108	70	60	45	31
Transport and Communication	412	209	103	65	43	25
Recreation, Fun, Cultural and Education	432	247	135	97	64	42
Other goods and services	147	87	65	53	43	37
<b>Other features</b>						
Walls of houses are built with brick and cement	100.0%	99.1%	93.8%	88.5%	68.1%	13.0%
Access to drinking water from public network	100.0%	99.4%	98.2%	93.7%	85.8%	53.1%
At least one member of the household has a Cell Phone	97.5%	97.3%	95.3%	92.8%	91.1%	87.1%
At least one member of the household has a Computer	97.3%	86.4%	67.1%	39.5%	15.5%	4.8%
At least one member of the household has an Internet Connection	96.9%	91.5%	65.8%	34.5%	12.6%	3.7%
At least one member of the household has a Vehicle	86.7%	37.1%	8.4%	3.2%	1.3%	0.6%
Affiliated to private health insurance	56.8%	14.8%	2.5%	1.9%	0.9%	0.2%

It is worth mentioning that Innova constantly follows its tuition levels compared to the market and its target population to make sure it continues to be affordable (one of its business model pillars).

For example, given the fact that Innova can estimate the SEL of each family attending our schools, it can estimate annually the following ratio per school:

- Tuition Cost / Average household spending of families of the school

This ratio provides important information regarding how expensive each of our schools is for the families of the students attending the school and allows Innova to identify any school which is becoming too expensive for our target population.

In addition, the Company have two other sources of information:

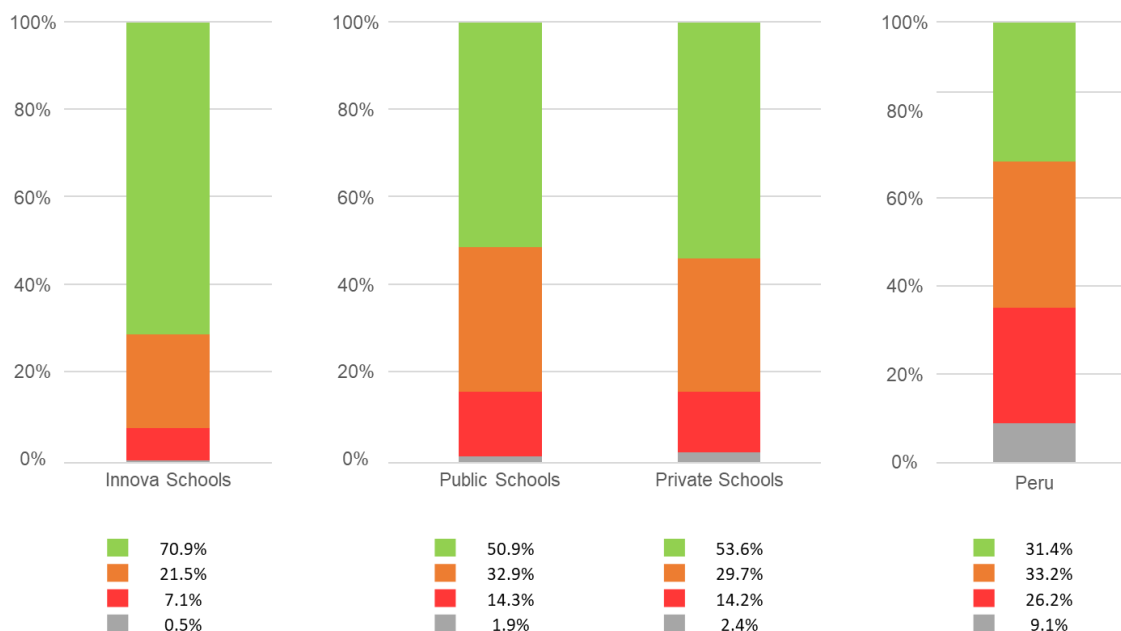
- A poll made to all students who decide not to continue at Innova to identify if tuition was an important factor in their decision
- Data from de Ministry of Education about the school (and therefore tuition of that school) to which any of our former students went allowing the company to identify if they went to cheaper or more expensive schools.

During May of each year, the tuition of every school is set taking into account the information mentioned before.

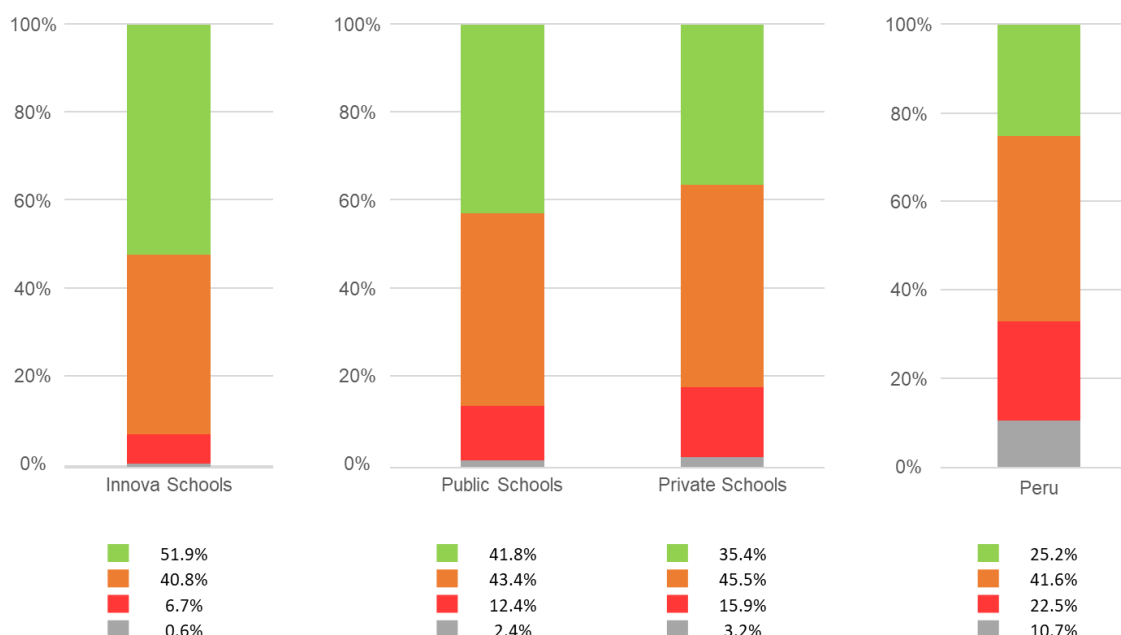
***High quality education:***

According to "Evaluación Censal" – ECE (conducted annually to all students of certain grades of all schools in Peru, a test carried out by the Ministry of Education of Peru), Innova Schools outperforms public and private schools averages.

In Reading, the percentage of students in "Satisfactory" level of Innova Schools is 70.9%, which is higher than the average of public schools (50.9%), private schools (53.6%) and the average of Peru (31.4%).



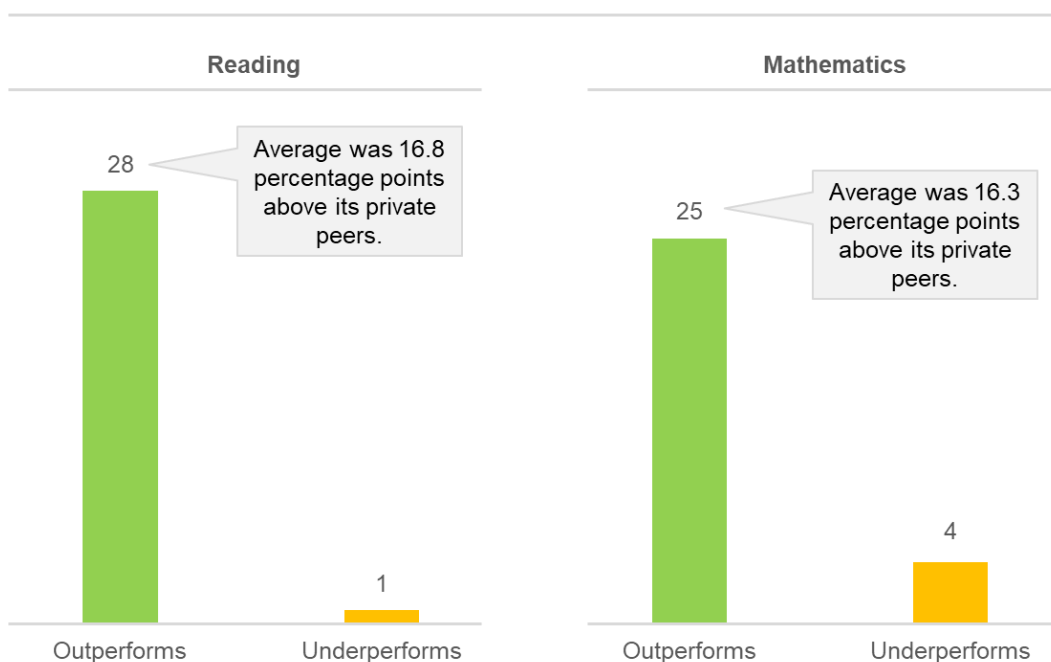
In Maths, the percentage of students in "Satisfactory" level of Innova Schools is 51.9%, which is higher than the average of public schools (41.8%), private schools (35.4%) and the average of Peru (25.2%).



In addition, most Innova Schools outperforms similar private schools averages (similar schools are chosen by the MINEDU considering: (i) School features (construction material of the classrooms, teaching environments, etc.); (ii) Geographical features (access to health services, municipal library, etc.); and (iii) Socioeconomic features of the students (households profile)).

In Reading, there were 28 schools (out of a total of 29) whose percentage of students at “Satisfactory” level outperformed the average of similar private schools defined by the Ministry of Education (MINEDU). The Innova Schools average was 16.8 percentage points above its private peers. In Mathematics, there were 25 schools (out of a total of 29) whose percentage of students at “Satisfactory” level outperformed the average of similar private schools defined by the MINEDU. The Innova Schools average was 16.3 percentage points above its private peers.

**Number of Innova Schools, compared with similar private schools averages**

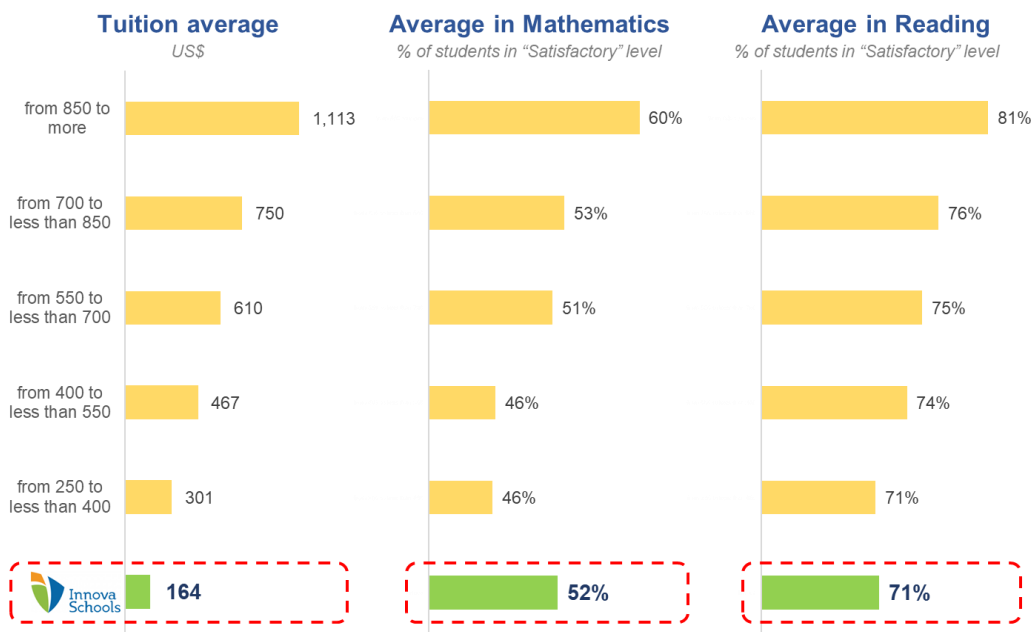


**Underserved:**

According to public data (ECE Tests), the academic results of Innova Schools are comparable with schools whose tuition equals three or four times the tuition of Innova Schools.

In 2018, the average tuition for the 31 schools of Innova Schools was US\$ 164. In mathematics, the percentage of students in "Satisfactory" level was 52%, which is similar to the schools whose tuition is between US\$ 550 and 850. In Reading, the percentage of students in "Satisfactory" level was 71%, which is similar to schools whose tuition is between US\$ 250 and 400.

The tuitions of the most expensive schools are outside the reach of the middle class.



In addition, most expensive schools are concentrated in Lima; and within Lima only in SEL “A/B” districts, outside the reach of middle-class families.

In 2016, there were 135 schools with tuitions greater than US\$ 250 in Peru. Of these, 120 schools are located in Lima and only 15 in the other departments of the country. Currently (year 2019) there are 9 cities within the country with presence of Innova Schools where there are no schools with tuitions over US\$ 250.

In Lima, there are 120 schools with tuitions over US\$ 250. The 70% of them (84 schools) are concentrated in the 5 richest districts of the city. Innova Schools, within Lima, has presence in 8 districts where there are no schools with tuitions over US\$ 250.

