

Second-Party Opinion

Aegea Sustainable and Sustainability-Linked Financing Framework



Evaluation Summary

Use of Proceeds Instruments

Green Bond Principles 2021, Social Bond Principles 2023, Green Loan Principles 2023 and Social Loan Principles 2023

Sustainalytics is of the opinion that the Aegea Sustainable and Sustainability-Linked Financing Framework is credible and impactful and aligns with the four core components of the Green Bond Principles 2021, Social Bond Principles 2023, Green Loan Principles 2023, and Social Loan Principles 2023. The eligible categories for the use of proceeds are aligned with those recognized by the applicable principles and are expected to lead to positive environmental and social impacts, namely: Renewable Energy; Pollution Prevention and Control; Terrestrial and Aquatic Biodiversity; Sustainable Water and Wastewater Management; Affordable Basic Infrastructure; and Socioeconomic Advancement and Empowerment.

Sustainability-Linked Instruments

Sustainability-Linked Bond Principles 2023, Sustainability-Linked Loan Principles 2023

Sustainalytics is of the opinion that the Aegea Sustainable and Sustainability-Linked Financing Framework aligns with the Sustainability-Linked Bond Principles 2023 and Sustainability-Linked Loan Principles 2023.

Overview of KPIs and SPTs:

KPI	Strength of KPI	SPT	Ambitiousness of SPT
Energy consumption in water production and sewage treatment	Strong	SPT 1: Reduce energy consumption by 15% in Aegea's water production and distribution and sewage collection and treatment by 2030	Ambitious
Percentage of leadership positions occupied by women employees	Strong	SPT 2.1: Increase the percentage of leadership positions filled by women to at least 45% by 2030	Ambitious
Percentage of leadership positions occupied by black employees	Strong	SPT 3: Increase the percentage of leadership positions filled by black employees to at least 27% by 2030	Ambitious

Evaluation Date September 7, 2023
Issuer Location São Paulo, Brazil

The UoPs and SPTs contribute to the following SDGs:



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Scope of Work and Limitations

Sustainalytics' Second-Party Opinion reflects Sustainalytics' independent¹ opinion on the alignment of the Aegea Sustainable and Sustainability-Linked Financing Framework with current market standards. As part of the Second-Party Opinion, Sustainalytics assessed the following:

- The Framework's alignment with the Sustainability Bond Guidelines 2021, Green Bond Principles 2021, Social Bond Principles 2023, Green Loan Principles 2023, Social Loan Principles 2023, Sustainability-Linked Bond Principles 2023, and Sustainability-Linked Loan Principles 2023;^{2,3}
- The credibility and anticipated positive impacts of the use of proceeds and SPTs;
- The issuer's sustainability strategy, performance and sustainability risk management;

As part of this engagement, Sustainalytics held conversations with various members of Aegea's management team to understand the sustainability impact of its business processes and the core components of the Framework. Aegea representatives have confirmed that:

- (1) They understand it is the sole responsibility of Aegea to ensure that the information provided is complete, accurate and up to date;
- (2) They have provided Sustainalytics with all relevant information;
- (3) Any provided material information has been duly disclosed in a timely manner.

Sustainalytics also reviewed relevant public documents and non-public information. This document contains Sustainalytics' opinion of the Framework and should be read in conjunction with that Framework. Any update of the present Second-Party Opinion will be conducted according to the agreed engagement conditions between Sustainalytics and Aegea.

Sustainalytics' Second-Party Opinion assesses alignment of the Framework with current market standards, but does not provide any guarantee of alignment nor warrants alignment with any future versions of such standards. Regarding the portion of the Second-Party Opinion which assesses:

- use of proceeds categories, Aegea is encouraged to update the associated parts of the Framework after 24 (twenty-four) months from the evaluation date, if necessary, and seek an update to this Second-Party Opinion to ensure ongoing alignment of the Framework with market standards and expectations.
- sustainability-linked instruments, this Second-Party Opinion is valid for issuances aligned with the Framework for up to 24 (twenty-four) months or until one of the following occurs: (1) a material change to the external benchmarks against which targets were set; (2) a material corporate action (such as a material M&A or change in business activity) which has a bearing on the achievement of the SPTs or the materiality of the KPIs.

For use of proceeds instruments, Sustainalytics relied on its internal taxonomy, version 1.14, which is informed by market practice and Sustainalytics' expertise as an ESG research provider. This Second-Party Opinion:

- addresses the anticipated impacts of eligible projects but does not measure their actual impact. Reporting and measuring impact of projects financed under the Framework is the responsibility of the Framework owner.
- opines on the potential allocation of proceeds but does not guarantee their realized allocation towards eligible activities.

For sustainability-linked instruments, the Second-Party Opinion:

- addresses the anticipated SPTs of KPIs but does not measure progress on the KPIs. Measuring and reporting on KPIs is the responsibility of the Framework owner.

¹ When operating multiple lines of business that serve a variety of client types, objective research is a cornerstone of Sustainalytics and ensuring analyst independence is paramount to producing objective, actionable research. Sustainalytics has therefore put in place a robust conflict management framework that specifically addresses the need for analyst independence, consistency of process, structural separation of commercial and research (and engagement) teams, data protection and systems separation. Last but not the least, analyst compensation is not directly tied to specific commercial outcomes. One of Sustainalytics' hallmarks is integrity, another is transparency.

² The Sustainability Bond Guidelines, Green Bond Principles, Social Bond Principles and Sustainability-Linked Bond Principles are administered by the International Capital Market Association and are available at: <https://www.icmagroup.org/sustainable-finance/the-principles-guidelines-and-handbooks/>

³ The loan-related principles and guidelines are administered by the Loan Market Association, Asia Pacific Loan Market Association and Loan Syndications and Trading Association and are available at: https://www.lsta.org/content/?_industry_sector=guidelines-memos-primary-market

No information Sustainalytics provides under the present Second-Party Opinion shall be considered as being a statement, representation, warrant or argument in favour or against the truthfulness, reliability or completeness of any facts or statements and related circumstances that Aegea may have disclosed to Sustainalytics for the purpose of this Second-Party Opinion.

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Introduction

Aegea Saneamento e Participações S.A. (“Aegea”, the “Company” or the “Issuer”) is a Brazilian private sanitation company headquartered in São Paulo. The Company’s operations focus on water treatment and distribution, and sewage collection and treatment. In 2022, Aegea had an annual net profit of BRL 417 million (USD 80 million) and employed more than 17,000 people through its subsidiaries and associated companies. The Company serves more than 30 million people across 13 states in Brazil.

Aegea has developed the Aegea Sustainable and Sustainability-Linked Financing Framework dated September 2023 (the “Framework”) under which the Issuer, its subsidiaries⁴ and associated companies may issue thematic bonds, including green, social, sustainable and blue bonds, sustainability-linked bonds (SLBs) or obtain sustainable loans or sustainability-linked loans (SLLs), or a combination of these labels. Aegea engaged Sustainalytics to review the Framework and provide a second-party opinion on the Framework’s alignment with the Sustainability Bond Guidelines 2021 (SBG), Green Bond Principles 2021 (GBP), Social Bond Principles 2023 (SBP), Green Loan Principles 2023 (GLP), Social Loan Principles 2023 (SLP), Sustainability-Linked Bond Principles 2023 (SLBP), and Sustainability-Linked Loan Principles 2023 (SLLP). The Framework will be published in a separate document.⁵

Under use of proceeds instruments, the proceeds will finance or refinance, in whole or in part, existing or future projects that are expected to lead to positive environmental outcomes and social advancements in Brazil. The Framework defines eligibility criteria in the following areas:

1. Renewable Energy
2. Pollution Prevention and Control
3. Terrestrial and Aquatic Biodiversity
4. Sustainable Water and Wastewater Management
5. Affordable Basic Infrastructure
6. Socioeconomic Advancement and Empowerment

Under sustainability-linked instruments, the financial characteristics of the instruments will be tied to the achievement of sustainability performance targets for three KPIs: i) energy consumption in water production and sewage treatment; ii) percentage of leadership positions occupied by women employees; and iii) percentage of leadership positions occupied by black employees.

Tables 1 and 2 below describe the KPIs and SPTs defined by Aegea.

Table 1: KPIs

KPI	Description
Energy consumption in water production and sewage treatment (measured in kWh/m ³ of water produced or sewage treated)	KPI 1 measures energy consumption in kWh/m ³ of Aegea’s water production and distribution, and sewage collection and treatment units. The KPI covers all the Company’s assets and is calculated by measuring the amount of electricity consumed by these units in relation to the total volume of water produced and sewage treated. Water production and distribution, and sewage collection and treatment units account for approximately 99% of the Company’s overall energy consumption.
Percentage of leadership positions occupied by women employees	KPI 2 measures the number of leadership positions held by those who identify as women, ⁶ as a percentage of the total number of leadership positions. Aegea defines leadership positions as those that are occupied by managers, directors, officers, and the chief executive officer.
Percentage of leadership positions occupied by black employees	KPI 3 measures the number of leadership positions held by black employees ⁷ as a percentage of the total number of leadership positions. Aegea defines black employees in accordance with Brazilian Law no. 12.288/2010, which requires self-declaration of racial and ethnic identity. Therefore, the Company refers to employees who identify themselves as black and considers their racial and ethnic identity as defined by the individual themselves through a self-declaration form.

⁴ Aegea has communicated to Sustainalytics that it will have operational control over the issuance process of its subsidiaries and associated companies as it pertains to any financings under the Aegea Sustainable and Sustainability-Linked Financing Framework. The Issuer has further confirmed that it will be responsible for ensuring continual alignment of any issuances with the criteria defined in the Framework.

⁵ The Aegea Sustainable and Sustainability-Linked Financing Framework is available on Aegea’s website at: <https://ri.aegea.com.br/en/esg/sustainable-finance/>

⁶ The Issuer considers gender identity that is self-declared by employees in the Company’s internal system.

⁷ Aegea has communicated to Sustainalytics that an individual may be counted towards both targets in the case of leadership positions occupied by black women.

Table 2: SPTs and Past Performance

KPI	2019	2020	2021 (baseline)	2022	SPT 2025	SPT 2027	SPT 2030
Energy consumption in water production and sewage treatment (kWh/m ³)	0.63	0.64	0.39	0.38	0.36	0.35	0.33
Percentage of leadership positions occupied by women employees (%)	23%	28%	32%	35%	38%	41%	45%
Percentage of leadership positions occupied by black employees (%)	12%	15%	17%	20%	22%	24%	27%

Sustainalytics' Opinion

Section 1: Alignment of the Framework with Relevant Market Standards

Alignment with Use of Proceeds Principles

Sustainalytics is of the opinion that the Aegea Sustainable and Sustainability-Linked Financing Framework is credible, impactful and aligns with the SBG, SBP, GBP, GLP and SLP. Sustainalytics notes that in addition to these principles, Aegea intends to align with the IFC Guidelines for Blue Finance.⁸ For detailed information, please refer to Appendix 1: Sustainability Bond/Sustainability Bond Programme External Review Form. Sustainalytics highlights the following elements of Aegea Sustainable and Sustainability-Linked Financing Framework:



Use of Proceeds

Overall Assessment of Use of Proceeds

Use of Proceeds Category	Activity	Description and Sustainalytics' Assessment
Renewable Energy	Infrastructure for clean and/or drinking water, wastewater treatment and solid waste management	- In the Renewable Energy category, Aegea intends to invest in maintaining its current renewable energy mix, as well as the production of biogas from sewage sludge. ▪ Aegea has communicated to Sustainalytics that nearly 97% of the Company's energy consumption is composed of renewable energy sources, including wind, solar and biogas.⁹ ▪ Sustainalytics considers investments in this category to be in line with market practice. - Under the Pollution Prevention and Control category, Aegea contemplates investments in the management, collection, treatment, and disposal of sewage, including increasing the ratio of treated sewage in aerobic plants, which is expected to reduce GHG emissions intensity. Aegea may also invest in electricity management projects that reduce energy consumption and increase energy efficiency, including energy audits and measuring energy usage. Sustainalytics
Pollution Prevention and Control		
Terrestrial and Aquatic Biodiversity Conservation		
Sustainable Water and		

⁸ International Finance Corporation, "Guidelines for Blue Finance", at: <https://www.ifc.org/en/insights-reports/2022/guidelines-for-blue-finance>

⁹ Aegea has communicated to Sustainalytics that expenditures under the Renewable Energy category will be limited to power purchase agreements (PPAs) for procurement of renewable energy with a term of five years or more.

Wastewater Management		encourages Aegea to report on estimated or achieved energy gains, where feasible. Aegea has confirmed to Sustainalytics that fossil fuel-powered equipment and technology will be excluded for financing in this category. Sustainalytics considers these expenditures to be in line with market practice. - In the Terrestrial and Aquatic Biodiversity Conservation category, the Company may finance the management of conservation areas and reforestation projects, including those aimed at sequestering carbon. ▪ The Company intends to finance conservation and reforestation projects as part of Brazil's Living Forest programme executed by the Brazilian Fund for Biodiversity (FUNBIO).¹⁰ Aegea has confirmed to Sustainalytics that reforestation projects will use tree species that are well adapted to site conditions. ▪ Sustainalytics notes that FUNBIO requires selected projects to have a sustainable management plan in place that must follow established methodologies for ensuring biodiversity conservation, carbon sequestration, native species selection, public notice and consultation, socio-environmental monitoring and workers' rights. Sustainalytics encourages Aegea to select projects, where feasible, that have a sustainable management plan certified by credible third-party certifications. ▪ Carbon sequestration projects include financing for the addition of biochar to soils. Sustainalytics considers this investment to be in line with market practice. - Sustainable Water and Wastewater Management activities include wastewater treatment. Aegea has confirmed to Sustainalytics that the treatment of wastewater from fossil fuel-driven processes will be excluded from financing. Sustainalytics considers investments in this category to be in line with market practice.
Affordable Basic Infrastructure Socioeconomic Advancement and Empowerment	Infrastructure for clean and/or drinking water, wastewater treatment, urban drainage systems for a target population	- Under the Affordable Basic Infrastructure category, Aegea may finance infrastructure to improve access to sanitation and potable water.¹¹ Aegea informed Sustainalytics that the projects will mostly benefit municipalities, individuals and low-income communities with inadequate infrastructure and aim to improve access to potable and clean water and sanitation that have the potential to provide additional health benefits to identified target populations. Sustainalytics considers investments in infrastructure to improve access to potable water and sanitation in a developing economy, such as Brazil, to be aligned with market practice. - In the Socioeconomic Advancement and Empowerment category, Aegea may finance projects that generate employment opportunities for local populations and expand the number of beneficiaries of tariff reduction and social tariff programmes. ▪ Aegea has informed Sustainalytics that employment opportunities are generated through the Águas do Rio project. The project directly serves low-income populations in Rio de Janeiro.¹² ▪ Tariff reduction and social tariff programmes include expanding the number of beneficiaries that receive subsidization to cover nearly 50% of the costs associated with obtaining access to potable water and sewage treatment. The beneficiaries are low-income populations, populations registered in the Single Registration System (Cadastro Único),¹³ low-income families as identified in the government's Bolsa Familia programme¹⁴ and residents of communities in need, as well as precarious housing areas and housing developments, and housing for low-income residents. Aegea has informed Sustainalytics that populations registered in the Cadastro Único are the most likely target populations to receive financing under these programmes. ▪ Sustainalytics notes that the projects aiming to generate employment for low-income populations and expanding access to government

¹⁰ The Living Forest programme will be executed by FUNBIO, which is a non-profit national institution that works in partnership with the government and private sectors to undertake biodiversity conservation initiatives.

FUNBIO, "Floresta Viva", at: https://www.funbio.org.br/programas_e_projetos/florestaviva/

¹¹ Aegea has confirmed the exclusion of integrated water power plants and desalination plants for financing.

¹² The Company has confirmed to Sustainalytics that market competitive wages are provided to the employees.

¹³ Cadastro Único is a Brazilian registry that allows the government to identify low-income families and their living conditions in Brazil. The tariff reduction and social tariff benefits are exclusive to families that occupy residences registered in the Cadastro Único below the poverty line (up to BRL 218/month or USD 44), as updated by Brazilian federal legislation.

¹⁴ The Bolsa Familia programme provides households with low per capita monthly incomes with a fixed household transfer to encourage households to send their children to school, ensure immunization and educational opportunities for children.

		programmes that provide subsidies for water and sewage treatment services are anticipated to deliver positive social impacts.
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Additional Considerations on Use of Proceeds

- Aegea has defined a two-year look-back period for refinancing its operating expenditure activities, which Sustainalytics considers to be in line with market practice.
- Instruments issued under the Framework may include multi-tranche loan facilities. Aegea intends to label only those tranches of such facilities whose proceeds will be allocated according to the eligibility criteria in the Framework. This is aligned with market practice.
- Aegea has in place exclusionary criteria that prohibit financing projects or expenditures associated with activities such as child, youth and slave labour, activities that violate the rights of indigenous and traditional peoples and communities, business partners not complying with federal anticorruption laws, fossil fuels or coal acquisition or generation projects, or nuclear waste. Sustainalytics views that the exclusion of these activities further strengthens the Framework.
- The investment may include capital expenditures and selected operating expenditures, R&D expenditures and acquisitions of a majority or minority stake or capital injection in pure play companies. In case of pure play companies, Aegea intends to finance or refinance acquisition of entities that derive 90% or more of their revenue from activities that comply with the eligibility criteria set in the Framework. Sustainalytics considers it to be good practice to allocate use of proceeds for acquisition in pure plays linked to the fair value of eligible green assets booked under the balance sheet of the target company.
- In case of capital injection in pure player companies, Aegea intends to invest equity in entities that derive 90% or more of their revenues from activities that comply with the eligibility criteria in the Framework. Sustainalytics considers that project and activity-based lending generally ensures better compliance with the criteria in the Framework and results in more direct environmental and social benefits than equity investments into pure play companies. However, using proceeds from green, social and sustainability (GSS) instruments to make equity investments into pure play companies is also a commonly accepted approach likely to generate positive impacts through supporting activities of the investee pure play company.



Project Evaluation and Selection

- Aegea's ESG Executive Committee will select projects that fulfil the evaluation and selection criteria outlined in the Framework. The Company has informed Sustainalytics that the executive committee is composed of representatives from the Investor Relations, Finance, Business Development, Sustainability and Mergers, and Acquisitions departments, plus the Company's CEO and CFO.
- The Company has in place processes to identify and mitigate environmental and social risks associated with the eligible projects, which are applicable to all allocation decisions made under the Framework. Additionally, Aegea requires all eligible projects to obtain applicable licensing and permits, including environmental permits. For additional details, please see Section 2.
- Based on the clear delineation of responsibility, Sustainalytics considers this process to be in line with market practice.



Management of Proceeds

- Aegea's Financial Operations Department will be responsible for monitoring the allocation of proceeds, and the Company's Treasury Department will be responsible for the management of proceeds on a portfolio basis. The Framework further notes that in the event of specific funding operations, a special purpose entity managed by a third party will be responsible for managing the allocation of proceeds. This is aligned with market practice.

- The Company intends to fully allocate all proceeds to eligible assets as soon as practicable within 72 months of issuance. In the event a project becomes ineligible as per the Framework's eligibility criteria, Aegea intends to allocate proceeds to other eligible projects within 12 months. Unallocated proceeds will be temporarily used for other operational, financial and investment activities.¹⁵ Sustainalytics notes that the allocation period aligns with the timeline of the Company's project pipeline under its existing public service concessions, but notes that the allocation period is longer than what Sustainalytics considers to be good practice. Sustainalytics further notes that Aegea commits to reach full allocation before the maturity of the issued instruments.



Reporting

- Aegea will publish a report on its website on the allocation and impact of bond proceeds on an annual basis until full allocation.
- Allocation reporting will include the percentage of proceeds allocated to eligible projects, the percentage of proceeds temporarily allocated to other financial instruments and the percentage of proceeds temporarily allocated to other Aegea projects not indicated in the Framework.
- In addition, the Company is committed to report on impact metrics, where relevant, such as the population served, collected sewage (in m³), volume of solid waste recycled (in tonnes) and percentage of water distribution losses.
- Based on the commitment to both allocation and impact reporting, Sustainalytics considers this process to be in line with market practice.

Alignment with Sustainability-Linked Principles

Sustainalytics is of the opinion that the Aegea Sustainable and Sustainability-Linked Financing Framework aligns with the SLBP and SLLP. For detailed information, please refer to Appendix 2: Sustainability Linked Bond External Review Form. Sustainalytics highlights the following elements of the Framework:



Selection of Key Performance Indicators

Relevance and Materiality of KPIs

In assessing materiality and relevance of a KPI, Sustainalytics considers: i) whether the KPI speaks to a material impact of the issuer's business on environmental or social issues; and ii) to what portion of impact the KPI is applicable.

Sustainalytics considers KPI 1: Energy consumption in water production and sewage treatment to be material and relevant based on the following:

- The Sustainability Accounting Standard Board (SASB) identifies Energy Management as a material topic for the Water Utilities & Services industry.¹⁶ Water utilities generate lower GHG emissions than electricity utilities, yet, they consume approximately 7% of global electricity and energy costs can account for up to

¹⁵ Aegea notes in the Framework that unallocated proceeds will not be temporarily used for: activities not related to sanitation services, carbon-intensive operations or investments, activities restricted by law or current regulations, fixed-income operations not involving prime banks, medium or high-risk fixed-income operations, illiquid fixed-income operations, stock-based operations, operations in the futures and derivatives markets.

¹⁶ SASB Materiality Finder, "Water Utilities & Services", at: [https://www.sasb.org/standards/materiality-finder/find/?industry\[\]=IF-WU](https://www.sasb.org/standards/materiality-finder/find/?industry[]=IF-WU)

40% of operational costs for water and wastewater systems.^{17,18} In its materiality analysis for 2022, Aegea identified energy management as a material issue for the Company.¹⁹

- Sustainalytics notes the applicability of the KPI as high given that it covers the large majority (approximately 99%) of the Company's total energy consumption.

Sustainalytics considers KPI 2: Percentage of leadership positions occupied by women employees, and KPI 3: Percentage of leadership positions occupied by black employees, to be material and relevant based on:

- Sustainalytics' ESG Risk Rating identifies Human Capital as a material ESG issue for the Water Utilities sector. On average, women and black employees are disproportionately underrepresented in the water and wastewater workforce.^{20,21} Women account for 23.3% of leadership positions at water utilities firms, according to a 2019 World Bank study.²² Brazil, in particular, has one of the lowest rates of female leadership participation in Latin America, with women holding just 19% of senior roles in the corporate sector.²³ Additionally, up to 56% of the Brazilian population identifies as black, yet only 4.7% of executive positions in Brazil's 500 largest companies are held by black employees, indicating a lack of racial diversity in leadership positions.²⁴ Further, Aegea identified gender and racial diversity of governance bodies and employees as a material issue for the Company in its materiality analysis for 2020, and considers increasing gender and racial diversity a key element of its goal to reduce inequalities.²⁵
- Regarding applicability, KPI 2 and KPI 3 apply to leadership positions in the Company, meaning positions occupied by managers, directors, officers and the chief executive officer. In this context and considering that leadership positions accounted for roughly 2.3% of all of the Company's employees at the end of 2021, Sustainalytics considers that increasing participation of women and black employees in leadership roles would also generate impacts across all operations of Aegea. As such, Sustainalytics assesses KPI 2 and KPI 3 to be highly applicable in scope.

KPI Characteristics

In assessing KPI characteristics, Sustainalytics considers: i) whether a clear and consistent methodology is used; ii) whether it follows an externally recognized definition; iii) whether the KPI is a direct measure of the performance of the issuer on a material environmental or social issue; and, if applicable, iv) whether the methodology can be benchmarked to an external, contextual benchmark.²⁶

KPI 1- Energy consumption in water production and sewage treatment

Sustainalytics considers Aegea's definition and methodology to calculate KPI 1 performance to be clear and consistent with historical disclosure. While Sustainalytics notes that the KPI 1 follows a defined external methodology²⁷, there are no science-based external benchmarks available for assessing progress on KPI 1. As such, Aegea has established an internal methodology and contextual targets to reduce energy consumption in its

¹⁷ Wakeel, M. et al. (2016), "Energy consumption for water use cycles in different countries: A review", ScienceDirect, at: <https://www.sciencedirect.com/science/article/abs/pii/S0306261916308893>

¹⁸ Copeland, C. et al. (2017), "Energy-Water Nexus: The Water Sector's Energy Use", Congressional Research Service, at: <https://sgp.fas.org/crs/misc/R43200.pdf>

¹⁹ Aegea, "Annual Sustainability Report 2022", at: <https://api.mziq.com/mzfilemanager/v2/d/9aa4d8c5-604a-4097-acc9-2d8be8f71593/e6a16c55-4e35-775e-792b-d28604f7e443?origin=1>

²⁰ World Bank, "Women in Water Utilities", at: <https://openknowledge.worldbank.org/bitstream/handle/10986/32319/140993.pdf>

²¹ NEWEA, "Journal of the New England Water Environment Association Winter 2020", at: <http://www.newea.org/wp-content/uploads/2021/01/Winter-Journal-2020.pdf>

²² Ibid.

²³ Grant Thornton, "Women in business", at: https://www.grantthornton.global/globalassets/1.-member-firms/global/insights/article-pdfs/2017/grant-thornton_women-in-business_2017-report.pdf

²⁴ TIME, "How Black Brazilians Are Looking to a Slavery-Era Form of Resistance to Fight Racial Injustice Today", (2020), at: <https://time.com/5915902/brazil-racism-quilombos/>

²⁵ Aegea, "Sustainability Report 2020", at: <https://api.mziq.com/mzfilemanager/v2/d/9aa4d8c5-604a-4097-acc9-2d8be8f71593/cbf92f50-a5f4-c074-79b7-ad59257a653e?origin=1>

²⁶ External contextual benchmarks provide guidance on the alignment with ecological system boundaries. This criterion is not applied to social KPIs or impact areas for which such contextual benchmarks are not available.

²⁷ Aegea has communicated to Sustainalytics that its calculation methodology for KPI 1 is consistent with the methodology used by the Brazilian Ministry of Regional Development to measure the energy usage of the water supply system. National Sanitation Information System, "Thematic Diagnosis Water and Sewage Services", (2021), at: https://www.gov.br/mdr/pt-br/assuntos/saneamento/snis/produtos-do-snis/diagnosticos/DIAGNOSTICO_TEMATICO_VISAO_GERAL_AE_SNIS_2021.pdf

primary activities. Sustainalytics further considers KPI 1 to be a direct measure of Aegea's performance on a material environmental issue.

KPI 2 - Percentage of leadership positions occupied by women employees; and KPI 3 - Percentage of leadership positions occupied by black employees.

Sustainalytics considers Aegea's definition and methodology to calculate KPIs 2 and 3 to be clear and consistent based on the ease of calculation and replicability and considers both KPIs as directly linked to the Company's performance on key sustainability parameters related to its workforce. Sustainalytics further notes that there are no applicable externally recognized benchmarks for KPIs 2 and 3.

Overall Assessment

Sustainalytics considers KPI 1 to be strong given that: i) it follows a clear and consistent methodology; ii) it is a direct measure of the Company's environmental performance; and iii) it covers most of the Company's energy consumption, despite not being able to be benchmarked.

Sustainalytics considers KPI 2 and KPI 3 to be strong given that they: i) measure performance on a relevant and material issue of the Company and industry; ii) are a direct measure of operational performance; and iii) follow clear and consistent methodologies.

KPI	Strength of KPI			
	Not Aligned	Adequate	Strong	Very strong
KPI 1: Energy consumption in water production and sewage treatment	Not Aligned	Adequate	Strong	Very strong
KPI 2: Percentage of leadership positions occupied by women employees	Not Aligned	Adequate	Strong	Very strong
KPI 3: Percentage of leadership positions occupied by black employees	Not Aligned	Adequate	Strong	Very strong



Calibration of Sustainability Performance Targets

Alignment with Aegea's Sustainability Strategy

Aegea has set the following SPTs for its KPIs:

- Reduce energy consumption by 15% in Aegea's water production and distribution, and sewage collection and treatment by 2030 against a 2021 baseline.
- Increase the percentage of leadership positions filled by women to at least 45% by 2030 against a 2021 baseline.
- Increase the percentage of leadership positions filled by black employees to at least 27% by 2030 against a 2021 baseline.

Sustainalytics considers the SPTs to be aligned with Aegea's sustainability strategy (please refer to Section 2 for an analysis of the credibility of Aegea's sustainability strategy).

Regarding SPT 1, Aegea has established the Efficiency and Technology department, which is responsible for identifying solutions to increase operational efficiency.²⁸ The department is divided into four strategic areas: i) Floss control management; ii) process management; iii) project management; and iv) energy management and efficiency.²⁹ The Energy Management and Efficiency is one of the divisions of the Efficiency and Technology department, which focuses on the management of electricity consumption in water and sewage systems. In 2020, the Company developed over 100 initiatives focused on the Efficiency and Technology department's four strategic

²⁸ Aegea, "Sustainability Report 2022", at: <https://api.mziq.com/mzfilemanager/v2/d/9aa4d8c5-604a-4097-acc9-2d8be8f71593/e6a16c55-4e35-775e-792b-d28604f7e443?origin=1>

²⁹ Aegea, "Efficiency and Technology", at: <https://www.aegea.com.br/en/efficiency-and-technology/>

areas.³⁰ Furthermore, advancements in energy conservation and efficiency optimization resulted in an 8.2 GJ reduction in consumption and a nearly 26% decrease in the total energy purchased in 2020.³¹

Regarding SPTs 2 and 3, in 2017, Aegea launched the “Respeito Dá o Tom” program with the goal of developing individuals and encouraging black, brown and Indigenous people to pursue leadership roles in the corporate sector.³² Women occupied 32% of leadership positions and black employees accounted for 17% in 2021, indicating that improving diversity was a material topic for Aegea’s Corporate Diversity committee.

Strategy to Achieve the SPTs

Aegea intends to achieve the SPTs through the following strategy:

SPT 1 - Reduce energy consumption by 15% in Aegea’s water production and distribution and sewage collection and treatment by 2030 against 2021 baseline

Aegea intends to achieve SPT 1 through the following strategies:

- To support SPT 1, Aegea focuses on initiatives that aim to: i) increase efficiency of its systems; ii) deploy new technologies; iii) reduce water losses via utilization of innovative technologies that detect leaks, including software, satellite and specific types of equipment, such as geophones; iv) promote campaigns and programmes for responsible consumption of water; and v) increase inspections.
- To improve energy efficiency in its operations, Aegea has established the Energy Efficiency Management (EEM) plan, which is further supported by the Costing and Planning Management department. The EEM includes three corporate programmes: i) hydro energy diagnosis; ii) energy audits; and iii) energy monitoring.
- As part of the hydro energy diagnosis, Aegea conducts on-site assessments of energy-intensive operations and prepares conclusive reports with a list of energy saving opportunities. In addition, the Company conducts energy audits to identify opportunities for energy efficiency through project modelling. The Company also focuses on physical adaption projects for instrumentation that enables continuous monitoring of the energy output of strategic equipment. The Company has identified opportunities for energy optimization by considering the following factors: i) sizing and designing aspects of pumping assemblies, hydraulic structures and hydraulic protections; ii) operating conditions of pumping sets; iii) use of drive systems such as frequency inverters and soft starters; iv) resizing and reconditioning of engines, pumps and related components equipment; and v) replacement of inefficient equipment.

SPT 2 - Increase the percentage of leadership positions filled by women to at least 45% by 2030 against 2021 baseline

SPT 3 - Increase the percentage of leadership positions filled by black employees to at least 27% by 2030 against 2021 baseline

Aegea intends to achieve SPTs 2 and SPT 3 through the following strategies:

- The Company’s initiatives aimed at promoting an inclusive work environment include: i) development of attraction and selection processes to increase inclusiveness and diversity of the candidate pool for entry-level positions and promotions; ii) creation of entry-level programmes and mapping the organization’s talents to develop career-growth plans for women and black employees; and iii) development of affirmative actions to deconstruct unconscious bias in the work environment.
- To support women and black employees’ progress in their careers, the Company has developed various programmes that provide mentorship and assistance in obtaining higher academic credentials from reputable institutions. Additionally, the Company has established an accelerated development programme for retaining high potential employees. Furthermore, the Company also undertakes initiatives to: i) actively seek female or black candidates for middle and senior leadership positions; and ii) provide training to deconstruct biases and prejudiced behaviours in the work environment.

³⁰ Ibid.

³¹ Aegea, “Sustainability Report 2022”, at: <https://api.mziq.com/mzfilemanager/v2/d/9aa4d8c5-604a-4097-acc9-2d8be8f71593/e6a16c55-4e35-775e-792b-d28604f7e443?origin=1>

³² Ibid.

Ambitiousness, Baseline and Benchmarks

To determine the ambitiousness of the SPTs, Sustainalytics considers: i) whether the SPTs go beyond a business-as-usual trajectory; ii) how the SPTs compare to targets set by peers; iii) and how the SPTs compare with science-based trajectories.³³

SPT 1: Sustainalytics was able to use the following benchmarks to assess ambitiousness: past performance and peer performance.

In 2021, Águas do Rio, a sanitation infrastructure concessionaire, was added in Aegea's project portfolio,³⁴ which led to a reduction in Aegea's energy consumption per cubic meter of water produced or sewage treated compared to its energy intensity prior to 2021, and therefore contributed to a significant reduction (39%) in the Company's overall energy consumption per cubic meter between 2020 and 2021. Prior to the integration, between 2018 and 2020, Aegea reduced its energy consumption by 0.8%. However, given the significant impact on energy consumption because of the integration, Sustainalytics does not view the historical performance for this metric prior to 2021 as applicable to the scope of this SPT assessment.

Sustainalytics acknowledges that the Company must commit to an implied annual average reduction of roughly 1.8% in energy consumption between 2021 and 2030 to achieve the SPT, and views the interim targets set for 2025 and 2027 as integral parts of its strategy to achieve the 2030 target.

Regarding comparison against five industry peers, Sustainalytics notes that while peer companies aim to reduce their energy consumption in operations, none have set any quantitative targets. As such, Sustainalytics considers SPT 1 to be above Aegea's peers' targets.

SPT 2: Sustainalytics was able to use the following benchmarks to assess ambitiousness: past performance and peer performance.

Aegea increased the share of women in leadership positions at an annual average of 18% between 2019 and 2021. To achieve SPT 2, this figure must be increased further to reach 45% by the final observation date in 2030 compared to 2021, which translates to an annual average increase of roughly 4% between 2021 and 2030. Sustainalytics acknowledges that the interim targets set for 2025 and 2027 are integral for achieving the 2030 targets of increasing the share of women in leadership positions. Sustainalytics notes, however, that SPT 2 is below the Company's historical performance.

In comparison with five industry peers, Sustainalytics considers that SPT 2 exceeds Aegea's peers' targets. While most peers have similar shares of women in executive or leadership roles, none have set any future targets.

SPT 3: Sustainalytics was able to use the following benchmarks to assess ambitiousness: past performance and peer performance.

Aegea increased the share of black employees in leadership positions at an annual average of 19% between 2019 and 2021. To achieve SPT 3, this figure must be increased further to reach 27% by the final observation date in 2030 compared to 2021, which translates to an annual average increase of roughly 5% between 2021 and 2030. Sustainalytics acknowledges that the interim targets set for 2025 and 2027 are key to achieving the 2030 targets of increasing the share of black employees in leadership positions. However, Sustainalytics notes that SPT 3 is below the Company's historical performance.

In comparison to its five industry peers, Sustainalytics considers that SPT 3 exceeds Aegea's peers' targets as none of them have set any quantitative targets.

Overall Assessment

Sustainalytics considers the SPTs to align with Aegea's sustainability strategy and considers Aegea's SPT 1 to be ambitious given that it exceeds performance of the subindustry peers.

Sustainalytics considers Aegea's SPTs 2 and 3 to be ambitious given that they exceed those of the subindustry peers and represent a lower rate of increase compared to past performance.

³³ We refer here to contextual benchmarks that indicate alignment of targets with ecosystem boundaries.

³⁴ Aegea, "Company Presentation", at: <https://api.mziq.com/mzfilemanager/v2/d/9aa4d8c5-604a-4097-acc9-2d8be8f71593/e4442ccb-7894-482d-f106-ebb0dc71b48d?origin=1>

SPTs	Ambitiousness of SPTs			
SPT1: Reduce energy consumption by 15% in Aegea's water production and distribution and sewage collection and treatment by 2030	Not Aligned	Moderately Ambitious	Ambitious	Highly Ambitious
SPT 2: Increase the percentage of leadership positions filled by women to at least 45% by 2030	Not Aligned	Moderately Ambitious	Ambitious	Highly Ambitious
SPT 3: Increase the percentage of leadership positions filled by black employees to at least 27% by 2030	Not Aligned	Moderately Ambitious	Ambitious	Highly Ambitious



Financial Instruments Characteristics

Aegea has disclosed that the financial characteristics of the sustainability-linked instruments issued under the Framework will be linked to the achievement of the selected SPTs. The success or failure to achieve the selected SPTs on the relevant target observation dates will trigger a step-down or step-up coupon or coupon adjustment, as applicable, payable as per the transaction documentation. In addition to the achievement of the SPTs, the structural adjustments will be triggered if: i) the verification of the SPT has not been provided and made public by the time of the notification date, as defined in the instrument documentation; or ii) the Company fails to provide reasonable notice as of the notification date related to achieving the SPT. Sustainalytics considers these levels of disclosure to be aligned with the Sustainability-Linked Principles, noting that it does not opine on the adequacy of the magnitude of the financial penalty.

Sustainalytics notes that the Sustainable and Sustainability-Linked Financing Framework is not limited to one bond or loan, and as such, Aegea can issue multiple sustainability-linked instruments. This Second-Party Opinion is valid only for issuances aligned with the Framework. On this note, the Company can choose to tie the financial characteristics of future issuances to one or more SPTs. However, Sustainalytics encourages the Issuer to include KPI 1 and SPT 1 in conjunction with any other KPI-SPT combinations.



Reporting

Aegea commits to report on its progress on the KPIs and performance on the relevant SPTs on an annual basis via its Target Report, which will be made available on the Company's website. These reporting provisions are aligned with the SLBP and SLLP. Aegea further commits to disclose annually, when feasible: i) qualitative or quantitative explanations on the contribution of the main factors to the evolution of the KPI progress; ii) positive sustainability impacts of the performance improvement; and iii) any reassessments or adjustments of the KPIs, their baselines or scopes.



Verification

Aegea communicated to Sustainalytics that it commits to have an external verifier provide a limited assurance report with relevant expertise on the performance level against each SPT for each KPI. The verification will be done annually and at a relevant date for assessing the SPT performance leading to a potential adjustment in the sustainability-linked instruments and will be made available in the Target Report on its website, which is aligned with the SLBP and SLLP on verification.

Section 2: Assessment of Aegea's Sustainability Strategy

Credibility of Aegea Sustainability Strategy

Aegea has adopted a Sustainability Policy that aligns with its commitment to the UN Sustainable Development Goals and the principles of the UN Global Compact, the Brazilian Global Compact and the Water and Sanitation mandate.³⁵ The three pillars that underpin the policy are: i) economic, ii) environmental, and iii) social. Over the last 10 years, the Company has been reporting on its sustainability performance through its sustainability reports. The Company conducted a materiality assessment in 2020 and identified 13 material topics, including GHG emissions, operational efficiency management, energy management and people management.³⁶

To reduce its operational carbon footprint, Aegea established a target of reducing its energy consumption for water treatment and distribution, and sewage collection and treatment by 15% by 2030 from a 2021 baseline. In Aegea's progression towards its 2030 target, the Company sourced 97% of its total energy consumption from renewable energy sources in 2022. Furthermore, as part of Aegea's Loss Reduction Program to foster efficiency in water consumption prevented the loss of 20 billion litres of water in total in 2022.³⁷

Regarding Aegea's aim to enhance access to basic sanitation, the Company has rolled out the *Vem com a Gente* (Come With Us) programme, which seeks to enhance access to sanitation services for low-income families by establishing sanitation connections and connecting houses to Manaus' and Rio de Janeiro's sanitation grids. Aegea has invested a total of BRL 775.9 million (USD 137.4 million) in this programme in 2021³⁸ and as a result has provided basic sanitation services to more than 440,000 households over the course of the programme's origination since 2018.³⁹ As part of Aegea's new sewage operations project – *Águas do Rio* – the Company has provided direct and indirect employment opportunities to more than 8,000 people by pursuing its diversity and racial equality programme and through training and hiring initiatives in slums and local communities. Furthermore, Aegea has enabled the expansion of the number of beneficiaries to more than 1.5 million people under the tariff programme.⁴⁰

To fulfill its goal of providing equal opportunities, the Company has established the "Respeito Dá o Tom" (Respect Sets the Tone) programme, which is aimed at encouraging people from diverse ethnicities and backgrounds, including Indigenous people, to apply for corporate positions.⁴¹ The Company identified Diversity as a key material issue in its materiality assessment in 2020, and thereafter has sought to advance women and diversity through multiple meetings and campaigns conducted by its corporate diversity committee. In 2022, women represented 5.9% of Aegea's governance bodies.⁴² In the same year, black employees represented 3.1% and 3.6%, while non-white employees represented 20% and 24.7% of the board and management roles, respectively.⁴³

Sustainalytics is of the opinion that the Aegea Sustainable and Sustainability-Linked Financing Framework is aligned with Aegea's sustainability strategy and initiatives and will further support its key sustainability commitments.

Environmental and Social Risk Management

According to Sustainalytics' ESG Risk Rating service, Aegea's management of Material ESG Issues is assessed as strong. Sustainalytics recognizes that the use of proceeds from the Framework will be directed towards eligible projects that are anticipated to have positive environmental impact and that the SPTs are impactful. However, Sustainalytics is aware that such eligible projects and achieving the SPTs could also lead to negative environmental and social outcomes. Some key environmental and social risks potentially associated with the eligible projects and achievement of the SPTs could include product governance; emissions, effluents and waste; issues involving contamination of water bodies; occupational health and safety; land use and biodiversity; community relations and stakeholder engagement.

³⁵ Aegea, "Annual Sustainability Report 2021", at: <https://api.mziq.com/mzfilemanager/v2/d/9aa4d8c5-604a-4097-acc9-2d8be8f71593/c0c088b1-eae2-1071-1bd0-451b461b8360?origin=1>

³⁶ Aegea, "Sustainability Policy", at: <https://www.aegea.com.br/en/sustainability-policy/>

³⁷ Aegea, "Annual Sustainability Report 2022", at: <https://api.mziq.com/mzfilemanager/v2/d/9aa4d8c5-604a-4097-acc9-2d8be8f71593/c0c088b1-eae2-1071-1bd0-451b461b8360?origin=1>

³⁸ Aegea, "Annual Sustainability Report 2021", at: <https://api.mziq.com/mzfilemanager/v2/d/9aa4d8c5-604a-4097-acc9-2d8be8f71593/c0c088b1-eae2-1071-1bd0-451b461b8360?origin=1>

³⁹ Aegea, "Annual Sustainability Report 2022", at: <https://api.mziq.com/mzfilemanager/v2/d/9aa4d8c5-604a-4097-acc9-2d8be8f71593/c0c088b1-eae2-1071-1bd0-451b461b8360?origin=1>

⁴⁰ Aegea, "Annual Sustainability Report 2021", at: <https://api.mziq.com/mzfilemanager/v2/d/9aa4d8c5-604a-4097-acc9-2d8be8f71593/c0c088b1-eae2-1071-1bd0-451b461b8360?origin=1>

⁴¹ Aegea, "Sustainability Policy", at: <https://www.aegea.com.br/en/sustainability-policy/>

⁴² Aegea, "Annual Sustainability Report 2022", at: <https://api.mziq.com/mzfilemanager/v2/d/9aa4d8c5-604a-4097-acc9-2d8be8f71593/c0c088b1-eae2-1071-1bd0-451b461b8360?origin=1>

⁴³ Ibid.

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

- Aegea's risk management identifies nine key functional areas of risk, including: i) people; ii) environmental health and safety; iii) operational; iv) planning and strategic growth; and v) compliance.⁴⁴ Under these broad areas of risk, the Company focuses on mitigating issues related to product governance, environmental management, occupational health and safety, and compliance. The Company's Business Impact Analysis tool is an internal mechanism to manage risks, identify business impact risks and generate a risk map, which is then approved by top management.⁴⁵ Aegea's Risk and Internal Control department, identifies and addresses risks through a three-line strategy that involves line managers, internal risk control and top management.
- To address emissions, effluents and waste management risks, the Company's Health, Occupational Safety and Environment Department requires each unit to identify environmental risks by conducting environmental impact assessments and mitigating these risks in their activities. To prevent the contamination of the water as part of the water collection and treatment process, the Company conducts assessments that include various climatic and water-related indicators. Water is collected and disposed of in compliance with legal standards and conditions related to grants and environmental licences. To treat effluents, technical and economic feasibility is conducted to assess the impact and benefits of converting existing sewage treatment plants from anaerobic to aerobic processes, as well as implementing aerobic processes at new sewage treatment plants. For waste management, Aegea conducts waste reuse programmes to reduce the volume of sludge disposed of in landfills and promote the circular economy. The Company has also incorporated an environmental management system to stay up to date on sector-specific guidelines and monitor the status of environmental licences, grants and restrictions.⁴⁶
- To address risks related to contamination of water bodies, water or soil pollution and waste disposal, the Company's Health, Occupational Safety and Environment Department requires each unit to identify environmental risks by conducting environmental impacts assessment and mitigating these risks in their activities.⁴⁷ The Company has also incorporated an environmental management system into its risk portal⁴⁸ to stay up to date on sector-specific guidelines and that it monitor the status of environmental licences, grants and restrictions.
- Aegea addresses health, occupational and safety risks through the Health, Occupational Safety and Environment programme under its Sustainability Policy, which covers all its operations.⁴⁹ The Company's occupational health and safety management system is aligned with the regulatory standards established by the Brazilian Ministry of Labour and Employment, as well as international standards, such as ISO 45001⁵⁰ and the IFC performance standards for health and safety.⁵¹ To manage occupational risks, such as workplace accidents, the Company conducts annual audits that focus on employee health and safety (H&S) issues. Potential H&S risks are mapped and required management actions to mitigate them are defined according to the Company's Environmental Risk Prevention Program and the Occupational Risks and Hazards List.⁵²
- To mitigate the risk of biodiversity loss, the Company's management is responsible for overseeing compliance with environmental authorizations and licences, in addition to other requirements from municipal, state and federal environmental agencies, including those related to land use and biodiversity.⁵³
- To mitigate or manage risks associated with stakeholder participation, Aegea has implemented the Afluentes programme to promote the relationship of its concessionaires with local leaders. Aegea conducts stakeholder engagement activities to understand the needs, suggestions and opinions of the communities. The Company held nearly 9,000 meetings and engaged approximately 24,000 leaders in 2022.⁵⁴

⁴⁴ Aegea, "Sustainability Report 2020", at: <https://api.mziq.com/mzfilemanager/v2/d/9aa4d8c5-604a-4097-acc9-2d8be8f71593/cbf92f50-a5f4-c074-79b7-ad59257a653e?origin=1>

⁴⁵ Ibid.

⁴⁶ Ibid.

⁴⁷ Aegea, "Sustainability Report 2020", at: <https://api.mziq.com/mzfilemanager/v2/d/9aa4d8c5-604a-4097-acc9-2d8be8f71593/cbf92f50-a5f4-c074-79b7-ad59257a653e?origin=1>

⁴⁸ Ibid.

⁴⁹ Aegea, "Sustainability Policy", at: <https://www.aegea.com.br/en/sustainability-policy/>

⁵⁰ ISO, "ISO 45001:2018 – Occupational Safety and Health Management Systems", at: <https://www.iso.org/standard/63787.html>

⁵¹ Aegea, "Sustainability Policy", at: <https://www.aegea.com.br/en/sustainability-policy/>

⁵² Aegea, "Annual Sustainability Report 2021", at: <https://api.mziq.com/mzfilemanager/v2/d/9aa4d8c5-604a-4097-acc9-2d8be8f71593/c0c088b1-eae2-1071-1bd0-451b461b8360?origin=1>

⁵³ Ibid.

⁵⁴ Ibid.

Based on these policies and standards, Sustainalytics considers that Aegea has implemented adequate measures and is well positioned to manage and mitigate environmental and social risks commonly associated with investments in the eligible categories and achievement of the SPTs.

Section 3: Impact of the UoPs and SPTs

Importance of improving energy efficiency in the water utilities sector

Globally, water utilities account for approximately 7% of total electricity consumption, and energy costs can account for 30% of a water utilities system's total operating cost.^{55,56} The share of energy costs in total operating costs is higher in developing economies, reaching as much as 40% in some countries.⁵⁷ Water and energy systems are highly interdependent, as water utilities are major consumers of energy, which they use for water source pumping, treatment and distribution. For many municipal governments, drinking water and wastewater plants are typically the largest energy consumers, often accounting for 30% to 40% of total energy consumed and this is expected to increase to 60% within the next 15 years.^{58,59} Additionally, water supply and wastewater treatment are responsible for more than 50% of total electricity consumption among water utilities.⁶⁰ Meanwhile, energy-efficient technologies have the potential to reduce energy use by 15% to 30% at water and wastewater treatment plants.⁶¹ These include variable speed drives and high-efficiency motors that can reduce energy consumption by 5% to 15% in drinking water facilities, while process optimizations can result in energy savings of 10% and 20% in drinking water and wastewater facilities, respectively.⁶²

Based on the above, Sustainalytics is of the opinion that Aegea's issuance of sustainable and sustainability-linked debt instruments will provide financing for projects that can help to reduce the Company's overall energy consumption.

Importance of gender and racial diversity in the workforce in Brazil

According to the Global Gender Gap Report 2023, it will take 131 years to close the gender gap worldwide.⁶³ Moreover, the gender gap in economic participation and opportunity will take 169 years to close.⁶⁴ In the water utilities sector more specifically, less than 25% of employees are women.⁶⁵

In Brazil, in spite of making up 50.9% of the population,⁶⁶ women only occupy 38% of the positions in senior and middle management across sectors in 2022.⁶⁷ Women also earn 25% less than men on average in Brazil, despite having the same educational qualification.⁶⁸ Black and non-whites make up 64% of the unemployed or sub-utilized workers in the Brazilian workforce.⁶⁹ Additionally, up to 56% of the Brazilian population identifies as black, yet only 4.7% of executive positions in Brazil's 500 largest companies are held by black employees, indicating a lack of racial diversity in leadership positions.⁷⁰ Meanwhile, the

⁵⁵ Wakeel, M. et al. (2016), "Energy consumption for water use cycles in different countries: A review", ScienceDirect, at: <https://www.sciencedirect.com/science/article/abs/pii/S0306261916308893>

⁵⁶ Copeland, C. et al. (2017), "Energy-Water Nexus: The Water Sector's Energy Use", Congressional Research Service, at: <https://sgp.fas.org/crs/misc/R43200.pdf>

⁵⁷ Wilson et al, "Water utilities' improvement: The need for water and energy management techniques and skill" at: <https://www.sciencedirect.com/science/article/pii/S2666445321000027#bib1>

⁵⁸ US EPA, "Energy Efficiency for Water Utilities" at: <https://www.epa.gov/sustainable-water-infrastructure/energy-efficiency-water-utilities>

⁵⁹ Tata and Howard, "Criticality of energy efficiency for water and waste water utilities" at: <https://tataandhoward.com/the-criticality-of-energy-efficiency-for-water-and-wastewater-utilities/>

⁶⁰ IEA, "Electricity consumption in the water sector by process, 2014-2040", at: <https://www.iea.org/data-and-statistics/charts/electricity-consumption-in-the-water-sector-by-process-2014-2040>

⁶¹ Tata and Howard, "Criticality of energy efficiency for water and waste water utilities" at: <https://tataandhoward.com/the-criticality-of-energy-efficiency-for-water-and-wastewater-utilities/>

⁶² Copeland, C. et al. (2017), "Energy-Water Nexus: The Water Sector's Energy Use", Congressional Research Service, at: <https://sgp.fas.org/crs/misc/R43200.pdf>

⁶³ World Economic Forum, "Global Gender Gap Report 2023", (2023) at: https://www.weforum.org/reports/global-gender-gap-report-2023/digest?_gl=1*1edtqqe*_up*MQ..&gclid=EAlaIqobChMImrqv8fiTgQMVDJNRCh13TwdnEAAYASAAEgJ5pfD_BwE

⁶⁴ Ibid.

⁶⁵ Capgemini, "More women are needed to power energy and utilities", at: <https://www.capgemini.com/2020/03/more-women-are-needed-to-power-energy-and-utilities/>

⁶⁶ The World Bank, "Population, female (% of total population) – Brazil", (2022), at: <https://data.worldbank.org/indicator/SP.POP.TOTL.FE.ZS?locations=BR>

⁶⁷ The World Bank, "Female share of employment in senior and middle management (%) – Brazil", (2023), at: <https://data.worldbank.org/indicator/SL.EMP.SMGT.FE.ZS?locations=BR>

⁶⁸ Oliver Wyman, "The Gender Gap Lifecycle", at: <https://www.oliverwyman.com/our-expertise/insights/2018/aug/the-gender-gap-lifecycle.html>

⁶⁹ Agencia Brasil, "Blacks make up majority of Brazil's unemployed and informal workers" at: <https://agenciabrasil.ebc.com.br/en/economia/noticia/2019-11/blacks-make-majority-brazils-unemployed-and-informal-workers>

⁷⁰ TIME, "How Black Brazilians Are Looking to a Slavery-Era Form of Resistance to Fight Racial Injustice Today", (2020), at: <https://time.com/5915902/brazil-racism-quilombos/>

IFC estimates that companies that achieve gender parity in their leadership teams see their valuations increase by approximately 25% more than those with less diverse teams.⁷¹

In this context, Sustainalytics is of the opinion that Aegea's programmes on gender equity and its commitment to achieving diversity in leadership positions will help to advance equality in its operations.

Importance of financing the provision of sewage and water infrastructure in Brazil

The volume of freshwater accessible for human use in the world has been severely reduced as a result of population growth, the intensity of use and a rise in pollution and degradation of remaining water bodies.⁷² One-third of the world's population still lacks access to safe drinking water, two-fifths lack acceptable basic sanitation facilities and more than 673 million people do not have access to toilets.⁷³ In Brazil, 30 million people lack access to safely managed sources of water and 109 million lack access to safely managed household sanitation facilities.⁷⁴ Furthermore, only 62% of the population has access to sanitary sewage collecting systems, while only 78.5% of the collected volume is treated, leaving the remainder of the 22.5% of raw sewage to be disposed of into the environment.⁷⁵ Basic sanitation has the potential to benefit the community in a variety of ways, including reducing the risks of infant mortality and minimizing the spread of diseases that affect various areas of Brazil, including dengue, Zika, Chikungunya, hepatitis A, leptospirosis and diarrheal disorders.⁷⁶

Brazil's Sanitation Law, passed in July 2020, marks the reform of the regulatory framework for water and sanitation, providing increased opportunities for investments in the sector to develop infrastructure and expand sanitation services throughout the country.⁷⁷ The national sanitation framework aims to universalize clean water and sanitation services in Brazil, with the objective of delivering drinking water to 99% of the country's population and sewage collection and treatment to 90% of the population by the end of 2033.⁷⁸

Sustainalytics is of the opinion that the projects financed by Aegea under the Framework are expected to contribute positively to Brazil's water infrastructure system and are aligned with the country's goals of universalizing water and sanitation services.

Contribution to SDGs

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

Use of Proceeds Category or KPI	SDG	SDG Target
Renewable Energy	7. Affordable and Clean Energy	7.2 By 2030, increase substantially the share of renewable energy in the global energy mix
Pollution Prevention and Control	6. Clean Water and Sanitation	6.3 By 2030, improve water quality by reducing pollution, eliminating dumping and minimizing release of hazardous chemicals and materials, halving the proportion of untreated wastewater and substantially increasing recycling and safe reuse globally
Terrestrial and Aquatic Biodiversity	6. Clean Water and Sanitation	6.6 By 2020, protect and restore water related ecosystems, including mountains, forests, wetlands, rivers, aquifers and lakes

⁷¹ IFC, "Moving Toward Gender Balance in Private Equity and Venture Capital", at: https://www.ifc.org/wps/wcm/connect/topics_ext_content/ifc_external_corporate_site/gender+at+ifc/resources/gender-balance-in-emerging-markets

⁷² Costa, A.S.V. (2020), "Potential use of wastewater from sewage treatment plants in fertigation in Brazil", Open Access Journal of Environmental & Soil Science, at: <https://lupinepublishers.com/environmental-soil-science-journal/fulltext/potential-use-of-wastewater-from-sewage-treatment-plants-in-fertigation-in-brazil.ID.000206.php>

⁷³ Da Silva Gomes, F.M. et al. (2020), "Access to drinking water and sewage treatment in Brazil: a challenge for the control of waterborne infectious diseases", National Library of Medicine, at: <https://www.ncbi.nlm.nih.gov/pmc/articles/PMC7534402/>

⁷⁴ Water.org, "Brazil", at: <https://water.org/our-impact/where-we-work/brazil/#:~:text=Brazil's%20water%20and%20sanitation%20crisis&text=Out%20of%20its%20population%20of,safely%20managed%20household%20sanitation%20facilities.>

⁷⁵ Borges, M.C.P. et al. (2022), "The Brazilian National System for Water and Sanitation Data (SNIS): Providing information on a municipal level on water and sanitation services", ScienceDirect, at: <https://www.sciencedirect.com/science/article/pii/S222658562200070X>

⁷⁶ Portal Saneamento Básico, "Municipality of Maceió/AL starts basic sanitation works to benefit more than 240 thousand people", (2021) at: <https://saneamentobasico.com.br/esgoto/maceio-obras-saneamento-basico/>

⁷⁷ OECD iLibrary, "Making water and sanitation regulation in Brazil more effective", at: <https://www.oecd-ilibrary.org/sites/343d7eb1-en/index.html?itemId=/content/component/343d7eb1-en>

⁷⁸ Ibid.

	14. Life Below Water	14.2 By 2020, sustainably manage and protect marine and coastal ecosystems to avoid significant adverse impacts, including by strengthening their resilience, and take action for their restoration in order to achieve healthy and productive oceans
Sustainable Water and Wastewater Management	6. Clean Water and Sanitation	6.3 By 2030, improve water quality by reducing pollution, eliminating dumping and minimizing release of hazardous chemicals and materials, halving the proportion of untreated wastewater and substantially increasing recycling and safe reuse globally
Affordable Basic Infrastructure	6. Clean Water and Sanitation	6.1. By 2030, achieve universal and equitable access to safe and affordable drinking water for all
Socioeconomic Advancement and Empowerment	8. Decent Work and Economic Growth	8.5 By 2030, achieve full and productive employment and decent work for all women and men, including for young people and persons with disabilities, and equal pay for work of equal value
KPI 1: Energy consumption in water production and sewage treatment	9. Industry, innovation, and infrastructure	9.4 By 2030, upgrade infrastructure and retrofit industries to make them sustainable, with increased resource-use efficiency and greater adoption of clean and environmentally sound technologies and industrial processes, with all countries acting, in accordance with their respective capabilities
KPI 2: Percentage of leadership positions occupied by women employees	5. Gender Equality	5.5 Ensure women's full and effective participation and equal opportunities for leadership at all levels of decision-making in political, economic, and public life.
KPI 3: Percentage of leadership positions occupied by black employees	10. Reduced Inequalities	10.2 By 2030, empower and promote the social, economic, and political inclusion of all, irrespective of age, sex, disability, race, ethnicity, origin, religion or economic or other status

Conclusion

Aegea has developed the Aegea Sustainable and Sustainability-Linked Financing Framework under which it may issue use of proceeds and sustainability-linked bonds or obtain loans.

Under sustainable bonds and loans, Aegea intends to use the proceeds to finance projects on renewable energy, pollution prevention and control, terrestrial and aquatic biodiversity conservation, sustainable water and wastewater management, affordable basic infrastructure, and socioeconomic advancement and empowerment. Sustainalytics considers that the eligible projects are expected to provide positive environmental and social impacts. The Aegea Sustainable and Sustainability-Linked Financing Framework outlines a process for tracking, allocation and management of proceeds, and makes commitments for Aegea to report on allocation and impact.

Under the sustainability-linked instruments, Aegea intends to tie the coupon rate to achievement of the following SPTs:

- (1) Reduce energy consumption by 15% in Aegea's water production and distribution, and sewage collection and treatment by 2030.
- (2) Increase the percentage of leadership positions filled by women to at least 45% by 2030.
- (3) Increase the percentage of leadership positions filled by black employees to at least 27% by 2030.

Sustainalytics considers all three KPIs to be strong. KPI 1 follows a clear and consistent methodology, consists of a direct measure of the Company's environmental performance and covers most of the Company's energy consumption, despite not being able to be benchmarked. KPI 2 and KPI 3 are considered strong, as they measure performance on relevant and material issues of the Company and industry and are a direct measure of the Company's performance on those issues, while following a consistent methodology.

Sustainalytics considers SPT 1 to be ambitious, given that it exceeds the Company's subindustry peer group's targets. Sustainalytics considers SPT 2 and SPT 3 to be ambitious, given that these targets exceed those of the Company's subindustry peers.

Sustainalytics considers the reporting and verification commitments to be aligned with market expectations.

Based on the above, Sustainalytics is confident that Aegea is well positioned to issue sustainability use of proceeds bonds or loans and sustainability-linked bonds or loans and that that Aegea Sustainable and Sustainability-Linked Financing Framework is in alignment with the Sustainability Bond Guidelines 2021, Green Bond Principles 2021, Social Bond Principles 2023, Green Loan Principles 2023, Social Loan Principles 2023, Sustainability-Linked Bond Principles 2023 and Sustainability-Linked Loan Principles 2023.

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

Section 1. Basic Information

Issuer name:	Aegea Saneamento e Participações S.A.
Green Bond ISIN or Issuer Green Bond Framework Name, if applicable:	Aegea Sustainable and Sustainability-Linked Financing Framework
Review provider's name:	Sustainalytics
Completion date of this form:	September 7, 2023
Publication date of review publication: Original publication date: March 2022 and May 2023	Update to i) Aegea Saneamento e Participações S.A Sustainable Finance Framework Second Party Opinion, published in May 2023; and ii) Aegea Sustainability-Linked Financing Framework Second-Party Opinion, published in March 2022

Section 2. Review overview

SCOPE OF REVIEW

The review:

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

ROLE(S) OF INDEPENDENT REVIEW PROVIDER

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

Does the review include a sustainability quality score?

- | | |
|--|--|
| ☐ Of the issuer | ☐ Of the project |
| ☐ Of the Framework | ☐ Other (please specify): |
| ☒ No scoring | |

ASSESSMENT OF THE PROJECT(S)

Does the review include:

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

ISSUER'S OVERARCHING OBJECTIVES

Does the review include:

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

CLIMATE TRANSITION STRATEGY

Does the review assess:

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

Overall comment on this section:

Section 3. Detailed Review

1. USE OF PROCEEDS

Does the review assess:

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

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

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

Overall comment on this section:

The eligible categories for the use of proceeds – Renewable Energy, Pollution Prevention and Control, Terrestrial and Aquatic Biodiversity, Sustainable Water and Wastewater Management, Affordable Basic Infrastructure, and Socioeconomic Advancement and Empowerment – are aligned with those recognized by the Green Bond Principles, Social Bond Principles, Green Loan Principles and Social Loan Principles. Sustainalytics considers that investments in the eligible categories will lead to a positive environmental or social impact and advance the UN Sustainable Development Goals, specifically SDGs 6, 7, 8 and 14.

2. PROCESS FOR PROJECT EVALUATION AND SELECTION

Does the review assess:

- ☐ whether the eligibility of the project(s) is aligned with official or market-based taxonomies or recognised international standards? Please specify which ones.
- ☒ whether the eligible projects are aligned with the overall sustainability strategy of the issuer and/or if the eligible projects are aligned with material ESG-related objectives in the issuer's industry?
- ☒ the process and governance to set the eligibility criteria including, if applicable, exclusion criteria?
- ☒ the processes by which the issuer identifies and manages perceived social and environmental risks associated with the relevant project(s)?
- ☒ any process in place to identify mitigants to known material risks of negative social and/or environmental impacts from the relevant project(s)?

Overall comment on this section:

Aegea has established an ESG Executive Committee to evaluate and select projects that are in line with the Framework's eligibility criteria. Aegea has in place processes to identify and mitigate environmental and social risks associated with eligible projects. Sustainalytics considers the risk management system to be adequate and the process for project implementation to be in line with market practice.

3. MANAGEMENT OF PROCEEDS

Does the review assess:

- ☒ the issuer's policy for segregating or tracking the proceeds in an appropriate manner?
- ☒ the intended types of temporary investment instruments for unallocated proceeds?
- ☐ Whether an external auditor will verify the internal tracking of the proceeds and the allocation of the funds?

Overall comment on this section:

Aegea's Financial Operations department will be responsible for monitoring the allocation of proceeds, and the Company's Treasury Department will be responsible for the management of proceeds on a portfolio basis. Aegea intends to fully allocate the proceeds as practicable within 72 months of issuance, and if a project becomes non-eligible as per the Framework criteria, Aegea will redirect the proceeds to other eligible projects within 12 months.

Unallocated proceeds will be temporarily used for other operational, financial and investment activities. This is in line with market practice. While acknowledging that the noted allocation period aligns with the timeline of the Company's project pipeline under the concessions, Sustainalytics notes that the allocation period is longer than what Sustainalytics considers to be good practice. Sustainalytics further notes that the Aegea commits that the allocation period will always be fairly shorter than the maturity of the issued instruments.

4. REPORTING

Does the review assess:

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

Overall comment on this section:

Aegea commits to report on the allocation of proceeds on its website on an annual basis until full allocation. Allocation reporting will include the percentage of proceeds allocated to eligible projects, the percentage of proceeds temporarily allocated to other financial instruments and the percentage of proceeds temporarily allocated to other projects not indicated in the Framework. In addition, Aegea intends to report on relevant impact metrics. Sustainalytics views Aegea's allocation and impact reporting as aligned with market practice.

Section 4. Additional Information

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

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

Sustainalytics believes that the use of proceeds categories under the Framework will contribute to the advancement of the UN Sustainable Development Goals 6, 7, 8 and 14.

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

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

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

Appendix 2: Sustainability-Linked Bonds - External Review Form

Section 1. Basic Information

Issuer name: Aegea Saneamento e Participações S.A.

Sustainability-Linked Bond ISIN: The Framework allows for the issuance of multiple bonds

Independent External Review provider's name for second party opinion pre-issuance (sections 2 & 3): Sustainalytics

Completion date of this form: September 7, 2023

Section 2. Pre-Issuance Review

SCOPE OF REVIEW

The review:

- ☒ assessed the 5 core components of the SLBP (**complete review**) and confirmed the alignment with the SLBP.
- ☐ assessed only some of them (**partial review**) and confirmed the alignment with the SLBP; please indicate which elements:
 - ☐ Selection of Key Performance Indicators (KPIs)
 - ☐ Bond characteristics
 - ☐ Calibration of Sustainability Performance Targets (SPTs)
 - ☐ Reporting
 - ☐ Verification

ROLE(S) OF INDEPENDENT REVIEW PROVIDER

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

Does the review include a sustainability quality score?

- ☐ Of the issuer
- ☐ Of the selected KPIs/SPTs
- ☐ Of the framework
- ☐ Other (please specify):
- ☒ No scoring

ISSUER'S OVERARCHING OBJECTIVES

Does the review include:

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

CLIMATE TRANSITION STRATEGY

Does the review assess:

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

Overall comment on this section:

Section 3. Detailed pre-issuance review

Reviewers are encouraged to provide the information below to the extent possible and use the comment section to explain the scope of their review.

SELECTION OF KEY PERFORMANCE INDICATORS (KPIs)

Definition, Scope, and parameters

- ☒ Clear definition of each selected KPIs
- ☒ Clear calculation methodology
- ☐ Other *(please specify)*:

Relevance, robustness, and reliability of the selected KPIs

- ☒ Credentials that the selected KPIs are relevant, core and material to the issuer's sustainability and business strategy
- ☐ Evidence that the KPIs are externally verifiable, if that is not already the case
- ☒ Credentials that the KPIs are measurable or quantifiable on a consistent methodological basis
- ☒ Evidence that the KPIs can be benchmarked
- ☐ Current verification or assurance status
- ☐ Other *(please specify)*:

Overall comment on this section:

Sustainalytics considers KPI 1: Energy consumption in water production and sewage treatment, to be strong given that: (i) it follows a clear and consistent methodology, (ii) it is a direct measure of the Company's environmental performance, and (iii) it covers most of the Company's energy consumption, despite not being able to be benchmarked.

Sustainalytics considers KPI 2: Percentage of leadership positions occupied by women employees (%) and KPI 3: Percentage of leadership positions occupied by black employees (%), to be strong given that they both: i) measure performance on a relevant and material issue of the Company and industry; ii) are a direct measure of operational performance; and iii) follow a clear and consistent methodologies.

CALIBRATION OF SUSTAINABILITY PERFORMANCE TARGETS (SPTs)

Rationale and level of ambition

- | | |
|--|---|
| ☒ Evidence that the SPTs represent a material improvement compared to issuer's own performance over baseline | ☒ Credentials on the relevance and reliability of selected benchmarks and baselines |
| ☒ Evidence that SPTs are consistent with the issuer's sustainability and business strategy | ☒ Other <i>(please specify)</i> : Ambitiousness based on peer assessment |

Does the review assess if the specificities of the sector and/or local context have been identified and addressed?

- | | |
|---|-----------------------------|
| ☒ Yes | ☐ No |
| ☐ Not applicable | |

Relevance and reliability of selected benchmarks and baselines

- | | |
|--|---|
| ☒ Issuer's past performance | ☒ Issuer's peer performance |
| ☐ Science-based trajectories <i>(please specify the references)</i> : | ☐ Other <i>(please specify)</i> : |

Does the review assess the credibility of the issuer's strategy and action plan to achieve the SPTs?

- | | |
|------------------------------|-----------------------------|
| ☐ Yes | ☐ No |
|------------------------------|-----------------------------|

Does the review identify the key factors that may affect the achievement of the SPTs?

- | | |
|---|-----------------------------|
| ☒ Yes | ☐ No |
|---|-----------------------------|

Does the review opine on:

- | | |
|---|--|
| ☒ the timelines for the target achievement | ☒ the target observation date(s) |
| ☐ the trigger event(s) | ☐ Other <i>(please specify)</i> : |
| ☒ potential recalculations or adjustments description | |

Overall comment on this section:

Sustainalytics considers the SPTs to align with Aegea's sustainability strategy and considers Aegea's SPT 1 to be ambitious given that it exceeds performance of the subindustry peers.

Sustainalytics considers Aegea's SPTs 2 and 3 to be ambitious given that they exceed those of the subindustry peers and represent a lower rate of increase compared to past performance.

BOND CHARACTERISTICS

Does the review assess whether the bond's financial and/or structural characteristics are commensurate and meaningful?

- ☐ Yes ☒ No

Does the review opine on the fallback mechanisms in case the SPTs cannot be calculated or observed in a satisfactory manner?

- ☐ Yes ☒ No

Overall comment on this section:

Aegea will link the financial characteristics of its sustainability-linked debt instruments to the achievement of the SPTs. The change in financial characteristics may trigger a step-up or step-down coupon adjustment, as applicable, and are to be detailed in the individual transaction documents.

Sustainalytics notes that the Framework is not limited to one bond or loan, and as such, Aegea can issue multiple sustainability-linked instruments while the SPO is valid for issuances aligned with the Framework. On this note, the Company can choose to tie the financial characteristics of future issuances to one or more SPTs. However, Sustainalytics encourages the Issuer to include the KPI 1 and SPT 1 in conjunction with all other KPI-SPT combinations.

REPORTING

Does the review assess the commitments of the issuer to report:

Content:

- ☒ The performance of the selected KPIs ☒ Verification
☒ The level of ambition of the SPTs ☒ Assurance report
☐ Other (please specify):

Frequency:

- ☒ Annual ☐ Semi-annual
☐ Other (please specify):

Means of Disclosure

- ☐ Information published in financial report, or annual report and accounts ☒ Information published in sustainability report or sustainability suite of reporting
☐ Information published in ad hoc documents ☒ Other (please specify): Company's website

Overall comment on this section:

Aegea commits to reporting on its progress against the KPIs towards the relevant SPTs on an annual basis via its Corporate Sustainability Report or other similar report, which will be made available on its website. These reporting commitments are aligned with market expectation.

Section 4. Post-issuance

CHANGE TO PERIMETER REVIEW *(if applicable)*

Material change:

- | | |
|---|--|
| ☐ Perimeter | ☐ KPI methodology |
| ☐ SPTs calibration | ☐ Other <i>(please specify)</i> : |

VERIFICATION

Level of verification:

- | | |
|--|---|
| ☐ Limited assurance | ☐ Reasonable assurance |
| ☐ Other <i>(please specify)</i> : | |

Frequency:

- | | |
|--|--------------------------------------|
| ☐ Annual | ☐ Semi-annual |
| ☐ Other <i>(please specify)</i> : | |

Section 5. Additional Information

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

Analysis of the contribution to the UN Sustainable Development Goals:

Additional assessment in relation with the issuer/bond framework:

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These are based on information made available by the issuer and therefore are not warranted as to their merchantability, completeness, accuracy, up-to-dateness or fitness for a particular purpose. The information and data are provided "as is" and reflect Sustainalytics' opinion at the date of their elaboration and publication. Sustainalytics accepts no liability for damage arising from the use of the information, data or opinions contained herein, in any manner whatsoever, except where explicitly required by law. Any reference to third party names or Third Party Data is for appropriate acknowledgement of their ownership and does not constitute a sponsorship or endorsement by such owner. A list of our third-party data providers and their respective terms of use is available on our website. For more information, visit <http://www.sustainalytics.com/legal-disclaimers>.

The issuer is fully responsible for certifying and ensuring the compliance with its commitments, for their implementation and monitoring.

In case of discrepancies between the English language and translated versions, the English language version shall prevail.

About Sustainalytics, a Morningstar Company

Sustainalytics, a Morningstar Company, is a leading ESG research, ratings and data firm that supports investors around the world with the development and implementation of responsible investment strategies. For more than 30 years, the firm has been at the forefront of developing high-quality, innovative solutions to meet the evolving needs of global investors. Today, Sustainalytics works with hundreds of the world's leading asset managers and pension funds who incorporate ESG and corporate governance information and assessments into their investment processes. Sustainalytics also works with hundreds of companies and their financial intermediaries to help them consider sustainability in policies, practices and capital projects. With 17 offices globally, Sustainalytics has more than 1500 staff members, including more than 500 analysts with varied multidisciplinary expertise across more than 40 industry groups.

For more information, visit www.sustainalytics.com

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