

Second-Party Opinion

Paracel Sustainability Financing Framework



Evaluation Summary

Sustainalytics is of the opinion that the Paracel Sustainability Financing Framework is credible and impactful and aligns with the Sustainability Bond Guidelines 2021, Green Bond Principles 2021, Social Bond Principles 2021, Green Loan Principles 2021 and the Social Loan Principles 2021. This assessment is based on the following:



USE OF PROCEEDS The eligible categories for the use of proceeds – Renewable Energy, Sustainable Water and Wastewater Management, Pollution Prevention and Control, Environmentally Sustainable Management of Living Natural Resources and Land Use and Socio-economic Advancement and Empowerment – are aligned with those recognized by the Green Bond Principles, Social Bond Principles, Green Loan Principles and the Social Loan Principles. Sustainalytics considers that investments in the eligible categories will lead to positive environmental and social impacts and advance the UN Sustainable Development Goals, specifically SDGs 6, 7, 8, 12 and 15.



PROJECT EVALUATION AND SELECTION Paracel will establish a Sustainability Financing Working Group (the “Working Group”), which will comprise members from the Finance, Environment & Licensing, Social and Communications and Project Management (including procurement) teams. The Working Group will be responsible for the project selection and evaluation process. Paracel has adopted risk-mitigating measures to identify and manage environmental and social risks associated with the financed assets. Sustainalytics considers the environmental and social risk management systems to be adequate and the project and the selection process to be in line with market practice.



MANAGEMENT OF PROCEEDS Paracel’s Working Group is responsible for overseeing the allocation of proceeds, and the Finance team will be responsible for tracking and managing the proceeds. Paracel intends to fully allocate the green or sustainable project finance loans within 12 months after the last drawdown of such loan and allocate the green or sustainable bond proceeds within 36 months of issuance. This is in line with market practice.



REPORTING Paracel intends to report on the allocation of proceeds on its website on an annual basis until full allocation. Allocation reporting will include the net proceeds raised, the amount of net proceeds allocated to eligible categories, the unallocated balance of proceeds, the proportion of proceeds financed and refinanced and brief project descriptions. In addition, Paracel is committed to reporting on relevant impact metrics. Sustainalytics views Paracel’s allocation and impact reporting as aligned with market practice.

Evaluation date January 23, 2023

Issuer Location Asunción, Paraguay

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Introduction

Paracel S.A. (“Paracel” or the “Company”) is a producer of eucalyptus pulp with forest plantations in the Concepción region of Paraguay. The Company currently owns more than 185,000 hectares of land, of which 98,000 ha are for plantations, and more than 60,000 ha are set aside for conservation and restoration. Paracel is a joint venture of the Zapag Group and Girindus Investments

Paracel has developed the Sustainability Financing Framework (the “Framework”), under which it intends to issue green and sustainability bonds and loans and use the proceeds to finance and refinance, in whole or in part, existing and or future projects that are expected to contribute to its environmental programmes, reduce GHG emissions and provide social benefits to target populations in Paraguay.

The Framework defines eligible green categories in the following four areas:

1. Renewable Energy
2. Sustainable Water and Wastewater Management
3. Pollution Prevention and Control
4. Environmentally Sustainable Management of Living Natural Resources

The Framework defines an eligible social category in the following area:

1. Socio-economic Advancement and Empowerment

Paracel engaged Sustainalytics to review its Sustainability Financing Framework, dated January 2023, and provide a Second-Party Opinion on the Framework’s environmental and social credentials and its alignment with the Sustainability Bond Guidelines 2021 (SBG), Green Bond Principles 2021 (GBP), Social Bond Principles 2021 (SBP),¹ Green Loan Principles 2021 (GLP) and the Social Loan Principles (SLP).² The Framework has been published in a separate document.³

Scope of work and limitations of Sustainalytics’ Second-Party Opinion

Sustainalytics’ Second-Party Opinion reflects Sustainalytics’ independent⁴ opinion on the alignment of the reviewed Framework with current market standards and the extent to which the eligible project categories are credible and impactful.

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, and Social Bond Principles 2021, as administered by ICMA; and the Green Loan Principles 2021 and Social Loan Principles 2021, as administered by LMA, APLMA, and LSTA;
- The credibility and anticipated positive impacts of the use of proceeds; and
- The alignment of the issuer’s sustainability strategy and performance and sustainability risk management in relation to the use of proceeds.

For the use of proceeds assessment, Sustainalytics relied on its internal taxonomy, version 1.12, which is informed by market practice and Sustainalytics’ expertise as an ESG research provider.

As part of this engagement, Sustainalytics held conversations with various members of Paracel’s management team to understand the sustainability impact of their business processes and planned use of proceeds, as well as management of proceeds and reporting aspects of the Framework. Paracel representatives have confirmed (1) they understand it is the sole responsibility of Paracel to ensure that the information provided is complete, accurate or up to date; (2) that they have provided Sustainalytics with all relevant information and (3) that any provided material information has been duly disclosed in a timely manner. Sustainalytics also reviewed relevant public documents and non-public information.

¹ The Sustainability Bond Guidelines, Green Bond Principles, and Social Bond Principles are administered by the International Capital Market Association and are available at: <https://www.icmagroup.org/green-social-and-sustainability-bonds/sustainability-bond-guidelines-sbg/>

² The Green Loan Principles and Social Loan Principles 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/green-loan-principles/#> and <https://www.lsta.org/content/social-loan-principles-slp/>

³ The Paracel Sustainability Financing Framework is available on Paracel’s website at: <https://paracel.com.py/documents/>

⁴ 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.

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 Paracel.

Sustainalytics' Second-Party Opinion, while reflecting on the alignment of the Framework with market standards, is no guarantee of alignment nor warrants any alignment with future versions of relevant market standards. Furthermore, Sustainalytics' Second-Party Opinion addresses the anticipated impacts of eligible projects expected to be financed with bond proceeds but does not measure the actual impact. The measurement and reporting of the impact achieved through projects financed under the Framework is the responsibility of the Framework owner. Upon twenty-four (24) months following the evaluation date set stated herein, Paracel is encouraged to update the Framework in instances of any subsequent debt issuance, if necessary, and seek an update to the Second-Party Opinion to ensure ongoing alignment of the Framework with market standards and expectations.

In addition, the Second-Party Opinion opines on the potential allocation of proceeds but does not guarantee the realized allocation of the bond proceeds towards eligible activities.

No information provided by Sustainalytics under the present Second-Party Opinion shall be considered as being a statement, representation, warrant or argument, either in favour or against, the truthfulness, reliability or completeness of any facts or statements and related surrounding circumstances that Paracel has made available to Sustainalytics for the purpose of this Second-Party Opinion.

Sustainalytics' Opinion

Section 1: Sustainalytics' Opinion on the Paracel Sustainability Financing Framework

Sustainalytics is of the opinion that the Paracel Sustainability Financing Framework is credible, impactful and aligns with the four core components of the GBP, SBP, GLP and SLP. Sustainalytics highlights the following elements of the Framework:

- Use of Proceeds:
 - The eligible categories – Renewable Energy, Sustainable Water and Wastewater Management, Pollution Prevention and Control, Environmentally Sustainable Management of Living Natural Resources and Land Use and Socio-economic Advancement and Empowerment – are aligned with those recognized by the GBP, SBP, GLP and SLP.
 - Paracel has established a 12-month look-back period for refinancing green or sustainable project finance loans, and a 24-month look-back period for refinancing projects under green and sustainable bonds.
 - Sustainalytics notes the proceeds raised under this Framework will be mainly directed to finance projects and assets relating to the Company's pulp mill that is under development, which will be primarily powered by renewable energy and where excess energy will be supplied to the national grid. Sustainalytics encourages Paracel to report on the overall emission intensity of the mill.
 - Under the Renewable Energy category, Paracel may invest in the design, development, construction, operation, upgrade and maintenance of projects, including: i) energy generation from wood waste biomass; and ii) renewable energy transmission and distribution.
 - For biomass projects, the Company has confirmed to Sustainalytics that the feedstock for power generation will include dried bio-sludge and residues from FSC-certified⁵ plantations and managed with a Biodiversity Net Gain (BNG)⁶ approach.
 - For transmission and distribution projects, Paracel has communicated that such investments will integrate excess renewable energy generated in its facilities into the national grid.⁷

⁵ FSC: <https://ca.fsc.org/en-ca>

⁶ The BNG is a methodology designed by the Company – which worked with a subject matter expert – and mandates adherence to a mitigation strategy to account for habitat extent conditions and conservation to monitor and demonstrate net biodiversity gains.

⁷ Paracel has communicated to Sustainalytics that the mill may draw electricity from the national grid only during cold-start situations or during necessary maintenance. Overall, the majority of electricity transmitted (>90%) will be renewable energy.

- Sustainalytics considers the eligibility criteria to be in line with market practice.
- Under the Sustainable Water and Wastewater Management category, Paracel intends to finance a range of projects that improve water efficiency, including:
 - Water treatment plants, water quality monitoring systems and infrastructure and equipment to reduce water consumption, including water efficient technologies, stormwater capture and water reuse infrastructure. Wastewater treatment projects will be exclusively used to treat wastewater from the Company's mill operations.
 - Sustainalytics considers the monitoring and mitigation wastewater to be a baseline expectation and notes that Paracel will be using the best available techniques and it will follow the IFC Environmental, Health and Safety (EHS) Guidelines for Pulp and Paper Mills.⁸ Sustainalytics encourage the issuer to report on the environmental benefits resulting from the technologies deployed.
- Under the Pollution Prevention and Control category, the Company contemplates financing the construction, development, operation, upgrade and maintenance of technologies, systems, equipment and projects that reduce and prevent industrial waste. Eligible projects include assets for atmospheric emissions reduction, gas capture and incineration technologies, operational controls to eliminate spills, dewatering centrifugal equipment and the diversion of waste from landfills. Systems to divert solid waste from landfill will be used to segregate waste for recycling, composting or transforming into inputs such as soil correctives⁹ and compost from non-hazardous organic waste, to be used as fertilizer.
 - Investments under this category will be directly associated with and used exclusively to reduce waste and pollution from the Company's mill operations. Sustainalytics notes that any financed equipment will be electric-powered.
 - Sustainalytics considers the monitoring and mitigation of pollutants such as NO_x and SO_x to be a baseline expectation. Paracel has confirmed to Sustainalytics that it will be using the best available techniques, in addition to following the IFC EHS Guidelines for Pulp and Paper Mills and that emissions will be below the Integrated Pollution Prevention and Control (IPPC) recommendation.¹⁰ Sustainalytics encourages the issuer to report on air quality benefits resulting from the abatement technologies deployed.
- Under the Environmentally Sustainable Management of Living Natural Resources and Land Use category, eligible expenditures include the restoration and protection of native and riparian forest cover and the protection and conservation of local biodiversity. Investments under this category will be managed in accordance with Paracel's Biodiversity Management Program which establishes general guidelines to ensure the protection of biodiversity and its proper management.¹¹
 - Paracel has confirmed that local tree species will be used for reforestation activities. Sustainalytics considers investments within this category to be aligned to market practice.
- Under the Socio-economic Advancement and Empowerment category, Paracel aims to invest in training, education and assistance programmes. Paracel has identified youth;¹² women; Indigenous communities; micro, small and medium enterprises (MSMEs);¹³ and local and regional suppliers¹⁴ that are MSMEs as target populations. Sustainalytics considers that the Framework has well-defined target populations in line with the SBP and SLP. Programmes and training will be developed in collaboration with the Ministry of Women, the Paraguayan Institute

⁸ IFC, "Environmental, Health, and Safety Guidelines Pulp and Paper Mills", (2007), <https://www.ifc.org/wps/wcm/connect/2310ee34-7432-4546-8898-03372c9b51e2/Final+-+Pulp+and+Paper+Mills.pdf?MOD=AJPERES&CID=jkD2FLw>

⁹ Soil correctives provide enhancements for the soil, including changes to the Ph level, that work in conjunction with fertilizers to assist plant growth. The main component of soil correctives is calcium carbonate or limestone.

¹⁰ European Commission, "Best Available Techniques (BAT) Reference Document for the Production of Pulp, Paper and Board", (2015), at: https://eippcb.jrc.ec.europa.eu/sites/default/files/2019-11/PP_revised_BREF_2015.pdf

¹¹ Paracel, "Biodiversity Management Program", (2021). This document has been shared confidentially with Sustainalytics for its review.

¹² Paracel considers as youth as those aged between 15 and 24 years old, which is in line with the UN's statistical definition.

UNDESA, "Definition of Youth", at: <https://www.un.org/esa/socdev/documents/youth/fact-sheets/youth-definition.pdf>

¹³ Paracel will apply the definition of MSMEs as set by the Paraguayan government which defines a microenterprise as made up of up to a maximum of ten people and invoices annually up to the equivalent of PYG 500,000,000 (69,000 USD); small companies are those that invoice up to PYG 2,500,000,000 (USD 347,000) per year with up to thirty employees; and medium-sized companies those that invoice up to PYG 6,000,000,000 (USD 833,000) per year annually and employ up to fifty workers. At: <https://www.mtess.gov.py/formalizacion/formalizacion-mipymes/micro-pequenas-y-medianas-empresas>

¹⁴ Local suppliers are those within the regions of Concepción, San Pedro and Amambay, while regional suppliers are those located in Paraguay.

- of Crafts and the Association of Entrepreneurs of Paraguay. Paracel has confirmed to Sustainalytics that these programmes and training will be free of cost to the target populations. Sustainalytics considers enhancing access to such programmes for target populations as impactful.
- Paracel has communicated to Sustainalytics that it will not carry out activities with third parties that are involved in controversial industries such as any illicit activity according to the applicable legislation, war material, gambling, tobacco, radioactive material and unbonded asbestos fibers. Sustainalytics notes that this is applicable to MSMEs targeted in the social category and considers this company wide exclusion to strengthen the Framework.
 - Project Evaluation and Selection:
 - Paracel has established a Sustainability Financing Working Group (the “Working Group”) to oversee project selection and evaluation. The Working Group comprises members from the Finance, ESG, Environment & Licensing, Social and Communications and Project Management (including procurement) teams. The eligible expenditures will be evaluated by the Working Group on a quarterly basis. If a project is no longer eligible, Paracel intends to replace them with eligible projects as soon as practicable upon identifying an appropriate substitution.
 - Paracel has in place risk-mitigating measures through which it evaluates and mitigates environmental and social risks associated with the eligible projects. These measures include compliance with the requirements of a category A project under the Equator Principles¹⁵ and the IFC Performance Standards.¹⁶ For further information about the Company’s risk evaluation and mitigation practices, please refer to Section 2.
 - Based on the allocation of responsibilities and presence of risk management processes, Sustainalytics considers this process to be in line with market practice.
 - Management of Proceeds:
 - Paracel’s Working Group will be responsible for overseeing the allocation of proceeds, while the Company’s Finance team will be responsible for tracking and managing the proceeds.
 - Paracel intends to allocate proceeds from Green or Sustainability Project Finance Loans to eligible projects up until 12 months after the last drawdown of such loan.
 - Paracel intends to allocate proceeds for any green and sustainability bonds within 36 months of the respective issuance.
 - Pending full allocation, unallocated proceeds will be temporarily held in cash or cash equivalents.
 - Based on the defined management of proceeds, including the allocation time frame and the temporary use of proceeds, Sustainalytics considers this process to be in line with market practice.
 - Reporting:
 - Paracel intends to report on the allocation and impact of proceeds in a report available publicly on its website on an annual basis until full allocation.
 - Allocation reporting will include the net proceeds raised, the amount of net proceeds allocated to eligible categories, the unallocated balance of proceeds, the proportion of proceeds financed and refinanced and brief descriptions of the projects.
 - In addition, the Company is committed to reporting on impact metrics, where feasible, such as renewable energy generation (in MWh), steam generation (in tonne/hour), reduction of suspended solid waste content in effluents (in mg/L or percent), the amount of air emissions reduced (in mg/Nm³), reduction in energy consumption (in MWh/Air Dry Tonne) and the number of training and assistance programmes conducted.
 - Based on the commitment to both allocation and impact reporting, Sustainalytics considers this process to be in line with market practice.

Alignment with Sustainability Bond Guidelines 2021

Sustainalytics has determined that the Paracel Sustainability Financing Framework aligns with the four core components of the GBP, SBP, GLP and SLP. For detailed information, please refer to Appendix 1: Sustainability Bond/Sustainability Bond Programme External Review Form.

¹⁵ Equator Principles, “Designated & Non-Designated Countries”, at: <https://equator-principles.com/about-the-equator-principles/designated-countries/>

¹⁶ IFC, “Performance Standards”, at: https://www.ifc.org/wps/wcm/connect/Topics_Ext_Content/IFC_External_Corporate_Site/Sustainability-At-IFC/Policies-Standards/Performance-Standards

Section 2: Sustainability Strategy of Paracel

Contribution to Paracel's sustainability strategy

Paracel's sustainability strategy is focused on integrating social, environmental and economic considerations into the Company's generation of value and sustainable production strategies. The Company's Sustainability Policy is centered on sustainable forest management, efficient resource usage and the promotion of socio-economic advancement for local communities.¹⁷

Paracel intends to supply its future mill from 98,000 hectares of land that will be FSC-certified and follow the IFC Performance Standards.^{18,19} In addition to implementing sustainable forestry strategies for its plantations, Paracel aims to implement a Biodiversity Net Gain Strategy to achieve a net gain in biodiversity through a variety of conservation and loss offset programmes.²⁰ As part of this strategy, an additional 60,000 ha of the Company's land is expected to be set aside for conservation.^{21,22}

In its construction and operations, Paracel seeks to achieve maximum resource efficiency. In adherence to the IFC's EHS Guidelines for Pulp and Paper Mills, the Company contemplates to use the best-available technologies for its industrial activities to ensure that production is optimized for low emissions and that the mill's waste products are fully managed.²³ Paracel also intends to generate energy from the mill's wood waste to power its facilities and provide excess renewable energy to the local power grid.²⁴

The IFC Performance Standards are also expected to be applied to Paracel's engagement with local stakeholders, including workers, nearby communities and Indigenous groups. In addition to providing employment and maintaining transparent communication about the project itself, the Company intends to launch a number of programmes to strengthen connections with local communities and develop the capacity for innovation and production with local suppliers.^{25,26,27} These include initiatives such as the Community Relationship and Social Investment Program, which focuses on improving the income-generating activities of Indigenous families.²⁸ Sustainalytics notes that Paracel intends to measure the impacts of these initiatives based on the UN SDGs.

Sustainalytics is of the opinion that the Paracel Sustainability Financing Framework is aligned with the Company's overall sustainability strategy and initiatives and will further its actions on its key environmental and social priorities.

Approach to managing environmental and social risks associated with the projects

Sustainalytics recognizes that the proceeds from the instruments issued under the Framework will be directed towards eligible projects that are expected to have positive environmental and social impacts. However, Sustainalytics is aware that such eligible projects could also lead to negative environmental and social outcomes. Some key environmental and social risks possibly associated with the eligible projects may include issues related to land use and biodiversity risks associated with large-scale infrastructure development; emissions, effluents and waste generated in construction; occupational health and safety; community relations; and impact on local communities.

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

- Paracel administers Environmental and Social Impact Assessments (ESIAs) by third-party accredited professionals for its proposed industry- and forestry-related work, including the pulp mill, river port, transmission line, electrical substation and eucalyptus plantation. The ESIAs assess various risks resulting from Paracel's activities, including biodiversity risks, waste generation and site

¹⁷ Paracel, "Sustainability Policy", (2022), at: <https://paracel.com.py/wp-content/uploads/2020/10/SUSTAINABILITY-POLICY.pdf>

¹⁸ Paracel, "Paracel Sustainability Financing Framework", (2022), at: <https://paracel.com.py/documents/>

¹⁹ Paracel, "Sustainability", at: <https://paracel.com.py/sustentabilidad/>

²⁰ Paracel, "Paracel Biodiversity Net Gain Update", (2022). This document has been shared confidentially with Sustainalytics for its review.

²¹ Paracel, "Paracel Sustainability Financing Framework", (2022), at: <https://paracel.com.py/documents/>

²² Paracel, "Paracel Biodiversity Net Gain Update", (2022). This document has been shared confidentially with Sustainalytics for its review.

²³ Pöyry, "Paracel ESIAs Executive Summary", (2021), at: https://paracel.com.py/en/wp-content/uploads/2022/05/OCT-11-Edits-to-Executive-Summary_FINAL_SEP-Clean.pdf

²⁴ Paracel, "Sustainability", at: <https://paracel.com.py/en/sustainability/>

²⁵ Paracel, "Paracel Sustainability Financing Framework", (2022), at: <https://paracel.com.py/documents/>

²⁶ Pöyry, "Paracel ESIAs Executive Summary", (2021), at: https://paracel.com.py/en/wp-content/uploads/2022/05/OCT-11-Edits-to-Executive-Summary_FINAL_SEP-Clean.pdf

²⁷ Pöyry, "Environmental and Social Impact Assessment (ESIA) for Industry and Forestry Components", (2021), at: https://paracel.com.py/en/wp-content/uploads/2022/05/Health-Saf-Environm-Social-Manag-System-Manual_FINAL-OCT.pdf

²⁸ Ibid.

contamination. The Company has implemented mitigation measures, policies and guidelines as a response to mitigate these risks.²⁹

- The Company has an Integrated Occupational Health and Safety, Environmental and Social Management System Manual (the “Manual”), which identifies and mandates occupational health and safety (OH&S) procedures to minimize OH&S risks. The Manual also ensures Paracel complies with national and international OH&S requirements, including the ISO 14000 standard, the IFC Performance Standards and its relevant EHS guidelines, FSC principles, UN SDGs and B-Company standards.³⁰
- Paracel has also established the Plan for Relations with the Community and Other Social Actors, the implementation of which is the responsibility of the Social Sustainability and Communications Team.³¹ This plan is designed to uphold Paracel’s social sustainability principles of establishing and maintaining respectful and long-term relationships with local communities. In addition to upholding nationally enshrined rights and laws, this plan also seeks to uphold international standards on transparent dialogue with affected communities, regular consultations and informed participation. Standards include the IFC Performance Standards and ISO 26000.³²
- Paracel has implemented the Indigenous Peoples Plan to facilitate stakeholder engagement and community relations risks with Indigenous communities, in particular. This plan is meant to ensure that there are regular and reliable consultations with all 10 Indigenous communities that reside in the plantation areas or nearby communities.³³
- Paracel’s employees, contractors and stakeholders are bound by the Company’s Code of Ethics, which mandates ethical behaviour regarding matters such as labour practices, discrimination, conflict of interests and corruption. Adherence to this code is enforced by a Compliance Committee, appointed by but independent from Paracel’s board.³⁴

Based on these policies, standards and assessments, Sustainalytics is of the opinion that Paracel has implemented adequate measures and is well positioned to manage and mitigate environmental and social risks commonly associated with the eligible categories.

Section 3: Impact of Use of Proceeds

All five use of proceeds categories are aligned with those recognized by GBP, SBP, GLP and SLP. Sustainalytics has focused on two below where the impact is specifically relevant in the local context.

The importance of sustainable forestry practices in Paraguay

In 2021, Paraguay and 140 other nations endorsed the Glasgow Leaders’ Declaration on Forests and Land Use, making commitments to strengthen efforts to conserve forests and other terrestrial ecosystems and accelerate their restoration, as well as facilitate the alignment of financial flows with international climate goals to reverse forest loss and degradation.³⁵

As of 2020, Paraguay’s native forests cover approximately 40% of the country’s land area and make up South America’s second largest forested landscape, second to the Amazon Rainforest.^{36,37} The country is home to more than 6,500 species of plants, more than 700 species of birds, up to 75 species of amphibians, 150 species of reptiles and 167 mammalian species.³⁸ Economically, the forestry sector generated an average

²⁹ Ibid.

³⁰ Ibid.

³¹ Pöyry, “Paracel ESIs Executive Summary”, (2021), at: https://paracel.com.py/en/wp-content/uploads/2022/05/OCT-11-Edits-to-Executive-Summary_FINAL_SEP-Clean.pdf

³² Pöyry, “Environmental and Social Impact Assessment (ESIA) for Industry and Forestry Components”, (2021), at: https://paracel.com.py/en/wp-content/uploads/2022/05/Health-Saf-Environm-Social-Manag-System-Manual_FINAL-OCT.pdf

³³ Pöyry, “Paracel ESIs Executive Summary”, (2021), at: https://paracel.com.py/en/wp-content/uploads/2022/05/OCT-11-Edits-to-Executive-Summary_FINAL_SEP-Clean.pdf

³⁴ Paracel, “Code of Ethics”, (2021), at: <https://paracel.com.py/wp-content/uploads/2021/06/Code-of-Ethics-Paracel-v01.pdf>

³⁵ UN Climate Change Conference UK 2021, “Glasgow Leaders’ Declaration on Forests and Land Use”, at: <https://ukcop26.org/glasgow-leaders-declaration-on-forests-and-land-use/>

³⁶ Trading Economics, “Paraguay- Forest Area (% of Land Area)”, at: <https://tradingeconomics.com/paraguay/forest-area-percent-of-land-area-wb-data.html>

³⁷ UN-REDD, “Paraguay demonstrates benefits of forests as a nature-based solution to climate change”, (2020), at: <https://www.un-redd.org/news/paraguay-demonstrates-benefits-forests-nature-based-solution-climate-change>

³⁸ The World Bank, “A Forest’s Worth: Policy Options for a Sustainable and Inclusive Forest Economy in Paraguay”, (2020), at: <https://openknowledge.worldbank.org/bitstream/handle/10986/34988/A-Forest-s-Worth-Policy-options-for-a-sustainable-and-inclusive-forest-economy-in-Paraguay.pdf?sequence=1&isAllowed=y>

USD 777 million, or 2.5%, to the country's gross value added each year from 2008 to 2018.³⁹ However, Paraguay also has one of the highest global rates of deforestation, resulting in a loss of 5.8 million ha, or 26%, of forest cover between 2001 and 2018.⁴⁰ It is estimated that the annual deforestation of native forests results in a loss of ecosystem services, leading to an economic cost of USD 628 million, or 1.6% of the nation's GDP in 2017.⁴¹ Additionally, 45% of Paraguayans living in rural areas are considered either poor or extremely poor and heavily rely on the consumption of forest ecosystem services, including fuelwood, meat, potable water and soil erosion control.⁴² The loss of forest ecosystem services due to deforestation and mismanagement undermines poverty reduction goals and leaves these rural communities particularly vulnerable to environmental degradation.⁴³

To address the rate of deforestation, Paraguay voluntarily engages in REDD+⁴⁴ under the UN Framework Convention on Climate Change to conserve forest land. As a result of the country's efforts under REDD+, Paraguay reported 26.7 MtCO₂ in emission reductions, translating into a 50% reduction in the forestry sector's emissions in 2019.⁴⁵ In addition, Paraguay renewed its commitment to the Zero Deforestation Law and extended it for the next 10 years to safeguard the Atlantic Forest against agriculture and logging activities in 2021.⁴⁶ These plans highlight the importance of forest conservation for biodiversity preservation and climate change mitigation.

Sustainalytics is of the opinion that Paracel's investments in sustainable forest practices are expected to contribute to the country's native forest preservation, regeneration and reforestation.

The importance of socio-economic programmes aimed at MSMEs in Paraguay

In Latin America and the Caribbean, MSMEs represented 99.5% of businesses and accounted for 60% of the formal workforce as of 2020.⁴⁷ As recently as 2018, these figures were nearly identical for Paraguay, with MSMEs accounting for 96.9% and 61.6%, respectively.⁴⁸ However, MSMEs in the country have been underperforming in terms of global competitiveness.⁴⁹ Despite steady economic growth, the number of MSMEs contributing to the country's exports declined from approximately 1,100 in 2006 to 600 in 2014.⁵⁰ Shortcomings also exist in the services provided by the government's export and investment promotion agency (REDIEX) and the uneven regional application of national initiatives; MSMEs in Paraguay have limited access to business development services and relatively low levels of technical sophistication.⁵¹ In 2020, MSMEs experienced high rates of business contraction and employment suspension due to COVID-19 lockdown measures.⁵²

To support MSMEs during the lockdowns, Paraguay's central bank established the Guarantee Fund, allocating PYG 685 billion (USD 94.6 million) to help MSMEs maintain access to credit.⁵³ The government also set up a number of subsidy programmes, including Pytyvõ, which provided financial support to those working for MSMEs or in informal roles. The UNDP has called for further support for Paraguay's MSMEs, especially in

³⁹ The World Bank, "A Forest's Worth: Policy Options for a Sustainable and Inclusive Forest Economy in Paraguay", (2020), at: <https://openknowledge.worldbank.org/bitstream/handle/10986/34988/A-Forest-s-Worth-Policy-options-for-a-sustainable-and-inclusive-forest-economy-in-Paraguay.pdf?sequence=1&isAllowed=y>

⁴⁰ Ibid.

⁴¹ Ibid.

⁴² The World Bank, "Paraguay Sustainable Production and Conservation Landscapes", (2019), at: https://ewdata.rightsindevelopment.org/files/documents/51/WB-P171351_6PyOu3T.pdf

⁴³ Ibid.

⁴⁴ Reducing Emissions from Deforestation and Forest Degradation in Developing Countries (REDD+) is a voluntary process under the UNFCCC that encourages developing countries to contribute to climate change mitigation efforts by reducing GHG emissions from deforestation and forest degradation.

UN, "What is REDD+?", at: <https://unfccc.int/topics/land-use/workstreams/redd/what-is-redd>

⁴⁵ UN-REDD Programme, "Paraguay demonstrates benefits of forests as a nature-based solution to climate change", (2020), at: <https://www.un-redd.org/news/paraguay-demonstrates-benefits-forests-nature-based-solution-climate-change>

⁴⁶ WWF, "Paraguay renews commitment to zero deforestation", (2021), at: <https://updates.panda.org/paraguay-renews-commitment-to-zero-deforestation>

⁴⁷ Inter-American Development Bank, "MSME Financing Instruments in Latin America and the Caribbean During COVID-19", (2020), at:

<https://publications.iadb.org/publications/english/document/MSME-Financing-Instruments-in-Latin-America-and-the-Caribbean-During-COVID-19.pdf>

⁴⁸ Inter-American Development Bank, "Paraguay: Support for Business Development Services to Paraguayan Exporting Companies", (2020), at:

https://ewdata.rightsindevelopment.org/files/documents/39/IADB-PR-L1139_W9z4rN2.pdf

⁴⁹ Ibid.

⁵⁰ Ibid.

⁵¹ Ibid.

⁵² UNDP, "Promoting Socio-Economic Recovery in Paraguay Report – Economic Reactivation Strategies during COVID-19", (2020), at: <https://www.undp.org/sites/g/files/zskgke326/files/migration/latinamerica/undp-rblac-CD19-PDS-Number17-Paraguay-EN.pdf>

⁵³ Ibid.

ways that benefit vulnerable populations, such as youth, women and Indigenous populations.⁵⁴ In terms of boosting their operational sophistication and connecting them to wider markets, business training programmes can be particularly impactful investments.⁵⁵

Sustainalytics is of the opinion that Paracel's sustainability bonds may contribute to the socio-economic well-being of Paraguayans by providing training, education and assistance programmes to youth, women, Indigenous communities and MSMEs.

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 Paracel S.A. Sustainability Financing Framework are expected to help advance the following SDGs and targets:

Use of Proceeds Category	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.
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.
Pollution Prevention and Control	12. Responsible consumption and production.	12.4 By 2020, achieve the environmentally sound management of chemicals and all wastes throughout their life cycle, in accordance with agreed international frameworks, and significantly reduce their release to air, water and soil in order to minimize their adverse impacts on human health and the environment
Environmentally Sustainable Management of Living Natural Resources and Land Use	15. Life on Land.	15.2 By 2020, promote the implementation of sustainable management of all types of forests, halt deforestation, restore degraded forests and substantially increase afforestation and reforestation globally
Socio-Economic Advancement and Empowerment	8. Decent work and economic growth.	8.3 Promote development-oriented policies that support productive activities, decent job creation, entrepreneurship, creativity and innovation, and encourage the formalization and growth of micro-, small- and medium-sized enterprises, including through access to financial services

Conclusion

Paracel has developed the Sustainability Financing Framework under which it may issue green and sustainability bonds and loans and use the proceeds to finance projects that are expected to contribute to its environmental programmes, reduce GHG emissions and provide social benefits to target populations in Paraguay.

Paracel's Sustainability Financing Framework outlines a process by which proceeds will be tracked, allocated, and managed, and commitments have been made for reporting on the allocation and impact of the use of proceeds. Furthermore, Sustainalytics believes that the Framework is aligned with the overall sustainability

⁵⁴ Ibid.

⁵⁵ Inter-American Development Bank, "Paraguay: Support for Business Development Services to Paraguayan Exporting Companies", (2020), at: https://ewdata.rightsindevelopment.org/files/documents/39/IADB-PR-L1139_W9z4rN2.pdf

strategy of the Company and that the use of proceeds categories will contribute to the advancement of the UN Sustainable Development Goals 6, 7, 8, 12, and 15. Additionally, Sustainalytics is of the opinion that Paracel has adequate measures to identify, manage and mitigate environmental and social risks commonly associated with the eligible projects funded by the proceeds.

Based on the above, Sustainalytics is confident that Paracel is well positioned to issue green and sustainability bonds and loans and that Paracel's Sustainability Financing Framework is robust, transparent, and in alignment with the four core components of the Green Bond Principles (2021), Social Bond Principles (2021), and Green Loan Principles (2021) and the Social Loan Principles (2021).

Appendix

Appendix 1: Sustainability Bond / Sustainability Bond Programme - External Review Form

Section 1. Basic Information

Issuer name:	Paracel S.A.
Sustainability Bond ISIN or Issuer Sustainability Bond Framework Name, if applicable:	Sustainability Financing Framework
Review provider's name:	Sustainalytics
Completion date of this form:	January 23, 2023
Publication date of review publication:	
Original publication date <i>[please fill this out for updates]:</i>	

Section 2. Review overview

SCOPE OF REVIEW

The following may be used or adapted, where appropriate, to summarise the scope of the review.

The review assessed the following elements and confirmed their alignment with the GBP and SBP:

- | | |
|--|--|
| <input checked="" type="checkbox"/> Use of Proceeds | <input checked="" type="checkbox"/> Process for Project Evaluation and Selection |
| <input checked="" type="checkbox"/> Management of Proceeds | <input checked="" type="checkbox"/> Reporting |

ROLE(S) OF REVIEW PROVIDER

- | | |
|---|--|
| <input checked="" type="checkbox"/> Consultancy (incl. 2 nd opinion) | <input type="checkbox"/> Certification |
| <input type="checkbox"/> Verification | <input type="checkbox"/> Rating |
| <input type="checkbox"/> Other <i>(please specify):</i> | |

Note: In case of multiple reviews / different providers, please provide separate forms for each review.

EXECUTIVE SUMMARY OF REVIEW and/or LINK TO FULL REVIEW *(if applicable)*

Please refer to Evaluation Summary above.

Section 3. Detailed 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.

1. USE OF PROCEEDS

Overall comment on section (*if applicable*):

The eligible categories for the use of proceeds – Renewable Energy, Sustainable Water and Wastewater Management, Pollution Prevention and Control, Environmentally Sustainable Management of Living Natural Resources and Land Use and Socio-economic Advancement and Empowerment – are aligned with those recognized by the Green Bond Principles, Social Bond Principles, Green Loan Principles and the Social Loan Principles. Sustainalytics considers that investments in the eligible categories will lead to positive environmental and social impacts and advance the UN Sustainable Development Goals, specifically SDGs 6, 7, 8, 12 and 15.

Use of proceeds categories as per GBP:

- | | |
|--|---|
| <input checked="" type="checkbox"/> Renewable energy | <input type="checkbox"/> Energy efficiency |
| <input checked="" type="checkbox"/> Pollution prevention and control | <input checked="" type="checkbox"/> Environmentally sustainable management of living natural resources and land use |
| <input type="checkbox"/> Terrestrial and aquatic biodiversity conservation | <input type="checkbox"/> Clean transportation |
| <input checked="" type="checkbox"/> Sustainable water and wastewater management | <input type="checkbox"/> Climate change adaptation |
| <input type="checkbox"/> Eco-efficient and/or circular economy adapted products, production technologies and processes | <input type="checkbox"/> Green buildings |
| <input type="checkbox"/> Unknown at issuance but currently expected to conform with GBP categories, or other eligible areas not yet stated in GBPs | <input checked="" type="checkbox"/> Other (please specify): Environmentally Sustainable Management of Living Natural Resources and Land Use |

If applicable please specify the environmental taxonomy, if other than GBPs:

Use of proceeds categories as per SBP:

- | | |
|---|---|
| <input type="checkbox"/> Affordable basic infrastructure | <input type="checkbox"/> Access to essential services |
| <input type="checkbox"/> Affordable housing | <input type="checkbox"/> Employment generation (through SME financing and microfinance) |
| <input type="checkbox"/> Food security | <input checked="" type="checkbox"/> Socioeconomic advancement and empowerment |
| <input type="checkbox"/> Unknown at issuance but currently expected to conform with SBP categories, or other eligible areas not yet stated in SBP | <input type="checkbox"/> Other (please specify): |

If applicable please specify the social taxonomy, if other than SBP:

2. PROCESS FOR PROJECT EVALUATION AND SELECTION

Overall comment on section (if applicable):

Paracel will establish a Sustainability Financing Working Group (the "Working Group"), which will comprise members from the Finance, Environment & Licensing, Social and Communications and Project Management (including procurement) teams. The Working Group will be responsible for the project selection and evaluation process. Paracel has adopted risk-mitigating measures to identify and manage environmental and social risks associated with the financed assets. Sustainalytics considers the environmental and social risk management systems to be adequate and the project and the selection process to be in line with market practice.

Evaluation and selection

- | | |
|---|---|
| <input checked="" type="checkbox"/> Credentials on the issuer's social and green objectives | <input checked="" type="checkbox"/> Documented process to determine that projects fit within defined categories |
| <input checked="" type="checkbox"/> Defined and transparent criteria for projects eligible for Sustainability Bond proceeds | <input checked="" type="checkbox"/> Documented process to identify and manage potential ESG risks associated with the project |
| <input checked="" type="checkbox"/> Summary criteria for project evaluation and selection publicly available | <input type="checkbox"/> Other (please specify): |

Information on Responsibilities and Accountability

- | | |
|--|--|
| <input checked="" type="checkbox"/> Evaluation / Selection criteria subject to external advice or verification | <input type="checkbox"/> In-house assessment |
| <input type="checkbox"/> Other (please specify): | |

3. MANAGEMENT OF PROCEEDS

Overall comment on section (if applicable):

Paracel's Working Group is responsible for overseeing the allocation of proceeds, and the Finance team will be responsible for tracking and managing the proceeds. Paracel intends to fully allocate the green or sustainable project finance loans within 12 months after the last drawdown of such loan and allocate the green or sustainable bond proceeds within 36 months of issuance. This is in line with market practice.

Tracking of proceeds:

- | |
|---|
| <input checked="" type="checkbox"/> Sustainability Bond proceeds segregated or tracked by the issuer in an appropriate manner |
| <input checked="" type="checkbox"/> Disclosure of intended types of temporary investment instruments for unallocated proceeds |
| <input type="checkbox"/> Other (please specify): |

Additional disclosure:

- | | |
|---|---|
| <input type="checkbox"/> Allocations to future investments only | <input checked="" type="checkbox"/> Allocations to both existing and future investments |
| <input type="checkbox"/> Allocation to individual disbursements | <input checked="" type="checkbox"/> Allocation to a portfolio of disbursements |
| <input checked="" type="checkbox"/> Disclosure of portfolio balance of unallocated proceeds | <input type="checkbox"/> Other (please specify): |

4. REPORTING

Overall comment on section (if applicable):

Paracel intends to report on the allocation of proceeds on its website on an annual basis until full allocation. Allocation reporting will include the net proceeds raised, the amount of net proceeds allocated to eligible categories, the unallocated balance of proceeds, the proportion of proceeds financed and refinanced and brief project descriptions. In addition, Paracel is committed to reporting on relevant impact metrics. Sustainalytics views Paracel's allocation and impact reporting as aligned with market practice.

Use of proceeds reporting:

- | | |
|---|---|
| <input checked="" type="checkbox"/> Project-by-project | <input type="checkbox"/> On a project portfolio basis |
| <input checked="" type="checkbox"/> Linkage to individual bond(s) | <input type="checkbox"/> Other (please specify): |

Information reported:

- | | |
|--|---|
| <input checked="" type="checkbox"/> Allocated amounts | <input type="checkbox"/> Sustainability Bond financed share of total investment |
| <input checked="" type="checkbox"/> Other (please specify): Net proceeds raised; amount of net proceeds allocated to eligible categories; unallocated balance of proceeds; proportion of proceeds financed and refinanced and brief project descriptions | |

Frequency:

- | | |
|--|--------------------------------------|
| <input checked="" type="checkbox"/> Annual | <input type="checkbox"/> Semi-annual |
| <input type="checkbox"/> Other (please specify): | |

Impact reporting:

- | | |
|---|---|
| <input checked="" type="checkbox"/> Project-by-project | <input type="checkbox"/> On a project portfolio basis |
| <input checked="" type="checkbox"/> Linkage to individual bond(s) | <input type="checkbox"/> Other (please specify): |

Information reported (expected or ex-post):

- | | |
|---|---|
| <input checked="" type="checkbox"/> GHG Emissions / Savings | <input checked="" type="checkbox"/> Energy Savings |
| <input type="checkbox"/> Decrease in water use | <input checked="" type="checkbox"/> Number of beneficiaries |
| <input type="checkbox"/> Target populations | <input checked="" type="checkbox"/> Other ESG indicators (please specify): renewable energy generation in MWh; steam generation t/h; Volume of treated water and effluent, in m ³ /ADtB; Reduction of Suspended solid waste content in effluent, in mg/l or percent; Reduction of DBO in effluent, in mgO ₂ /lt; Reduction of DQO in effluent, in mgO ₂ /lt; Generation of Effluent, in m ³ /ADtB; Generation of solid waste, in m ³ /ADtB; Air emissions: CO, in mg/Nm ³ ; NO _x , in mg/Nm ³ ; SO ₂ , in mg/Nm ³ ; Dust in flue gas, in mg/Nm ³ ; Total Reduced Sulfur, in mg/Nm ³ ; Reduction of energy consumption, in MWh/ADtB; Reduction in oil consumption, in Kg/ADtB; Tons of CO ₂ emissions avoided, in tons CO ₂ /year; # of training / assistance programs; and # of local suppliers included in the Paracel value chain |

Frequency:

- | | |
|--|--------------------------------------|
| <input checked="" type="checkbox"/> Annual | <input type="checkbox"/> Semi-annual |
| <input type="checkbox"/> Other (please specify): | |

Means of Disclosure

- | | |
|---|---|
| <input type="checkbox"/> Information published in financial report | <input type="checkbox"/> Information published in sustainability report |
| <input type="checkbox"/> Information published in ad hoc documents | <input checked="" type="checkbox"/> Other (please specify): Annual Report will be published on Paracel's website. |
| <input type="checkbox"/> Reporting reviewed (if yes, please specify which parts of the reporting are subject to external review): | |

Where appropriate, please specify name and date of publication in the useful links section.

USEFUL LINKS (e.g. to review provider methodology or credentials, to issuer's documentation, etc.)

SPECIFY OTHER EXTERNAL REVIEWS AVAILABLE, IF APPROPRIATE

Type(s) of Review provided:

- | | |
|--|--|
| <input type="checkbox"/> Consultancy (incl. 2 nd opinion) | <input type="checkbox"/> Certification |
| <input type="checkbox"/> Verification / Audit | <input type="checkbox"/> Rating |
| <input type="checkbox"/> Other (<i>please specify</i>): | |

Review provider(s):

Date of publication:

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

- i. **Second-Party Opinion:** An institution with sustainability expertise that is independent from the issuer may provide a Second-Party Opinion. The institution should be independent from the issuer's adviser for its Sustainability 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 Principles. In particular, it can include an assessment of the issuer's overarching objectives, strategy, policy, and/or processes relating to sustainability and an evaluation of the environmental and social 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 sustainability criteria. Verification may focus on alignment with internal or external standards or claims made by the issuer. Also, evaluation of the environmentally or socially 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 Sustainability Bond proceeds, statement of environmental or social impact or alignment of reporting with the Principles may also be termed verification.
- iii. **Certification:** An issuer can have its Sustainability Bond or associated Sustainability Bond framework or Use of Proceeds certified against a recognised external sustainability 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, Social and Sustainability Bond Scoring/Rating:** An issuer can have its Sustainability Bond, associated Sustainability 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 and/or social performance data, process relative to the Principles, or another benchmark, such as a 2-degree climate change scenario. Such scoring/rating is distinct from credit ratings, which may nonetheless reflect material sustainability risks.

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For more information, visit www.sustainalytics.com

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