

## TCFD

In 2015, the Financial Stability Board (FSB) created the Task Force on Climate-Related Financial Disclosures (TCFD), a working group responsible for encouraging companies to inform their investors about the risks related to climate change and how they are managed. Aware of the importance of the topic for society and for our business, we started this reporting cycle by reporting our governance actions for climate change following the TCFD guidelines, thus adhering to a global network of organizations that is based on this framework to discuss the topic.

## Governance

### **a) How the Council oversees risks and opportunities related to climate change.**

The Internal Audit, Risks and Internal Controls Board (DARC) conducts the evaluation of physical and climate risks, which annually reviews the physical and climate risk matrix and approves it with the Board of Directors. The opportunities related to climate change are included in the company's investment catalog. Its evaluation is done by the Engineering and Financial Planning Directorates. The approval of the Board of Directors occurs in the context of the approval of the budget of the companies of the Aegea group.

### **b) The Board's role in assessing and managing risks and opportunities related to climate change.**

The Company's Board of Directors has the role of approving and monitoring the management of physical and climate risks, and may also request specific action in certain cases, additional assessments, preparation and implementation of action plans, among other procedures for risk management and opportunities related to climate change.

## Strategy

### **a) Risks and opportunities related to climate change that the organization has identified in the short, medium and long term.**

The risks that directly impact operations are highlighted, such as those related to water availability and the recharge capacity of springs, with a greater probability of occurring in the long term, and electrical discharges, floods, landslides, among others, which can occur in the short and medium term.

### **b) Impacts of risks and opportunities related to climate change on the organization's business, strategy, and financial planning.**

Below, the risks and their impacts on the business are explained in greater detail:

- Reduced water availability for the production of drinking water (supply decrease) can occur, for example, in drought scenarios, low recharge of springs and lack of water in the water bodies that receive the treated effluent (non-purification);
- Outflow of untreated effluent can occur, for example, in scenarios of high rainfall and floods;
- Unavailability of assets (systems and structures) and interruption or stoppage of operations may occur as a result, for example, of electrical discharges, floods and inundations.

Regarding opportunities, projects for the transition to a low-carbon economy stand out, especially those related to the noble disposal of sludge, energy use and generation of biogas and biomethane, production of renewable energy, decrease of energy consumption and decrease of water losses and their reuse. Below, the opportunities and their impacts on the business are highlighted in greater detail:

- Decrease of costs and expenses, through projects to reduce and dispose of waste, especially sludge, reduce energy consumption and reduce water losses;
- Development of energy generating sources, especially biogas and biomethane;
- Energy Matrix Largely Renewable, through distributed generation projects and energy purchase in the free market linked to the production of energy exclusively from clean sources;
- Increase in revenue from water reuse projects for industrial purposes, starting to serve new industrial customers.

#### **c) Resilience of the organization's strategy, considering different scenarios of climate change, including a 2°C or less scenario**

The implementation of these projects goes through a financial evaluation process (analysis to Value Net Present).



The Company also operates in the development and implementation of projects related to controlling the planet's temperature and preserving and restoring the environment.

For scenarios of occurrence of extreme weather events or not, including those related to the increase in the planet's temperature, the Company's resilience involves monitoring, sending alerts, analysis and follow-up of projections and scientific reports on the planet's climate and temperature. For risks that may impact the production and supply of drinking water, the Company also analyzes the availability of water in surface sources, aquifers and river basins versus the projection



and behavior of consumption over the years for each operating unit. Based on this work, risk matrices, action plans and investments that need to be carried out by the Company are drawn up to mitigate the impacts of physical and climate risks, such as drilling wells, increasing water reserve capacity, transferring basins, development of alternative energy sources, reinforcement of building structures, installation of backup systems, among others.

The Company also operates in the development and implementation of projects related to controlling the planet's temperature and preserving and restoring the environment, reforestation, protection and recovery of degraded areas, wind and solar energy generating units.

## Climate risk management

### **a) Processes used by the organization to identify and evaluate risks related to climate change.**

The Company's risk analysis methodology is based on the ISO 31000 standard – Risk Management and COSO (Committee of Sponsoring Organizations of the Treadway Commission). The identification of risks occurs through mapping processes and/or studying scenarios. Besides water availability analysis, the Company has climatological analysis carried out in partnership with a company specialized in climate forecasts, which provides historical data, projections and estimates in real time. After identifying the risks, they are evaluated taking into account the probability of occurrence and their impact on the business.

### **b) Processes used by the organization to manage the risks related to climate change.**

After identifying the risks, they are evaluated considering the probability of occurrence and impact on the business. Risks assessed as critical require the preparation of an

action and contingency plan. Risks are managed by monitoring KPI's, risk matrices and executing mitigation action plans. Action plans are prepared considering the 5W2H methodology. After the implementation of action plans, follow-ups are carried out to validate their effectiveness and, if necessary, adjust.

### **c) How the processes used by the organization to identify, assess, and manage risks related to climate change are integrated into the organization's overall risk management.**

Risks related to climate change are included in the Company's Risk Catalog. Their identification, assessment, and management are integrated into the Internal Audit, Risks and Internal Controls Board (DARC), responsible for managing all risks to which the Company is exposed and reporting to the Audit Committee and Board of Directors.

## Metrics and Goals

### a) Metrics used by the organization to assess the risks and opportunities related to climate change according to its strategy and risk management process.

All of the Company's risks are assessed using three metrics: 1) probability, where the possibility of occurrence is evaluated, considering its history, internal controls and processes; 2 and 3) financial impact and reputational impact, where risks are evaluated from the perspective of damage to the business (image, costs, execution of the business plan, etc.). For risks classified as high and very high, it is mandatory to draw up an action plan. Risks classified as moderate and mild undergo recurrent follow-up and monitoring by DARC.

### b) Greenhouse gas emissions and the risks associated with them.

Considering the deficit in basic sanitation in Brazil and compliance with contractual milestones for expanding coverage, especially that of sanitary sewage, the segment's greenhouse gas emissions tend to increase. Therefore, the direct risks from emissions are regulatory, related to possible taxation of emissions or mandatory adoption of a decrease target.

### c) Goals used to manage risks and opportunities related to climate change, and performance with respect to those goals.

Regarding goals and performance:

- **Energy:** Target of, by 2030, to reduce by at least 15% the specific consumption of energy in water and sewage processes. The baseline target is 2020 and is measured in kWh/m<sup>3</sup>. Although it is not yet in the calculation period, it already shows good results, with a 3% decrease in specific energy consumption in 2022 over 2021. Aegea does not have targets related to the amount of CO<sub>2</sub> emitted.



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- **Water resilience:** Targets for reducing water losses agreed in concession agreements can vary between 25 and 35%, lower than the national average of 38%.