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Second Party Opinion

SABESP's Sustainable Finance Framework

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Location: Brazil **Sector:** Water and Wastewater Utility

Alignment Summary

Aligned = ✓ Conceptually aligned = o Not aligned = ×

- ✓ Social Bond Principles, ICMA, 2023
- ✓ Social Loan Principles, LMA/LSTA/APLMA, 2023
- ✓ Green Bond Principles, ICMA, 2021 (with June 2022 Appendix 1)
- ✓ Green Loan Principles, LMA/LSTA/APLMA, 2023
- ✓ Sustainability Bond Guidelines ICMA, 2021
- ✓ Blue Bond Guidelines, IFC GBF, 2022

See Alignment Assessment for more detail.

Strengths

Projects listed under the framework focus on SABESP's core business and are likely to help advance its environmental and social benefits. For example, the blue financing provided under the framework will support the expansion of the company's sewage collection coverage. It will contribute with the achievement of SABESP's goal of water and sewage treatment for the entire population of the state of São Paulo municipalities where it operates (universalization). SABESP expects to achieve universalization four years ahead of the Brazil's sanitation regulatory framework requirements.

SABESP uses comprehensive target populations definitions established by Brazil's sanitation regulatory framework. Given the clear criteria used in the framework, we expect that social projects will deliver adequate social outcomes to underserved communities.

SABESP adheres to the IFC's Guidelines for Blue Finance. Blue financing instruments issued under the framework will be applied to finance or refinance projects in sustainable water and wastewater management, terrestrial and aquatic biodiversity conservation, and climate change adaptation.

Weaknesses

No weakness to report.

Areas to watch

Some categories, assessed as Dark green, may include Light and Medium green project activities. SABESP has broadened its framework to cover multiple activities that go beyond its core business. For example, the pollution prevention and control category includes municipal waste-to-energy projects. We expect minimal allocation for such projects, so they do not affect the overall assessment for the category.

SABESP's exposure to physical climate risks. SABESP has adequate identification using climate scenarios until 2050 and is enhancing its long-term strategy to ensure sufficient water availability for the state of São Paulo. The company's resilience measures for flooding and landslide exposure are included by its framework.

SABESP faces worker safety risks within its value chain. During the construction of new infrastructure, SABESP can contract suppliers for specific services, which limits its oversight of safety control measures. Suppliers undergo due diligence and commit to labor regulations. Still, safety incidents related to SABESP's infrastructure deployment can still occur.

Shades of Green Projects Assessment Summary

Over the three years following the issuance of the financing, SABESP expects to allocate most proceeds (90%) to sustainable water and wastewater management, in line with the company's goal of water and sewage treatment universalization and planned capital expenditures over the 2025-2029 period. The remaining funds are expected to be allocated to affordable basic infrastructure, renewable energy and terrestrial and aquatic biodiversity conservation. The issuer did not disclose the expected share of proceeds to be allocated for financing new and refinancing existing projects.

Sustainable Water and Wastewater Management	**Medium green**
Infrastructure to capture, store, treat and distribute water and collect and treat sewage, including urban drainage systems, water recycling, smart systems for leakage identification, storage infrastructure, rainwater catchment, optimization, and efficiency in distribution and water quality monitoring	
Wastewater/sewage treatment and recovery plants and related infrastructure	
Desalination plants to produce water to be distributed in drinking water systems	

Renewable Energy	**Dark green**
Onsite such as solar energy, biogas/biomass, and small hydroelectric plants, including long-term power purchase agreements (PPAs) of at least five years from solar or small-scale hydropower	
Transmission and distribution networks supporting renewable energy consumption	

Energy Efficiency	**Light green**
Application of LED lighting fixtures, HVAC optimization, building upgrades, heat recovery systems, vacuum distillation, and technologies such as pumps operating as a turbine	

Terrestrial and Aquatic Biodiversity Conservation	**Dark green**
Conservation and management projects to restore or maintain catchment systems (rivers, lakes, streams, dams, groundwater and springs) to improve the quality of the environment and water	
Projects and programs for the conservation and restoration of forests, riparian vegetation, and wetlands to maintain water quality and quantity and to prevent flooding and promote biodiversity	

Pollution Prevention and Control	**Dark green**
Anaerobic digestion facilities and projects that enhance the circularity and/or material recovery from treatment plants to produce organic fertilizers	
Infrastructure to recover energy from waste materials	

Climate Change Adaptation	**Medium green**
Technology and infrastructure to increase water security and resilience, including nature-based solutions, control systems and/or monitoring of water resources, flood prevention, drought mitigation, soil erosion, and coastal erosion	

See Analysis Of Eligible Projects for more detail.

Issuer Sustainability Context

This section provides an analysis of the issuer's sustainability management and the embeddedness of the financing framework within its overall strategy.

Company Description

Companhia de Saneamento Básico do Estado de São Paulo (SABESP) is a Brazilian based water and wastewater utility. Established in 1954, the company supplies water to 28.7 million people and provides sewage collection services to 25.5 million people. The company operates water and sewage systems in 375 municipalities in the state of São Paulo. SABESP provides services to residential, commercial, and industrial private customers, as well as for public services.

Following its privatization in 2024, 67% of its shares are now free floating on the Brazilian (B3) and New York stock exchanges. The state of São Paulo has a 18% stake, and the remaining are owned by Equatorial (15%). SABESP is part of B3 Ações Verdes (Brazilian Green Equity Designation).

Material Sustainability Factors

Water

Water, stormwater, and wastewater utilities face various water supply and quality challenges depending on their location and role in the water lifecycle. Water supply and quality issues may result from multiple factors, including infrastructure quality and resulting water lost during extraction and transportation. Other factors could stem from acute physical climate events such as droughts and floods, chronic physical climate risks (e.g., sea level rise and changing precipitation patterns), and degradation of the watershed near extraction points due to human intervention or climate change.

While wastewater treatment can serve as a valuable source of treated water for specific end markets, the process may have downstream impacts on ecosystems and communities depending on the process efficiency, infrastructure capacity, and ultimately the quality of the treated water. Also, the potential overflow of untreated sewage and stormwater into water bodies used as water extraction points can be an issue for both operator and, ultimately, customers. Furthermore, operators may encounter escalating stakeholder conflicts driven by competing demands for limited water resources, such as agriculture, efforts to preserve ecosystems, power generation, and other industrial water users.

Pollution

Globally, high quantities of untreated wastewater are released into the environment where they can contaminate water bodies, making pollution a material stakeholder concern for water utilities. Water utilities also manage toxic pollution from agricultural runoff and industrial discharge in water basins.

Contaminated water and poor sanitation systems, in turn, contribute to long-term health conditions, and these customer health and safety events can, when severe, undermine public trust. Under applicable environmental laws and regulations, entities could be liable if their operations cause environmental damage--in particular, air, drinking water, or soil contamination.

Access and Affordability

Access to safe water and sanitation is broadly considered a human right, and universal access is one of the U.N.'s Sustainable Development Goals. Water is an essential service supporting human health and well-being and global economic development.

Service disruptions or steep price increases may be exacerbated by the new regulatory requirements, the energy transition, and the physical aspects of climate change. Additionally, for water utilities, pollution in source water can affect the availability and useability of supply. That said, the industry's reliability remains high, and we expect this to continue given that water utilities use long-term integrated resource planning, which accounts for many of these risks.

Customer affordability is a key stakeholder concern because utility bills can affect households' purchasing power and the competitive strengths of local industries. In some jurisdictions, we see mechanisms to mitigate affordability concerns, with assistance programs such as tariff subsidies.

Physical Climate Risks

Water, stormwater, and wastewater utilities operate fixed assets that span large service territories, making them highly exposed to physical climate risks. Acute events such as extended droughts can put a strain on water supply. Meanwhile, floods can damage water and wastewater pipelines and other infrastructure, causing network service disruptions for large populations. Flooding can also result in water contamination which increases water treatment costs. Utilities also face chronic physical climate risks, such as sea-level rise and changing precipitation patterns, which may require significant investment to maintain sufficient water quantity and quality for the customer base.

Impact on Communities

Community impacts are acute for stakeholders given that networks can be close to where people live and work and that energy and water services are essential for community health and well-being globally. Moreover, service disruptions, fires, inadequate or contaminated drinking water, and untreated wastewater pose severe, and sometimes irreversible, community health and safety hazards. Water utilities also manage shared water resources where drought conditions can introduce tough trade-offs among community stakeholders and wastewater treatment plants, which release unpleasant odors and are often located in disadvantaged communities.

Issuer And Context Analysis

Eligible environmental and social categories aim to address SABESP's most material sustainability factors. Projects under the sustainability management of water and sewage, climate adaptation, energy efficiency, and pollution prevention and control categories essentially cover the company's business, which aims to provide clean water and sewage treatment to the state of São Paulo in a resilient manner. The company plays a significant role in the protection of riverbanks and the forests surrounding the water springs. Biodiversity conservation, a category included in the framework, is currently not directly a revenue-generating business, although it has the co-benefit of improving source-water quality and sequestering carbon. Projects related to the circularity of SABESP's wastewater treatment via the generation of biogas are also covered by the framework under the renewable energy category.

Meanwhile, social categories, such as access to basic infrastructure, also cover sanitation, while socioeconomic advancement and empowerment efforts aim to support SABESP's impact on communities. That said, eligible projects could introduce additional risks. For example, if methane leakage control measures are not adequately implemented, anaerobic sludge digesters used in wastewater treatment can generate significant methane emissions as a byproduct. Also, there are social risks such as employee safety during the construction of new sewage collection and treatment plants.

SABESP is close to supplying the entire population of the state of São Paulo municipalities where it operates with treated water (universalization). The company currently covers 99.5% of the population. Water availability in the state of São Paulo is generally adequate compared with other regions of Brazil, such as the northeastern states. Water availability in the state improved in 2023-2024 compared with the 2013-2014 drought. Since the last extended drought period in 2013-2014, the company has expanded treatment and storage capacity (via artificial reservoirs).

Regarding water quality, samples are collected daily from various stages of treatment, including collection points like rivers and wells, through the water treatment stations, and up to the distribution phase. These samples undergo detailed analysis by qualified professionals using advanced technology to ensure accuracy. The company conducts nearly 68,000 quality control tests monthly, including turbidity, color, chlorine levels, and total coliforms, along with over 90 other parameters. SABESP's 16 accredited quality control laboratories, certified by international standard ISO 17.025 and Inmetro, provide assurance of competency and reliability.

SABESP is also advancing toward providing sewage collection and treatment services for the entire population in the regions where it operates. Currently, it collects sewage for 93% of population in regions it attends and treats 85% of sewage collected. It expects full coverage by the end of 2029, compared with Brazil's sanitation regulatory framework of collecting and treating sewage for 90% of the Brazilian population by 2033. SABESP expects to achieve it four years ahead of schedule.

Investments include the expansion and retrofitting of sewage treatment stations, active participation in the IntegraTietê Program, which focuses on revitalizing the Tietê River by implementing extensive interceptor and collector networks, expanding collection networks, and providing sanitary treatment to inhabitants in the river basin, especially in vulnerable areas. For 2025-2029, SABESP's capex plan includes investments of R$ 60 billion in systems expansion.

SABESP has established social and vulnerable tariffs, a benefit provided to low-income and vulnerable single-family households. Proposed by the regulator and applied voluntarily by municipalities, this tariff consists of a discount on water and sewage service bills to increase access and affordability to basic sanitation. In 2023, nearly 120,000 new families benefited from the tariffs, bringing the total number of families entitled to this benefit in the municipalities operated by SABESP to 964,720.

SABESP adheres to a systematic process set by the regulator. For example, all adjustments are subject to public consultations as mandated by the National Water Agency. Additionally, SABESP explains the mechanism for tariff adjustments, as well as any planned increases, in its annual sustainability report. For regular (not social or vulnerable) tariff adjustments, after the privatization in 2024, the mechanisms for adjustments were reviewed to adopt stringent criteria linked to technological efficiency, quality, and universalization.

SABESP has adequate identification of physical climate risks using climate scenarios and is enhancing its long-term strategy to ensure sufficient water availability for the state of São Paulo until 2050. The company has implemented several resilience measures on its water supply infrastructure. For example, the company recently created water connections from streams outside the Alto Tietê basin (north of São Paulo), and the treatment and storage capacity (artificial reservoirs) close to such basin was expanded. Additionally, it increased capacity for transporting raw and treated water between different supply systems and served regions. An important measure was the construction of redundancy systems to provide reinforcement during severe droughts. The company's resilience measures for flooding and landslide exposure are included by its framework.

We believe the financing addresses the supplementary recommendations of the IFC Guidelines for Blue Finance (IFC GBF). Blue financing instruments issued under the framework will be applied to finance or refinance projects in sustainable water and wastewater management, terrestrial and aquatic biodiversity conservation, and climate change adaptation.

SABESP commits to delivering measurable outcomes above a documented baseline, in line with IFC GBF requirements. The blue projects do not introduce material risk to other environmental priorities of the SDGs, and the documentation clearly states what international sustainability standards the issuer follows. Further, the issuer commits to make all reasonable efforts to report relevant impact indicators identified in the ICMA Handbook for Impact Reporting.

Alignment Assessment

This section provides an analysis of the framework's alignment to the Social and Green Bond/Loan principles and the Sustainability Bond Guidelines.

Alignment Summary

Aligned = ✓ Conceptually aligned = o Not aligned = ×

- ✓ Social Bond Principles, ICMA, 2023
- ✓ Social Loan Principles, LMA/LSTA/APLMA, 2023
- ✓ Green Bond Principles, ICMA, 2021 (with June 2022 Appendix 1)
- ✓ Green Loan Principles, LMA/LSTA/APLMA, 2023
- ✓ Sustainability Bond Guidelines ICMA, 2021
- ✓ Blue Bond Guidelines, IFC GBF, 2022

✓ Use of proceeds

We assess all the framework's green project categories as having a green shade and consider all social project categories to be aligned. The issuer commits to allocate the net proceeds issued under the framework exclusively to eligible green and social projects. Please refer to the Analysis of Eligible Projects section for more information on our analysis of the environmental and social benefits of the expected use of proceeds. The company will disclose the proportion of financing versus refinancing in its allocation reporting and its look-back period is 36 months.

✓ Process for project evaluation and selection

SABESP has a sustainable finance working group, comprising representatives from Sabesp's treasury, investor relations and sustainability areas. It will meet at least annually to screen the potential projects, before their approval by the board. The company has processes to identify and manage environmental and social risks related to eligible projects. The framework includes an exclusion list, covering topics such as weapons and munitions, alcoholic beverages, adult entertainment, tobacco, and gambling. Furthermore, in our view, the blue projects do not introduce material risk to other environmental priorities of the SDGs, and the documentation clearly states what international sustainability standards the issuer follows.

✓ Management of proceeds

SABESP will track the net proceeds through its internal systems and allocate them within 36 months after the issuance of a sustainable instrument. The company commits to replacing projects that cease to comply with the framework's eligibility criteria within 12 months following their removal from the invested pool. Pending allocation, net proceeds will be held in cash or short-term instruments, in accordance with the company's treasury policy.

✓ Reporting

SABESP commits to report annually on the allocation of the net proceeds and on the financed projects' impact, until full allocation of the net proceeds and in case of material developments. Reporting will be available on the company's website. Allocation reporting will include the total amount of instruments outstanding, a brief description of the projects, and the breakdown of allocation of net proceeds by eligible category. The company will also report on the actual impact of the financed projects. Furthermore, the company will share information on the assumptions used to calculate the key indicators, adding transparency on the projects' impact. It is a positive that the company commits to receiving an external limited assurance on the allocation and impact reporting until full allocation.

Analysis Of Eligible Projects

This section provides details of our analysis of eligible projects, based on their environmental benefits and risks, using the "Analytical Approach: Shades Of Green Assessments," as well as our analysis of eligible projects considered to have clear social benefits and to address or mitigate a key social issue.

Green project categories

Sustainable Water and Wastewater Management

Assessment	Description
Medium green	Investments and expenditure in the planning, development, operation, maintenance, enhancement, installation, expansion, acquisition, and retrofitting of sustainable water and sewage management systems and technologies, including: • Infrastructure to capture, store, treat, and distribute water and collect and treat sewage; • Infrastructure or drinking water treatment systems that improve or monitor water quality; • Optimization and efficiency programs that reduce water footprint in the distribution and consumption of water in operations, production facilities, and offices; • Wastewater/sewage treatment and recovery plants and related infrastructure; • Urban drainage systems; • Water recycling and reuse infrastructure; • Water supply/storage infrastructure to recharge water, recover water bodies/tables, and rainwater catchment systems; and • Smart system water meters and tools for pressure identification and/or leaks.

- As a form of natural capital, water is necessary for economic activity, thriving ecosystems, and public health. Therefore, water supply system projects are important to securing a future where all stakeholders have reliable access to sufficient water of adequate quality. Water efficiency measures help reduce demand on natural capital and reduce greenhouse gas emissions associated with water treatment and conveyance. As a result, they could help achieve a low-carbon, climate-resilient future. That said, if not well managed, water systems are energy intensive and can generate significant waste, exacerbate water stress for other stakeholders, and pose disruptions to hydrology and aquatic ecosystems.
- Wastewater systems reduce pollution, enable resource recovery, and enhance ecosystem and public health. As a result, they are also a key component of a low-carbon, climate-resilient future. The primary benefits include improvement in water quality and cumulative effects on the watershed. They can also help relieve water stress and be a source of nutrient and energy recovery, depending on the system. That said, these systems are energy intensive and can produce significant solid waste and methane emissions if not sufficiently managed.
- We assess SABESP's water and wastewater treatment projects as Medium green. Most of SABESP's systems operate on renewable energy sources. SABESP is expanding sewage collections to untreated areas. This expansion holds significant environmental importance in terms of pollution prevention and control. That said, SABESP still faces some unmitigated exposure to physical risks, and the circularity of its wastewater (using the byproducts of wastewater and transforming it into energy or other solutions such as fertilizers) is still nascent.
- Presently, the company's treated water meets the specifications established by the National Health Foundation, the Brazilian Association of Technical Standards, and the American Water Works Assn. With the proceeds from instruments issued under the framework, SABESP will further invest in projects aimed at improving water quality and availability. Additionally, SABESP's water loss rates compare favorably with the Brazilian national average (29% for SABESP in 2024, compared with around 40% for the national average), and these projects should support further improvements in this rate.
- The sewage treatment process SABESP uses varies according to the characteristics of each region served. In the Metropolitan region of São Paulo (capital of the state), the most used process is disposing the treated sludge in landfills. In

some cases, in the company treats the leachate (liquid that drains or leaches from a landfill). The company's waste-to-energy generation and resource recovery solutions are under development, but still nascent.

- SABESP includes desalination projects in its framework, which are highly energy intensive and produce brine, a pollutant. SABESP considers desalination projects for municipalities with limited freshwater availability, such as Ilhabela. The utility expects that the financed plants will be fully powered by renewable energy. Furthermore, it commits to adhering to specific local regulations and standards for brine disposal. However, no quantitative salinity thresholds or brine disposal studies were provided.
- SABESP has adequate identification of physical climate risks using climate scenarios and is enhancing its well-established long-term strategy to ensure sufficient water availability for the state of São Paulo until 2050. The company is enhancing its adaptation plan for extreme weather events, including but not limited to floods.
- We believe SABESP has adequate biodiversity loss mitigation measures for its water and wastewater infrastructure projects. For example, around the reservoirs of the Cantareira System in the Metropolitan region of São Paulo, SABESP has replanted areas looking to recover the connectivity of the Atlantic forest fragments.
- In line with the IFC GBF, SABESP must comply with baselines and measurable outcomes for water loss, customer satisfaction, water quality, and universalization goals of water supply and sewage services in all municipalities of the state of São Paulo that the company serves, as per requirements set by the Brazil's sanitation regulatory framework. SABESP's goal of achieving universal water and sewage treatment is four years ahead (2029) of what is required under the regulatory framework (2033). Blue projects under this category aim to contribute to water related SDG 6 and SDG 14.

Renewable Energy

Assessment	Description
Dark green	Investments and expenditure in the generation, design, development, construction, operation, distribution, maintenance, and/or purchase of renewable energy and related infrastructure, including: • Onsite such as solar energy, biogas/biomass, and small hydroelectric plants; • Long-term PPAs of at least five years from solar or small-scale hydropower; and • Procurement (including land acquisition), development, installation, operational readiness, operation, and maintenance of electricity transmission and distribution (T&D) networks supporting renewable energy consumption, and the export of excess renewable energy generated by SABESP, or any of its subsidiaries, to the public grid, including programs such as the Photovoltaic Power Distributed Generation Program.

Analytical considerations

- Renewable energy sources, such as solar photovoltaics and hydroelectric power, are key to limiting global warming to well below 2 degrees Celsius. Still, these projects may cause land use change and adversely affect local biodiversity and are exposed to physical risks. Bioenergy derived from sustainably produced feedstocks can provide a lower emissions alternative to fossil fuels and a decarbonization pathway where electrification is not possible. SABESP only considers sludge biogas projects. Therefore, land use change and biodiversity risks related to feedstock production, transportation, and processing emissions are muted.
- SABESP confirmed that financed hydroelectric plants will not exceed 10 megawatts of installed capacity, thereby mitigating risks related to biodiversity and methane emissions of hydropower. Onsite solar energy plants will consist of photovoltaic (PV) panels installations. There are currently no plans for solar projects in reservoirs. Similarly, SABESP confirmed that it expects to sign physical PPAs, and that the T&D infrastructure will connect its PV projects to the grid and be on a small scale. As a result, we assign these projects a Dark green shade.
- SABESP currently converts the residual methane generated during sewage treatment into biomethane for use as vehicle fuel at its Franca Wastewater Treatment Plant at a very limited scale (less than 100 vehicles fueling capacity). The company is

exploring alternatives but does not have any proceeds earmarked for new methane recovery solutions. Despite uncertainty, SABESP commits to put in place monitoring and contingency plans to minimize methane leakage at potential facilities, as done in Franca. SABESP does not expect biomethane projects to be used in any natural gas infrastructure at this point. Considering the circularity benefits associated with capturing and converting the methane that would be released as a byproduct of sewage treatment, we assign a Dark green shade to this project.

- SABESP has adequate identification of physical climate risks and biodiversity loss mitigation measures for renewable energy projects.

Energy Efficiency

Assessment	Description
Light green	Investments and expenditures in activities, equipment, technology, and other products or projects that increase energy efficiency, reduce energy consumption, or reduce greenhouse gas (GHG) emissions, or projects that help manage and store energy, including: • Application of LED lighting fixtures, HVAC optimization, building upgrades, heat recovery systems, and vacuum distillation; and • Technologies such as pump operating as a turbine.

Analytical considerations

- Energy efficiency measures are necessary to transition to a low-carbon economy, but their climate benefits and risks vary. Exposure to climate risk arises, for example, when these activities take place in high-emitting sectors or lock in high-energy processes or fossil fuel use.
- We view SABESP's energy efficiency measures for its water and wastewater infrastructure as Light green. Although projects will support further reduction of energy-related emissions in existing systems that mostly run on renewables, SABESP does not use any quantitative improvement threshold, which limits our assessment.
- We view turbine projects as contributing to the circularity of SABESP's infrastructure. Currently, there is limited use of pumps as turbines in SABESP's systems. Turbines convert the kinetic energy of moving water into electricity, thereby reducing the energy demand of the system. SABESP has listed only turbines as examples of eligible energy efficiency technologies; we do not expect the use of others.

Terrestrial and Aquatic Biodiversity Conservation

Assessment	Description
Dark green	Investments and expenditure for sustainable management and restoration of natural ecosystems, including: • Conservation and management projects to restore or maintain catchment systems (rivers, lakes, streams, dams, groundwater, and springs) to improve the quality of the environment and water; • Projects for the conservation and restoration of forests, riparian vegetation, and wetlands to maintain water quality and quantity and to prevent flooding and promote biodiversity; and • Company programs such as the Green Belt Program, as well as the wildlife monitoring, wildlife conservation, wildlife rescue and salvage, forestry management and replacement, and water and aquatic biota quality monitoring programs.

Analytical considerations

- Healthy ecosystems and biodiversity are an important part of a low-carbon, climate-resilient future, providing natural resources, water and soil management, and pollination services. Protecting or restoring biodiversity also often creates climate co-benefits, such as carbon sequestration or adaptation solutions. Well-designed projects can reduce threats such as unsustainable resource extraction, climate change risks, land use change, pollution, and invasive species.
- SABESP expects to allocate most proceeds to nature conservation projects in the river basins and water springs of the state of São Paulo that surround its water collection assets and forests that surround its water and wastewater treatment plants. The projects are operated in conjunction with environmental agencies of the state of São Paulo and include specific plans to protect species and the ecosystem of the Atlantic Rainforest, the Brazilian biome where SABESP's assets are located. We view such projects and the overall project category as Dark green.
- A small portion of the proceeds can be allocated to agreements SABESP has made with public authorities for the restoration of nature degraded due to the construction of water and sewage treatment stations, or due to pipelines. The restoration will serve for preservation--that is, the restored area will not be used commercially. We view such projects as having fewer biodiversity benefits than SABESP's pure conservation projects, given that the criteria for ecosystem (nature) recovery are less clear. There are limited expected proceeds for such projects, which does not affect the overall Dark green for the category.
- SABESP has adequate identification of physical climate risks. The company is enhancing its adaptation plans in response to acute and chronic physical climate risks in its areas of conservation.
- In line with the IFC Blue Finance Guidelines, SABESP will comply with baselines and measurable outcomes for its voluntary biodiversity conservation programs. For example, as part of the Green Belt Program (listed in the framework), SABESP increased the vegetation coverage along the shores of the Cantareira System reservoirs (which represent around 30%-40% of the water supply system) from 61% in 1980 to 80% in 2023. The program has recovered and maintained a total area of 330 square kilometers, with 94% vegetative cover, equivalent to 1.6% of the remaining Atlantic Rainforest in the state of São Paulo. Blue projects under this category aim to contribute to water-related SDG 14.

Pollution Prevention and Control

Assessment	Description
Dark green	Investments and expenditure related to projects that reduce and recycle waste recovered from wastewater to prevent pollution and promote the circular economy, including: • Anaerobic digestion facilities; • Infrastructure to recover energy from waste; and • Projects that enhance circularity and/or material recovery from treatment plants for the production of organic fertilizers.

Analytical considerations

- Waste management is an important pollution prevention measure that can prevent harm to human health and local ecosystems from waste streams. Recycling, if done properly, increases the useful life of materials, thereby reducing carbon and other air pollutants' emissions, energy, and natural-resource use. Waste prevention and reuse solutions are the preferred solutions under the waste management hierarchy because they have the lowest negative environmental impact among waste management options, followed by recycling, energy recovery, and finally disposal. Waste collection and sorting projects can increase recycling and reuse rates, thus diverting waste from less environmentally beneficially disposal solutions.
- We view SABESP's sewage recovery projects as Dark green. The sludge (and methane) that is generated from wastewater treatment is unavoidable. As a result, methane capture or solid waste transformation (transforming sludge into organic fertilizers) projects are at the top of the wastewater management hierarchy. Since 2018, the company has been producing Sabesfértil, an organic agricultural fertilizer for farmers in the municipality of Botucatu. The fertilizer is produced through the drying process of sludge, which we view positively. There are no limitations regarding the type of crop farming methods, or the quantity of fertilizer used, though we note that its small scale minimizes the risks of over-application.

- The company currently does not have any waste-to-energy projects from solid urban waste (excluding sewage) in its pipeline, even though they are eligible under the framework. We view these projects as Light green due to the air pollution risks associated with waste incineration and the environmental risks related to the storage of heavy ash and slag. However, we anticipate minimal allocation for such projects. Therefore, they do not significantly affect the overall assessment for this category. In its framework, SABESP commits to ensuring that any financed project will adequately separate waste fractions and send recyclable waste to appropriate facilities before incineration. Furthermore, the framework clarifies that the incineration of plastics is not eligible, and that financed plants will have GHG emissions mitigation and monitoring plans.
- SABESP lists capital injections in pure-play companies, defined as those deriving at least 90% of their revenues from activities aligned with the framework's criteria for eligible green, blue, or social categories. SABESP holds a minority (20%) stake in the first urban municipal waste-to-energy plant in Latin America that will generate electricity from urban waste. Construction of the plant in Barueri, São Paulo, began in January 2023 and is expected to be completed by February 2027. The project is owned by Barueri Energia Renovável, a subsidiary of Orizon, which has SABESP as a partner. The plant is expected to incinerate up to 870 tons of waste per day, with an installed generation capacity of 20 megawatts.

Climate Change Adaptation

Assessment	Description
Medium green	Investments and expenditures in infrastructure designed to increase resilience and improve customer reliability, as well as mitigating impacts from climate change, such as severe climatic events, including more frequent and intense flooding, heat waves, as well as other impacts and changes in climate patterns, including: • Technology and infrastructure to improve and conduct long-term and operational planning to increase water security and resilience; and • Infrastructure, nature-based solutions, control systems and/or monitoring of water resources, flood prevention, drought mitigation, soil erosion, and coastal erosion.

Analytical considerations

- Climate scientists have been clear that some degree of climate change will take place, even in the most optimistic scenarios. This makes it crucial to plan for and mitigate potential risks to reduce the financial and environmental effects. Implementing adaptation solutions can also reduce resources and emissions linked to rebuilding damaged assets.
- SABESP has adequate identification of physical climate risks using climate scenarios and is enhancing its long-term strategy to ensure sufficient water availability for the state of São Paulo until 2050. Water availability in the state of São Paulo is generally adequate compared with other regions of Brazil, such as the northeastern states. Water availability in the state improved in 2023-2024 compared with the 2013-2014 drought. Since the last extended drought in 2013-2014, the company has expanded treatment and storage capacity (via artificial reservoirs). On the other hand, the state and SABESP have been exposed to recurrent flooding events. Investments in early warning systems (listed in the framework) could help limit damages caused by such climate hazards.
- We assess the climate adaptation project category as Medium green due to the mix of activities that are less clearly specified by the issuer.
- SABESP does not expect financing to be allocated to artificial reservoirs. However, financing could be directed toward flood prevention infrastructure. Such infrastructure can lead to substantial emissions during the construction phase (e.g., the use of fossil fuel-powered equipment) and significant material use (particularly cement). It can also transfer flood risk to other areas. However, SABESP also identifies and manages the potential risk of maladaptation--shifting vulnerability to other parties--and assesses eligible projects' impacts on local biodiversity through environmental impact assessments and/or management plans for adaptation measures. The company does not have emissions thresholds or considerations for such projects; therefore, we assign a Medium green to these projects.

- Financing may also include digital platforms that integrate data from various sources (hydrology, climate, land use) to support water resource planning (SABESP's Center for the Control of Water Sources and Dams) and nature-based solutions (NBS). NBS typically have the strongest impact due to their biodiversity co-benefits and no embodied emissions. We assign them a Dark green shade. However, given the limited visibility around allocation or the type of NBS, we assign a Medium green to the overall category.
- In line with IFC GBF, SABESP will comply with baselines and measurable outcomes for its climate adaptation projects. These are water availability metrics (including rainfall measurements, and flow rates of the water sources that supply the SABESP system) documented in SABESP's Center for the Control of Water Sources and Dams. Blue projects under this category aim to contribute to water related SDG 6.

S&P Global Ratings' Shades of Green

Assessments	Dark green	Medium green	Light green	Yellow	Orange	Red
Description	Activities that correspond to the long-term vision of an LCCR future.	Activities that represent significant steps toward an LCCR future but will require further improvements to be long-term LCCR solutions.	Activities representing transition steps in the near-term that avoid emissions lock-in but do not represent long-term LCCR solutions.	Activities that do not have a material impact on the transition to an LCCR future, or, Activities that have some potential inconsistency with the transition to an LCCR future, albeit tempered by existing transition measures.	Activities that are not currently consistent with the transition to an LCCR future. These include activities with moderate potential for emissions lock-in and risk of stranded assets.	Activities that are inconsistent with, and likely to impede, the transition required to achieve the long-term LCCR future. These activities have the highest emissions intensity, with the most potential for emissions lock-in and risk of stranded assets.
Example projects	Solar power plants	Energy efficient buildings	Hybrid road vehicles	Health care services	Conventional steel production	New oil exploration

Note: For us to consider use of proceeds aligned with ICMA Principles for a green project, we require project categories directly funded by the financing to be assigned one of the three green Shades.

LCCR--Low-carbon climate resilient. An LCCR future is a future aligned with the Paris Agreement; where the global average temperature increase is held below 2 degrees Celsius (2 C), with efforts to limit it to 1.5 C, above pre-industrial levels, while building resilience to the adverse impact of climate change and achieving sustainable outcomes across both climate and non-climate environmental objectives. Long term and near term--For the purpose of this analysis, we consider the long term to be beyond the middle of the 21st century and the near term to be within the next decade. Emissions lock-in--Where an activity delays or prevents the transition to low-carbon alternatives by perpetuating assets or processes (often fossil fuel use and its corresponding greenhouse gas emissions) that are not aligned with, or cannot adapt to, an LCCR future. Stranded assets--Assets that have suffered from unanticipated or premature write-downs, devaluations, or conversion to liabilities (as defined by the University of Oxford).

Social project categories

Affordable Basic Infrastructure

Investments and expenditure in the construction, development, renewal, maintenance, and/or expansion of facilities, systems, services, and programs that improve access to drinking water and sanitation systems for low-income populations and populations living in a situation of social vulnerability, including:

- Expansion of systems located in informal urban settlements, in accordance with applicable laws and regulations; and
- Granting of social tariff subsidies, in accordance with laws and regulations.

Analytical considerations

- The expansion of access to affordable water and sanitation infrastructure is essential for the health and well-being of communities. Lack of access to these systems exposes populations to various diseases, increasing mortality risk, particularly in vulnerable areas, and undermining public health systems. According to the World Health Organization, every dollar invested in universal water and sanitation services saves four dollars in health expenditures. The latest data from the Unified Health System (DATASUS, 2022) indicates nearly 200,000 hospitalizations due to waterborne diseases in Brazil, with 8.5% occurring in São Paulo state, where SABESP operates.
- Brazil's sanitation regulatory framework sets universalization goals of 99% access to potable water and 90% access to sewage treatment services by 2033. However, the National System for Sanitation Information estimates current gaps of 15.8% and 44.5%, respectively, relative to the universalization goals primarily in socioeconomically vulnerable areas. Therefore, we think it is positive that SABESP will focus on informal urban settlements under this category, in accordance with Law 14,026/2020, which defines these areas as clandestine, irregular, or where formal ownership cannot be established.
- When socioeconomic inequality is high, the affordability of water supply and sanitation services is crucial for achieving positive social outcomes. Metrics from the Trata Brasil Institute indicate that in São Paulo state, the population without access to sanitation services has an average monthly income 28.7% lower than those with access. Therefore, in our view, it is positive that SABESP considers social tariffs as eligible social projects under this category.
- According to the issuer, the criteria for selecting beneficiaries of social tariffs and the maximum discount rates are set by regulatory bodies at the federal and state levels. These requirements include the adoption of CadÚnico, a national tool for collecting socioeconomic data on low-income households. Families registered under CadÚnico are automatically eligible for social tariffs and exempt from installation costs. Under Law 14,898/2024, to qualify for a social tariff, families' maximum per capita income can be up to half of minimum wage, subject to water and sewage consumption not exceeding 10 cubic meters. Additionally, a vulnerable tariff, which is lower than the social tariff, is available for families with a per capita income of up to 218 reais (approximately 15% of the current minimum wage), also subject to the 10 cubic meter consumption threshold. Overall, discount rates can reach 78%. In our view, these criteria enable the entity to provide social benefits to areas and populations facing significant social gaps.
- According to regulation, families not registered under CadÚnico cannot access social tariffs, which may limit opportunities for vulnerable families lacking information or adequate literacy, thereby constraining social outcomes. We view positively SABESP's initiatives to support the registration of low-income families in CadÚnico to mitigate this risk.
- We believe SABESP has robust risk management systems and adequate safeguards in place to ensure that other social risks are not introduced or reinforced by the eligible projects. It is also positive that SABESP will monitor indicators, such as the average rate of hospitalization due to waterborne diseases in served municipalities, to ensure water quality in addition to water availability.

Socioeconomic Advancement and Empowerment

Investments and expenditure in job generation and work opportunities for low-income populations and populations living in a situation of social vulnerability, in accordance with applicable laws and regulation.

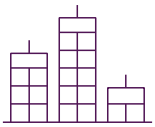
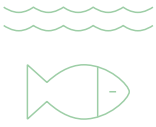
Analytical considerations

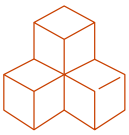
- Creating jobs and work opportunities in low-income areas is essential for the socioeconomic advancement and empowerment of developing countries. In Brazil, while unemployment rates are declining, they remain at 6.6% nationally and 6.2% in the state of São Paulo, both above the OECD average of 4.9%. In areas of socioeconomic vulnerability, unemployment rates can be even higher and disproportionately affect low-income populations, who often lack access to quality education, have high school dropout rates, and occupy fewer formal jobs. By promoting work opportunities for low-income and vulnerable populations, SABESP can effectively help reduce this gap in its service areas.
- The entity aims to create job opportunities through two main channels. For direct job opportunities, SABESP plans to leverage existing local community engagement programs and training initiatives in areas with higher social vulnerability. For indirect jobs, the company will continue to encourage suppliers to hire locally through specific clauses in their contracts. This approach can extend positive social outcomes throughout the company's value chain. In our view, eligible projects can have a significant positive impact on income, development, and well-being in areas with the most significant gaps.
- Low-income and vulnerable populations are mapped by the issuer using official socioeconomic data (CadÚnico), which also tracks unemployment within registered households. SABESP conducts a broader demographic and impact analysis in areas targeted for coverage expansion. By implementing its expansion plan in these vulnerable and low-income areas, SABESP will enhance community relations and consistently identify the available workforce to benefit from the project.
- SABESP will monitor metrics related to the number of jobs created and retained. By maintaining job opportunities during the ongoing operation phase, the company will demonstrate its commitment to generating a positive social impact that extends beyond the initial phase of infrastructure expansion.
- That all said, we note that workforce safety risks are a significant concern during the construction of new infrastructure. SABESP has reported zero fatalities among direct employees over 2020-2023 (latest available data) and has implemented a robust health and safety management system in accordance with ISO 45001. For any additional service needs, the company establishes specific contracts, which implies that SABESP does not have an outsourced workforce. However, contracted companies may still face safety incidents, introducing additional social risks within SABESP's value chain. While these suppliers are subject to due diligence processes and are required to adhere to applicable labor regulations, such mechanisms minimize, but do not eliminate the potential for safety risks related to SABESP's infrastructure deployment.

Mapping To The U.N.'s Sustainable Development Goals

Where the financing documentation references the Sustainable Development Goals (SDGs), we consider which SDGs it contributes to. We compare the activities funded by the financing to the International Capital Markets Association (ICMA) SDG mapping and outline the intended linkages within our SPO analysis. Our assessment of SDG mapping does not affect our alignment opinion.

This framework intends to contribute to the following SDGs:

Use of proceeds	SDGs
Sustainable Management of Water and Sewage	 **3. Good health and well-being**  **6. Clean water and sanitation***  **11. Sustainable cities and communities***  **12. Responsible consumption and production***  **14. Life below water**
Renewable Energy and Energy Efficiency	 **7. Affordable and clean energy***  **13. Climate action**
Conservation of Terrestrial and Aquatic Biodiversity	 **14. Life below water***  **15. Life on land***
Pollution Prevention and Control	 **12. Responsible consumption and production***  **14. Life below water**

Adaptation to Climate Change	 **6. Clean water and sanitation**  **13. Climate action***
Access to Basic Infrastructure	 **3. Good health and well-being***  **6. Clean water and sanitation***  **9. Industry, innovation and infrastructure***
Socioeconomic Advancement and Empowerment	 **8. Decent work and economic growth***

*The eligible project categories link to these SDGs in the ICMA mapping.

Related Research

- Analytical Approach: Second Party Opinions: Use of Proceeds, March 6, 2025
- FAQ: Applying Our Integrated Analytical Approach for Use-of-Proceeds Second Party Opinions, March 6, 2025
- Lost Water: Challenges And Opportunities, Sept. 6, 2023
- Analytical Approach: Shades of Green Assessments, July 27, 2023
- Brazil's Sanitation Regulatory Framework Remains Fragmented, Despite Recent Changes, May 8, 2023
- S&P Global Ratings ESG Materiality Maps, July 20, 2022

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