



PENGURUSAN AIR SELANGOR SDN BHD

- SUSTAINABLE DEVELOPMENT SUKUK KELESTARIAN
SUKUK MURABAHAH PROGRAMME OF UP TO RM10.0 BILLION IN
NOMINAL VALUE

SECOND OPINION REPORT 9 November 2020

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ABOUT RAM SUSTAINABILITY

RAM Sustainability Sdn Bhd (RAM Sustainability) is a provider of sustainability services and environment, social and governance (ESG) analytics. Incorporated on 31 May 2000, RAM Sustainability is a wholly owned subsidiary of RAM Holdings Berhad (RAM Group). RAM Sustainability is the first ASEAN-based provider of sustainability ratings and second opinions, and has the distinction of being the first Registered Observer of the International Capital Market Associations' (ICMA) Green Bond Principles (GBP), Social Bond Principles (SBP) and Sustainability Bond Guidelines in ASEAN. It is also a member of both ICMA's 2019/2020 New Markets Taskforce and 2019/2020 Advisory Council to the GBP and SBP Executive Committee. On 12 August 2020, RAM Sustainability became an Approved Verifier for the certification of climate bonds under the Climate Bonds Standard & Certification Scheme after having been awarded the status by the Climate Bonds Standards Board. For further details, please refer to <https://www.ram.com.my/sustainability>.

About the RAM Group

The RAM Group is a leading provider of independent credit ratings, research, training, risk analysis and bond pricing. Formerly known as Rating Agency Malaysia Berhad, the RAM Group was established in November 1990 as a catalyst for the domestic debt capital market and as the nation's first credit rating agency. On 1 July 2007, its rating operations were novated to RAM Rating Services Berhad (RAM Ratings). RAM Ratings is a wholly owned subsidiary of the RAM Group.

RAM Ratings is the leading and largest credit rating agency in both Malaysia and ASEAN. Established in 1990 by the central bank of Malaysia as part of the "institutional infrastructure" to support the development of Malaysia's bond market, RAM Ratings has rated over USD400 billion of bonds issued by over 500 entities based in Malaysia and 13 other countries. Its rating portfolio encompasses corporates, sovereign nations, financial institutions, insurance companies, project finance and structured finance obligations.

RAM Ratings is also the world's leading rating agency for securities issued under Islamic principles, or sukuk. RAM Ratings' experience in and contributions to the fast-growing sukuk market has won numerous awards, including *Best Rating Agency (South-East Asia 2017)* from CPI Financial and *Best Islamic Rating Agency* in 2016 from Islamic Finance News. Accredited by the Tokyo Stock Exchange for listings on the Japanese Pro-Bond Market, RAM Ratings also offers ratings on the ASEAN and global rating scales, in addition to the Malaysian national scale. On 26 May 2016, RAM Ratings joined the line-up of pioneer credit rating agency signatories to the United Nations-supported Principles for Responsible Investment's Statement on ESG in Credit Ratings. The Statement on ESG in Credit Ratings is a way for RAM Ratings to communicate its commitment to a more systematic and transparent incorporation of ESG into credit ratings and analysis.

The latest addition to the RAM Group, RAM Solutions Sdn Bhd, was founded in 2016 and provides independent credit opinions on ventures listed on a multi-bank, web-based platform known as the Investment Account Platform (IAP). As an associate of RAM Holdings, Bond Pricing Agency Malaysia Sdn Bhd is the sole provider of bond-pricing and valuation data on the Malaysian bond market. The RAM Group also organises capital markets professional training, educational courses and conferences. For further details, please refer to <https://www.ram.com.my>






SUMMARY OF SECOND OPINION ON AIR SELANGOR’S SUSTAINABLE DEVELOPMENT SUKUK KELESTARIAN

Pengurusan Air Selangor Sdn Bhd’s (Air Selangor or the Issuer) Sustainable Development Sukuk Kelestarian Framework (the Framework) is **aligned with the transparency and disclosure requirements of Securities Commission Malaysia’s Sustainable & Responsible Investment (SRI) Sukuk Framework, the ASEAN Green Bond Standards (ASEAN GBS), the ASEAN Social Bond Standards (ASEAN SBS), the ASEAN Sustainability Bond Standards (ASEAN SUS) and the globally recognised Green Bond Principles (GBP), Social Bond Principles (SBP) and Sustainability Bond Guidelines (SBG)**. Air Selangor’s Framework is clearly defined and provides clarity on important aspects such as the intended use of proceeds, project evaluation and selection, management of proceeds and reporting commitments.


Air Selangor was established by the Selangor State Government on 26 February 2014, to provide water supply services in the state of Selangor and the Federal Territories of Kuala Lumpur and Putrajaya (the Distribution Area). Air Selangor’s Sustainable Development Sukuk Kelestarian (Sukuk Kelestarian) will be issued to finance, refinance, or invest in eligible green and/or social projects. The Framework facilitates financing for projects and solutions that are important for the Issuer’s operations as well as for the broader national sustainable development agenda. The issuance proceeds will be used **to fund green and social projects such as affordable basic infrastructure for clean water, sustainable water management, renewable energy, and green buildings**.

RAM Sustainability’s Environmental Benefit (EB) assessment tiers projects and solutions based on their overall contributions to a 2-Degree Scenario (2DS) and broader environmental benefits. Tier ratings have been assigned to three applicable solutions within the Framework, which are vital for a low-carbon and environmentally friendly future. Renewable energy projects are given a Tier-1 EB rating due to their clear and demonstrable environmental benefits that contribute to substantial decarbonisation of the energy system. Tier-2 EB ratings have been assigned to sustainable water management projects, underpinned by their potential in improving the production and distribution of water supply through efficient resource consumption, which is also aligned with the goals of a low-carbon future. Green building projects have been assigned Tier-3 EB ratings given that the minimum accepted certification under the project category is only at the certified level and their contribution to a low-carbon future is considered minimal.

No.	Air Selangor’s Eligible Project Category	RAM Sustainability Environmental Benefit Rating
1	Renewable Energy	
2	Sustainable Water Management	
3	Green Buildings	

SUMMARY OF SECOND OPINION ON AIR SELANGOR'S SUKUK KELESTARIAN

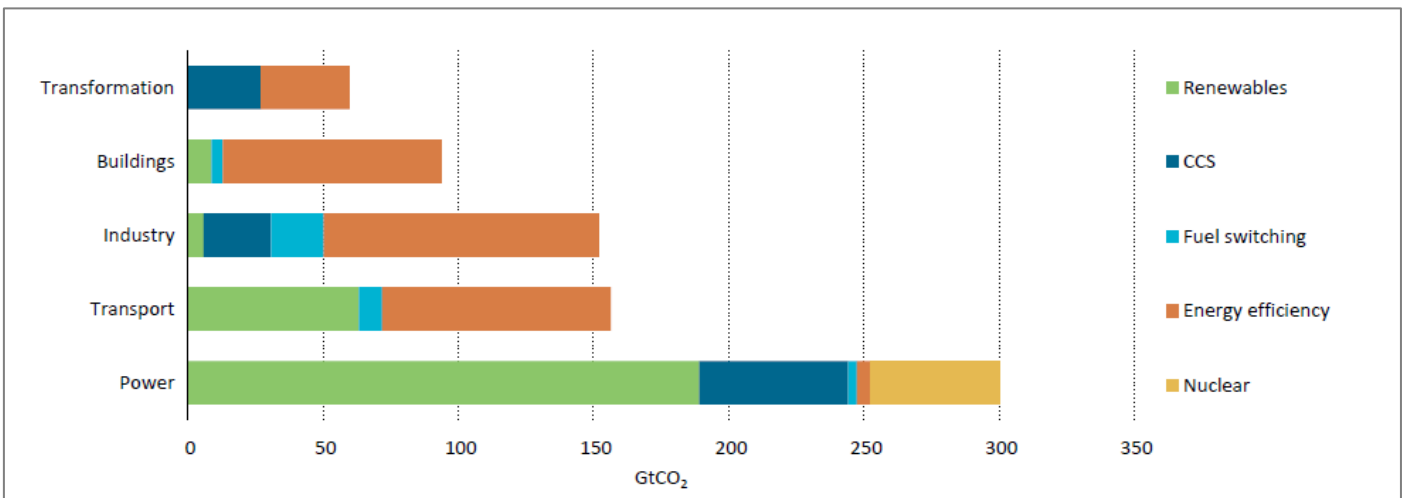
At the same time, RAM Sustainability has also assigned a Social Benefit (SB) tier rating to the social solution under the Framework. We have assigned a Tier-1 SB rating to Air Selangor's eligible projects under its affordable basic infrastructure category, reflecting the importance of water services and their multitude of positive effects on Malaysian society. Water services are most critical and indispensable to all communities. They have an influence over poverty, food security, water security, health and many other sustainable development issues. The assigned rating is also underpinned by the strategic role that Air Selangor, as the sole water services provider in the state of Selangor, can play in supporting social benefits at the national level on a potentially significant scale, depth and duration. It is responsible for the treatment and distribution of water services to over 8.4 million people within the Distribution Area.

No.	Air Selangor's Eligible Project Category	RAM Sustainability Social Benefit Rating
1	Affordable Basic Infrastructure – Clean Water Supply	

RAM SUSTAINABILITY'S ENVIRONMENTAL BENEFIT ASSESSMENT AND DEFINITION

Climate change represents a fundamental threat to the planet and society, and is transforming life on Earth. The effects of climate change are wide-ranging and can be observed everywhere in our biosphere. The COP21 sets a global action plan for the 197 participating governments, including the Government of Malaysia (GoM), to limit global warming to well below 2°C above pre-industrial levels. In addition, these countries have committed to the United Nations' 17 Sustainable Development Goals that could transform the world by addressing areas of critical importance to the planet and society. The International Energy Agency has identified the industries for which reductions in carbon emissions should be targeted for achievement by 2050. A portfolio of low-carbon technologies is needed to reach 2DS; some solutions will be broadly applicable while others will need to target specific sectors.

Figure 1: Cumulative CO₂ reduction by sector and technology in 2DS, up to 2050



Source: Energy Technology Perspectives 2017, International Energy Agency

The ultimate objective of green bonds/sukuk is to facilitate the financing of environmentally friendly solutions that can help mitigate the effects of climate change and/or create value for the surrounding ecosystem. RAM Sustainability's green bonds/sukuk evaluation is a qualitative and quantitative assessment of the contributions of a project or financing facility to a low-carbon, sustainable future. The transparency and disclosure strength of the green bonds/sukuk is also a key consideration. RAM Sustainability's Environmental Benefit assessment can be categorised as follows:

RAM Environmental Benefit
Tier-1

- The project/financing is an important component of a low-carbon future and has clear, demonstrable environmental benefits.
- The project/financing directly contributes towards substantial and sustainable reductions of greenhouse gas emissions.

RAM Environmental Benefit
Tier-2

- The project/financing is aligned with the goals of a low-carbon future and has some demonstrable environmental benefits.
- The project/financing directly contributes towards improvement in greenhouse gas emissions.

RAM Environmental Benefit
Tier-3

- The project/financing has minimal contribution to a low-carbon future and has minimal demonstrable environmental benefits.
- The project/financing indirectly contributes to the broader environment and is focused on asset-level environmental improvements.

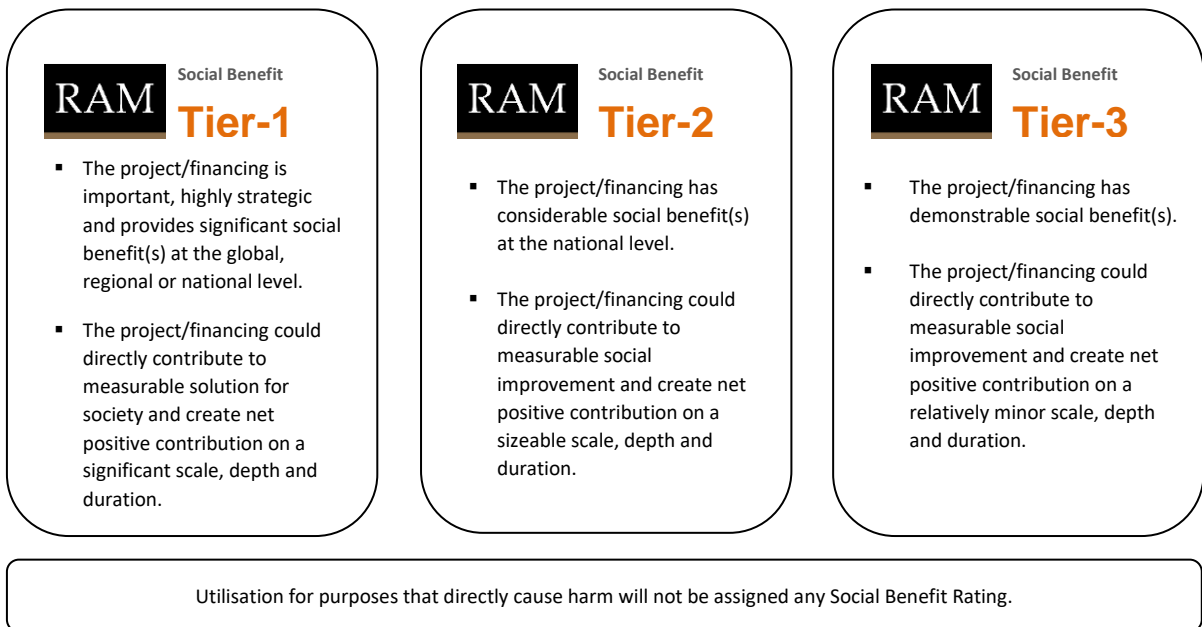
Projects/financing that do not conform with the long-term vision of 2DS reaffirmed under COP21 will not be assigned any Environmental Benefit rating.

RAM SUSTAINABILITY'S SOCIAL BENEFIT ASSESSMENT AND DEFINITION

Besides seeking solutions to concerns about climate change and the environment, an important facet of sustainability is addressing social well-being in an increasingly more complex and diverse environment. Social well-being can typically be linked to inclusive economies that reduce poverty levels, coupled with the availability of health, education, clean water, sanitation and energy services, affordable housing, and other social improvements, including equality. A social bond/sukuk is an instrument that can finance such an agenda.

RAM Sustainability's social bonds/sukuk evaluation is a quantitative and qualitative assessment of a project or financing's potential contribution to social solutions. RAM Sustainability considers the strategic importance of the project or financing and its direct and measurable social benefits. The project or financing's scale, depth and duration are also key considerations.

RAM Sustainability's Social Benefit assessment can be categorised as follows:



1. SCOPE AND OBJECTIVES

RAM Sustainability assesses the Framework against the sustainability responsibilities and disclosure requirements of the following guidelines and standards:

- The SC's **SRI Sukuk Framework**¹
- The ASEAN Capital Market Forum's (ACMF) **ASEAN GBS**²
- The ACMF's **ASEAN SBS**³
- The ACMF's **ASEAN SUS**⁴
- The International Capital Market Association's (ICMA) **GBP**⁵
- The ICMA's **SBP**⁶
- The ICMA's **SBG**⁷

Our assessment relies on public information and data provided by the Issuer. We have not undertaken any audit or other related activity to ascertain the validity or accuracy of the information provided.

2. CORPORATE PROFILE

Air Selangor, incorporated on 26 February 2014, is wholly owned by the Selangor State Government through Air Selangor Holdings Berhad. It had been established as the special-purpose vehicle of the Selangor government, as the single licensee to provide water supply services in the state of Selangor as well as the Federal Territories of Kuala Lumpur and Putrajaya. **Diagram 1** highlights the Issuer's corporate structure.

Following its successful acquisition and consolidation of former water concession companies, namely Syarikat Bekalan Air Selangor Sdn Bhd, PNSB Water Sdn Bhd, Konsortium ABASS Sdn Bhd, Konsortium Air Selangor Sdn Bhd, and Syarikat Pengeluar Air Sungai Selangor Sdn Bhd, Air Selangor was established as the sole licence holder of water supply services in the Distribution Area on 13 September 2019. With 34 water treatment plants (WTPs) in operation, Air Selangor is responsible for providing clean and safe water to over 8.4 million consumers in Selangor, Kuala Lumpur and Putrajaya.

¹ Chapter 7 of Part 3 of Section B of the *Guidelines on Unlisted Capital Market Product* issued by the SC (SRI Sukuk Framework). The SRI Sukuk Guidelines were launched by the SC in August 2014, to facilitate the financing of assets and projects with sustainable benefits. The SRI Sukuk Framework was updated on 26 November 2019.

² The ASEAN GBS, developed by the ACMF, are standards established to enhance the transparency, consistency and uniformity of ASEAN Green Bonds. The ASEAN GBS had been developed based on the ICMA's GBP, and were issued in November 2017. The document was subsequently updated in October 2018. The ASEAN GBS are meant for issuers that intend to issue green bonds within the ASEAN region.

³ The ASEAN SBS, developed by the ACMF, are aimed at enhancing the transparency, consistency and uniformity of ASEAN Social Bonds. The ASEAN SBS had been developed based on the ICMA's SBP, and were issued in October 2018. The ASEAN SBS are for issuers that intend to issue social bonds within ASEAN.

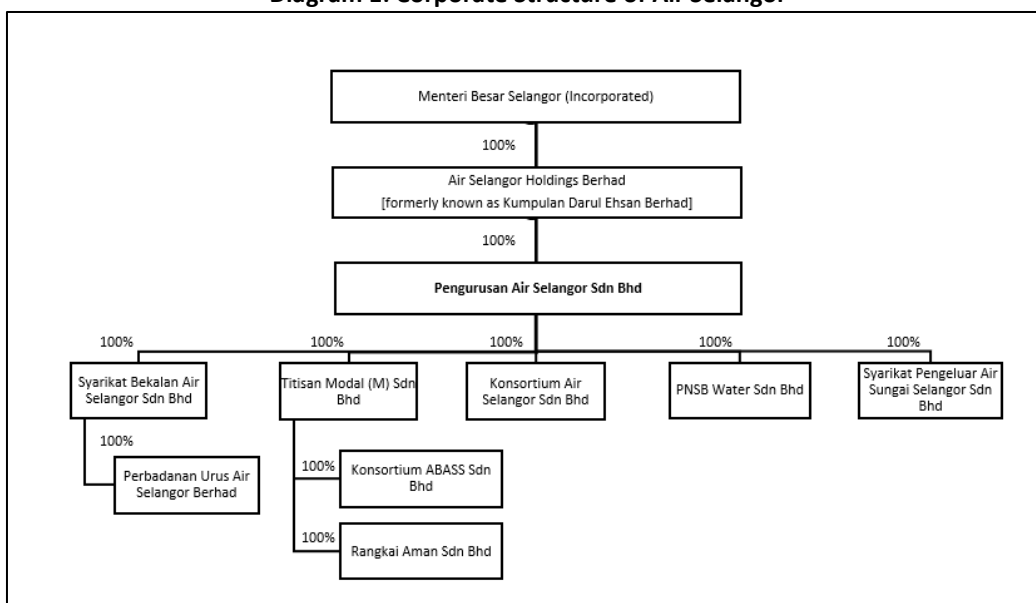
⁴ The ASEAN SUS, developed by the ACMF, are standards established to enhance the transparency, consistency and uniformity of ASEAN Sustainability Bonds. The ASEAN SUS had been developed based on the ICMA's SBG, and were issued in October 2018. The core components of the ASEAN GBS and ASEAN SBS also apply to ASEAN Sustainability Bonds.

⁵ The GBP, developed by the ICMA, are voluntary process guidelines that recommend transparency and disclosure measures for issuers. The guideline was initially issued in January 2014, before being updated in June 2018. The GBP are meant for broad use by a variety of participants in the green bond market, to facilitate the flow of financing to climate-friendly solutions.

⁶ The SBP, developed by the ICMA, are voluntary process guidelines that recommend transparency and disclosure measures for issuers. The guideline was initially issued in June 2016 and updated in June 2018. The SBP are meant for broad use by a variety of participants in the social market, to facilitate funding for projects that address global social challenges.

⁷ The SBG, developed by the ICMA, are guidelines for the confirmation of the relevance of the GBP and the SBP, as well as to improve the application of their guidance on transparency and disclosure measures for the Sustainability Bond Market. The core components of the GBP and the SBP also apply to Sustainability Bonds.

Diagram 1: Corporate Structure of Air Selangor



Source: Air Selangor

3. REVIEW OF SUKUK KELESTARIAN FRAMEWORK

The focus areas reviewed are grouped under the four core components embedded in the following applicable standards and guidelines: **the SRI Sukuk Framework, the ASEAN GBS, the ASEAN SBS, the ASEAN SUS, the GBP, the SBP and the SBG:**

Table 1: Four Core Components

Item	Focus Area
3.1	Utilisation of proceeds
3.2	Project evaluation and selection
3.3	Management of proceeds
3.4	Reporting commitments

For a detailed comparison, please refer to **Appendix 1** for the SRI Sukuk Framework Checklist, **Appendix 2** for the ASEAN SUS Checklist, and **Appendix 3** for the SBG External Review Form.

3.1. Utilisation of Proceeds

Several categories of eligibility for green and social projects are recognised under the SRI Sukuk Framework, the ASEAN GBS, the ASEAN SBS, the ASEAN SUS, the GBP, the SBP and the SBG. Broadly defined, green projects refer to innovative, climate-friendly projects that help deliver clear environmental benefits. On the other hand, social projects refer to solutions that are geared towards positive societal outcomes for a targeted population group.

The proceeds from Air Selangor’s Sukuk Kelestarian will be used to finance, refinance or invest in eligible green and/or social projects. The Framework outlines eligible projects such as those under the category of sustainable water supply, sustainable water management, renewable energy and green buildings. We opine that Air Selangor’s sustainable water supply category is consistent with the applicable social standards under the affordable basic infrastructure classification. Table 2 below highlights the differences in the naming conventions of eligible project categories between the Issuer and the applicable green, social and sustainability standards, along with a brief description of Air Selangor’s eligible projects.

Table 2: Mapping out Air Selangor’s Eligible Project Categories with the Applicable Standards and Guidelines

Air Selangor’s Eligible Project Categories	SRI Sukuk Framework, ASEAN GBS, ASEAN SBS, ASEAN SUS, GBP, SBP and SBG
Sustainable Water Supply - Projects related to improving the supply capacity of clean and affordable water through the development of new WTPs plus the rehabilitation of existing WTPs as well as water supply and distribution systems.	Affordable Basic Infrastructure – Clean Water Supply
Sustainable Water Management - Projects related to improving operational efficiency through reducing resource consumption, enhancing pollution detection, increasing the accuracy and timeliness of leak detection, and investing in water efficiency devices and smart technologies.	Sustainable Water Management
Renewable Energy - Generating energy from renewable sources such as solar and mini hydro (with a generating capacity of not more than 30 MW).	Renewable Energy
Green Buildings - Projects related to the construction of new green buildings or retrofitting existing assets that meet widely accepted green building accolades.	Green Buildings

Table 3 below maps out the alignment of eligible project categories under the Framework with the applicable green, social and sustainability standards and guidelines.

Table 3: Conformity Assessment of Air Selangor’s Eligible Project Categories

Air Selangor’s Eligible Project Categories	National Guideline	Regional Guideline			International Guidelines		
	SRI Sukuk Framework ⁸	ASEAN GBS	ASEAN SBS	ASEAN SUS	GBP	SBP	SBG
Affordable Basic Infrastructure – Clean Water Supply	√		√	√		√	√
Sustainable Water Management	√	√		√	√		√
Renewable Energy	√	√		√	√		√
Green Buildings	√	√		√	√		√

The utilisation of the proceeds from Sukuk Kelestarian is deemed consistent with international best practices on sustainable finance, particularly in the following aspects:

Renewable Energy - Hydropower

Given the sensitivity of hydropower as a renewable energy source, detailed considerations such as the size and type of eligible hydropower financing are specified under the Framework. Air Selangor classifies hydro-powered renewable energy as that produced by small hydropower plants under 30 MW.

Ineligible Projects

Consistent with the ASEAN GBS and the ASEAN SBS, Air Selangor has specified that projects related to fossil fuels, alcohol, gambling, tobacco and weaponry will be ineligible for funding under the Framework.

Alignment of Eligible Project Categories with relevant United Nations Sustainable Development Goals (SDGs)

In tandem with the rise of sustainable finance, the SDGs have been widely adopted by many businesses since their launch in 2015. To many institutional investors, the SDGs provide a harmonised structure to align investments with key sustainability issues that affect the world today. Air Selangor’s eligible project categories are aligned with the relevant SDGs.

⁸ As per the Guidelines on Unlisted Capital Market Products Under the Lodge and Launch Framework

3.2. Project Evaluation and Selection

Project evaluation and selection will be carried out annually in conjunction with the Issuer's capital expenditure (CAPEX) budgeting process, or when necessary. The CAPEX budget will be reviewed and approved by Air Selangor's board of directors and the Suruhanjaya Perkhidmatan Air Negara (SPAN). Eligible projects are evaluated and selected according to the criteria set out in the Framework. This will be conducted by the Sukuk Kelestarian Working Group, comprising senior officers from the Issuer's Sustainable Development (SD) Section and Finance & Strategy Department.

Eligibility considerations for projects include their contributions to the organisation's plans and objectives, their impact on performance commitments such as water quality and non-revenue water, health and safety, environmental and social impact, as well as cost and viability.

If a project were to be deferred or no longer meets the eligibility criteria, the Sukuk Kelestarian Working Group will use its best efforts to ensure replacements with applicable projects that match the predefined Eligible Project Categories.

RAM Sustainability opines that the process employed by Air Selangor is consistent with the practices observed in the sustainability bond/sukuk market in Malaysia.

3.3. Management of Proceeds

The net proceeds from each issuance of the Sukuk Kelestarian will be deposited into the Issuer's general operating account and managed using a Sukuk Kelestarian Register. Pending allocation of net proceeds to eligible projects, the funds can only be invested in Shariah-compliant money-market instruments, and subject to the terms and covenants of the Sukuk Kelestarian. The Sukuk Kelestarian Register will contain the relevant information, including the details of the sukuk and information on the use of its proceeds. The Sukuk Kelestarian Framework, which contains details of the management of proceeds, is also referenced in the principal terms and conditions of the sukuk.

3.4. Reporting Commitments

Transparency in reporting is an important aspect of a Sustainability Sukuk. Issuers of Green, Social and Sustainability Bonds/Sukuk are required to establish a formal process to communicate the allocation of proceeds and the positive impact created. Air Selangor is committed to publishing an annual allocation report, and an impact report that provides relevant information. This report will be made publicly available via Air Selangor’s website (www.airselangor.com).

Table 4: Air Selangor’s Reporting Commitments

Allocation Reporting		<ul style="list-style-type: none"> ▪ A list of eligible projects financed or to be financed through the Sukuk Kelestarian, and the amounts allocated and utilised ▪ Examples and descriptions of eligible projects ▪ The amount of Sukuk Kelestarian proceeds allocated and utilised per eligible project category ▪ Portion of financing and refinancing ▪ The remaining balance of unallocated and/or unutilised proceeds, and where such unallocated and/or unutilised proceeds are placed or invested pending utilisation.
Impact Reporting	Affordable Basic Infrastructure – Clean Water Supply	<ul style="list-style-type: none"> ▪ Million cubic metres of clean water produced ▪ Water quality compliance ▪ Length of distribution network ▪ Length of pipe replacement implemented ▪ Pipe burst index ▪ Number of accounts served ▪ Number of new household water connections ▪ Number of water infrastructure projects built/upgraded
	Sustainable Water Management	<ul style="list-style-type: none"> ▪ Energy consumption per cubic meter of water produced ▪ Estimated GHG emissions reduced ▪ Expected energy saved ▪ Non-revenue water reduction ▪ Amount of water saved ▪ Number of pollution incidents detected ▪ Estimated amount of sludge reduced ▪ Reduced supply interruptions for customers
	Renewable Energy	<ul style="list-style-type: none"> ▪ Installed capacity ▪ Annual GHG emissions avoided ▪ Annual renewable energy production
	Green Buildings	<ul style="list-style-type: none"> ▪ Energy consumption per gross floor area ▪ Estimated GHG emissions reduced ▪ List of buildings that receive third-party verified green building certification (i.e. at least minimum certified rating)

Source: Air Selangor

Impact-Reporting Indicators

Impact reporting illustrates the environmental and social benefits of the various financed projects. The Issuer’s reporting commitments are consistent with the observed disclosures in the green, social and sustainability bonds/sukuk market as well as international guidelines such as ICMA’s Handbook – Harmonized Framework for Impact Reporting.

4. SUSTAINABILITY ASSESSMENT

4.1. National-Level Drivers

Operating in Malaysia’s most populous state and federal territories, with the largest combined economy in terms of GDP, Air Selangor can play a vital role in meeting national objectives. This is especially so in the water services industry, which is the main business of Air Selangor. RAM Sustainability opines that Air Selangor’s Sukuk Kelestarian will support the following national-level objectives and plans that are related to the areas defined under the Eligible Project Categories.

Table 5: National-Level Objectives and Plans

Eligible Project Category	National-Level Objectives and Plans
Affordable Basic Infrastructure – Clean Water Supply	Under the 11th Malaysia Plan, the GoM targets to achieve national KPIs of 99% for water supply coverage, 85% for connected sewerage services and 31% for reduction of non-revenue water by 2020. The GoM also aims to reduce water consumption to 180 litres per person per day by 2025 ⁹ .
Sustainable Water Management	As per the National Green Technology Master Plan, Malaysia aspires to achieve the following water-management targets: (i) Improve the fresh-water abstraction ¹⁰ rate to 15% by 2030. (ii) Make available rainwater harvesting systems for 60% of the towns in Malaysia by 2020. (iii) Recycle 100% of sludge and 33% of treated effluents by 2030. (iv) Implement the Water Efficient Product Labelling Scheme to enhance consumer awareness.
Renewable Energy	The GoM aims to increase the proportion of renewable energy (RE) to 20% by 2025. Enacted in 2011, the Renewable Energy Act aims to increase the contribution of clean and renewable energy sources such as solar photovoltaic, biomass, biogas and hydro in Malaysia’s electricity generation mix. An important driver of the RE industry is the feed-in tariff mechanism implemented and managed by the Sustainable Energy Development Authority of Malaysia. This mechanism supports the growth of the RE industry by providing guaranteed long-term contracts for power generated by RE sources.
Green Buildings	Malaysia has developed two national-level green rating tools for buildings, i.e. GBI and GreenRE. Both rating tools assess a building’s performance with respect to specific environmental considerations (i.e. energy efficiency, carbon emissions, water efficiency).

4.2. Group-Level Assessment

Due to the highly fragmented water services industry in Selangor as well as the Federal Territories of Kuala Lumpur and Putrajaya, Air Selangor’s establishment - through the mandate given by the State Government of Selangor - underlines the goal of improving the industry’s operational efficiency. This will ensure quality services to the 8.4 million consumers in the Distribution Area.

Providing Sustainable Water Supply

Air Selangor, through all of its acquired water concession companies, aims to focus on the long-term provision of sustainable water supply and good water quality, to ensure a continuous supply of safe and clean drinking water for all its customers. Through its Sukuk Kelestarian, Air Selangor is set to maintain its pivotal role by providing sustainable water supply via effective energy management and efficient use of water to consumers in Malaysia’s most important economic region.

⁹ Source: *Govt targets to reduce Malaysians’ daily water consumption by 2025* published in the Malay Mail dated 3 August 2020.

¹⁰ Also known as water withdrawals, defined as fresh water drawn from the ground or other surface water bodies.

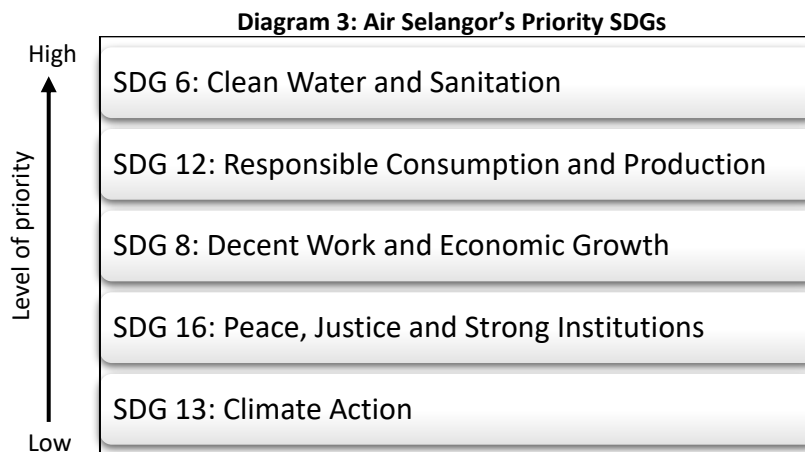
Sustainability Strategies

Air Selangor’s vision is to be the leading water operator in the region. Its mission is to deliver the best possible service experience to its customers. In line with its vision and mission as well as the UN SDGs, Air Selangor has established a sustainability strategy for 2020-2022, with the theme of *Connecting the Drops*. Diagram 2 below illustrates the organisation’s sustainability strategy.



Source: Air Selangor

Noting the importance of embedding SDGs into its operations, Air Selangor has also identified five SDGs that are relevant to its business, as shown in Diagram 3 below.



Source: Air Selangor

The projects outlined under the Framework are in line with Air Selangor’s sustainability strategy and priority SDGs.

Air Selangor is currently identifying mid-to-long-term sustainability priorities. These issues, once identified, will be addressed over the next ten years. The Issuer also targets to publish its first sustainability report in 2021.

Environmental and Social Initiatives

Air Selangor’s environmental and social initiatives are guided by its sustainability strategy, particularly Strategy 4: Reducing Environmental Impact, and Strategy 5: Be Socially Responsible. To reduce its environmental impact, Air Selangor aims to lead by example through efficient use of water in the face of climate change. It has established a Water Conservation Unit to encourage prudent use of water by its consumers. Various water conservation programmes have been carried out with domestic, commercial and industrial customers, educational institutions, government agencies, charitable organisations and places of worship to raise awareness on the importance and need to conserve water for future sustainability. Air Selangor also plans to identify and develop an impactful flagship corporate responsibility programme. To date, it has engaged with local communities, residential associations and non-governmental organisations to

provide up-to-date information on advancement and development, along with solutions for concerns and pressing issues.

During the water supply disruption, which occurred on 3 September 2020, Air Selangor provided regular announcements to the public via press releases, posts on social media, as well as notifications on its mobile application to keep them informed of the situation. Employees of Air Selangor were deployed to affected areas to distribute clean drinking water.

Controversy Scan

RAM Sustainability undertook a scan of Air Selangor on 24 September 2020. We did not observe any controversy pertaining to the environmental, social or governance practices of the Issuer.

4.3. Sustainability Management

This section assesses the overall management approach to integrating sustainability considerations within the Issuer’s risk-assessment process.

Established Risk Management

A Risk Management Policy has been established as the starting point for Air Selangor’s Enterprise Risk Management Framework. The policy prescribes a comprehensive risk management approach, broad guidelines as well as other parameters and tools used in identifying and assessing risks. With the inclusion of the SD Section under the Risk Management Department, Air Selangor can have a holistic view and management of its risks, including environmental-, social- and governance-related risks. In ensuring the effective integration of sustainability practices, the Sustainability Working Committee has been set up to assist the SD Section while also evaluating and making key strategic and operational decisions. Diagram 4 highlights Air Selangor’s sustainability governance under the Risk Management Department. The board and senior management of Air Selangor will monitor the effectiveness of risk management activities throughout the organisation, to ensure that they keep supporting its vision, mission and strategic objectives. Air Selangor has identified reputational risk, customer demand, stakeholder expectations and operational risk as the main drivers that will determine its future sustainability initiatives.

Diagram 4: Air Selangor’s Sustainability Governance



Source: Air Selangor

We have contacted the Issuer regarding the recent water supply disruption, which was due to pollution at its raw water sources caused by other factories. Air Selangor has undertaken initiatives to minimise future disruption risks by enhancing its pollution monitoring systems through on-site monitoring team – Pasukan Khas Lembangan dan Alur Air (PAKAR) – as well as expanding the number of sites installed with river monitoring systems. Air Selangor’s PAKAR team, which is under the Water Quality Department, will conduct frequent checking and testing of water samples to ensure safe and clean water supply, complementing the efforts undertaken by Lembaga Urus Air Selangor. In terms of regulatory enforcement to curb unlawful activities such as illegal waste dumping, Air Selangor is currently working with the State and Federal Government to ensure effective enforcement.

Health, Safety & Environment

Health, Safety & Environment (HSE) has been identified as one of the key business dynamics that is subject to continuous risk monitoring. The Issuer has established a Health, Safety and Environment Policy which

outlines its commitment to ensuring the safety, health, environment and welfare of all employees, contractors, consumers, visitors, members of the public and related parties. The policy has been formulated to comply with the legal requirements in Malaysia. To date, all distribution regions¹¹ along with two WTPs and HSE departments have obtained OHSAS 18001:2007 Occupational Safety and Health Management Certification. Air Selangor targets to obtain an organisation wide certification for ISO 14001: Environmental Management System and ISO 45001: Occupational Health & Safety Management System by 2021. This is part of Air Selangor’s Sustainability Strategy, under Strategy 2: Standardising Data & Processes. Safety Induction Courses for contractors have been conducted since 2017, as part of the HSE Section’s initiative to provide contractors with basic knowledge of occupational health and safety. Additionally, we have been informed by the Issuer that it targets a 5% reduction in energy consumption by 2022.



ISO Certification

To ensure clean and safe water supply, Air Selangor continues to improve its water treatment process and services through ISO certification. Out of its 34 WTPs, 33 have received ISO 9001: Quality Management System certification while 13 WTPs and 2 production regional offices have secured ISO 22301: Business Continuity Management System certification. Air Selangor targets to achieve organisation wide certification for ISO 9001 and ISO 22301 by 2021 and 2022, respectively.



4.4. Creation of Positive Impact by Sukuk

We anticipate the Sukuk Kelestarian to lead to a measurable positive impact on the environment and society, primarily through efficient and sustainable water management systems. The following are the positive effects that can be expected based on the areas defined under the Eligible Project Categories.

Table 6: Positive Impact Created by Eligible Project Categories and Alignment with SDGs and Targets

Eligible Project Category	Positive Impact Creation	Alignment with SDGs and Targets
Affordable Basic Infrastructure – Clean Water Supply	Water is at the core of sustainable development and is critical to socio-economic development, healthy ecosystems and our survival. It is vital to reducing the global burden of disease and improving our health, welfare and productivity. Social outcomes that can be derived from sustainable water supply include a healthy population, increased prosperity, equitable societies, protected ecosystems and resilient communities. Through its Sukuk Kelestarian, Air Selangor aims to enhance its supply capacity for clean and affordable water to more households and businesses in its service areas, considering the impact from climate change and pollution on its water sources.	 <p>6.1 - By 2030, achieve universal and equitable access to safe and affordable drinking water for all.</p>
Sustainable Water Management	A circular economy refers to the preservation of resources for the benefit of the environment and the economy. Water is a finite resource that should be managed in a reliable and efficient manner. Air Selangor’s Sukuk Kelestarian will facilitate the financing of solutions that can enhance the operation and maintenance capabilities of water utilities, thereby reducing non-revenue water, leakage and energy use. This will help improve the resilience of water infrastructure systems, thereby allowing better access to safe drinking water, reducing energy usage, improving public health and other benefits.	 <p>6.4 - By 2030, substantially increase water-use efficiency across all sectors and ensure sustainable withdrawals and supply of fresh water to address water scarcity and substantially reduce the number of people suffering from water scarcity.</p>

¹¹ Air Selangor’s operations cover 11 distribution regions which include Sabak Bernam, Kuala Selangor, Klang/Shah Alam, Kuala Langat, Sepang, Putrajaya, Petaling, Kuala Lumpur, Gombak, Hulu Langat, and Hulu Selangor.

Eligible Project Category	Positive Impact Creation	Alignment with SDGs and Targets
Renewable Energy	<p>Climate change is an acute planetary threat and may have costly repercussions on communities and global economies. Approximately two-thirds of the world’s GHG emissions today can be attributed to energy production and systems. Therefore, the energy sector plays a critical role in global efforts to mitigate the effects of climate change. The transition towards low-carbon energy systems is already happening. RE provides a means to generate electricity from clean and sustainable sources such as sunlight, wind, water, biomass and other renewable resources. The deployment of RE solutions has the potential to significantly reduce the GHG emission intensity of the global energy system. As such, investments in RE ought to be scaled up so the world can achieve the emission reduction goals set out in the Paris Climate Accord. RAM Sustainability opines that innovative RE systems will be a key component in the building of a low-carbon future. According to the International Renewable Energy Agency, renewable sources could constitute 65% of global energy use by 2050.</p>	 <p>7.2 - By 2030, substantially increase the share of RE in the global energy mix.</p> <p>7a - By 2030, enhance international cooperation to facilitate access to clean energy research and technology, including RE, energy efficiency, and advanced and cleaner fossil-fuel technology, as well as promote investment in energy infrastructure and clean energy technology.</p>
Green Buildings	<p>The built environment consumes a significant amount of energy and produces carbon dioxide (CO₂) emissions during its lengthy life cycle. The Global Alliance for Buildings and Construction estimates that nearly a quarter of global greenhouse gases is attributable to buildings. Many green building certifications/standards have been developed to objectively measure the environmental performance of buildings. These standards also provide important prescriptions for sustainable design and construction. Green buildings have smaller environmental footprints and incorporate design features that address energy efficiency, air pollution, waste management, water consumption, construction materials and other sustainability considerations. Therefore, green buildings can be effective tools in reducing the impact of buildings on climate change and may provide significant opportunities for energy, water and resource savings. According to the US Green Building Council, the average LEED-certified building uses 32% less electricity than a conventional building, and saves 350 metric tons of CO₂ each year.</p>	 <p>11c - Support least developed countries, including through financial and technical assistance in building sustainable and resilient buildings utilising local materials.</p>

APPENDIX 1

APPENDIX 1: SRI SUKUK FRAMEWORK CHECKLIST

Reference:

Guidelines on Unlisted Capital Market Products Under the Lodge and Launch Framework

Part 3: Corporate Bonds and Sukuk

Chapter 7: Sustainable and Responsible Investment (SRI) Sukuk

No.	Item	Requirement	Alignment	Comment
7.07 & 7.08	Eligible SRI Projects	<p>An Eligible SRI project refers to a project that seeks to achieve any one or a combination of the following objectives:</p> <ul style="list-style-type: none"> (a) Preserving and protecting the environment and natural resources. (b) Conserving the use of energy. (c) Promoting the use of RE. (d) Reducing greenhouse gas emissions. (e) Addressing or mitigating a specific social issue or seeking to achieve positive social outcomes, especially but not exclusively for a target population. (f) Improving society's quality of life. <p>Eligible SRI projects may include, but are not limited to, the following:</p> <ul style="list-style-type: none"> (a) Green projects that relate to: <ul style="list-style-type: none"> (i) Renewable energy. (ii) Energy efficiency. (iii) Pollution prevention and control. (iv) Environmentally sustainable management of living natural resources and land use. (v) Terrestrial and aquatic biodiversity conservation. (vi) Clean transportation. (vii) Sustainable water and wastewater management. (viii) Climate change adaptation. (ix) Eco-efficient and/or circular economy-adapted products, production technologies and processes. (x) Green buildings which meet regional, national or internationally recognised standards or certifications. (b) Social projects that relate to: <ul style="list-style-type: none"> (i) Affordable basic infrastructure. (ii) Access to essential services. (iii) Affordable housing. (iv) Employment generation, including the potential effects of SME financing and microfinancing. (v) Food security. (vi) Socioeconomic advancement and empowerment. (c) Projects which are the combination of green and social projects, as described in (a) and (b) above. (d) Waqf projects that relate to the development of waqf properties or assets. 	Yes	<p>Air Selangor's Sukuk Kelestarian will be used to finance, refinance or invest in the eligible project categories stated under the Framework:</p> <ul style="list-style-type: none"> (i) Affordable basic infrastructure – clean water supply (ii) Sustainable water management (iii) Renewable energy (iv) Green buildings <p>The above is aligned with Eligible SRI Project objectives and categories.</p>

No.	Item	Requirement	Alignment	Comment
7.10 & 7.11	Utilisation of Proceeds	An issuer must ensure that the proceeds raised from the issuance of the SRI sukuk are utilised only for the purpose of funding any activities or transactions relating to the Eligible SRI projects, as described in paragraph 7.08 above.	Yes	Please refer to above.
		In relation to the activities or transactions that involve the acquisition of a company undertaking Eligible SRI projects, an issuer must ensure that the company to be acquired does not carry on any other business or projects except the Eligible SRI projects.	N/A	The proceeds from the Sukuk Kelestarian will not be utilised to acquire companies undertaking eligible SRI projects.
7.12	Process for Project Evaluation and Selection	An issuer must establish internal processes for the evaluation and selection of the Eligible SRI projects, as identified in paragraph 7.08 above.	Yes	The Issuer has outlined the measures established to identify eligible projects to be funded. A dedicated working group comprising senior officers will conduct the project evaluation and selection during the Issuer's annual CAPEX budgeting process. The CAPEX budget will be reviewed and approved by the board of directors and SPAN. Please refer to Section 3.2 Project Evaluation & Selection.
7.13	Management of Proceeds	An issuer must ensure that the proceeds allocated to the Eligible SRI projects are deposited into a designated account or otherwise tracked in an appropriate manner.	Yes	The net proceeds from each issuance of the Sukuk Kelestarian will be deposited into the Issuer's general operating account and managed using a Sukuk Kelestarian Register. Please refer to Section 3.3 Management of Proceeds.
7.14	Reporting	An issuer must provide the following information to the sukukholders, annually through a designated website: <ul style="list-style-type: none"> (a) The original amount allocated to the Eligible SRI projects. (b) The amount utilised for the Eligible SRI projects. (c) The unutilised amount and where such unutilised amount is placed or invested pending utilisation. (d) The list of Eligible SRI projects to which the SRI sukuk proceeds have been allocated, and a brief description of the said Eligible SRI projects and their impact or expected impact, including the key underlying methodology or assumptions used to determine the impact or expected impact. 	Yes	Air Selangor has committed to disclosing the necessary information to the sukukholders every year, via its corporate website. For detailed information, please refer to Section 3.4 Reporting Commitments. The Issuer will report to the sukukholders on the impact objective of the project financed by the Sukuk Kelestarian.
7.05 & 7.16	Disclosure Requirements	The information relating to the issuer and the details of the issuer's SRI Sukuk Framework must be made publicly accessible via a designated website to be disclosed by the issuer. Such information on the designated website must be made available at the point of issuance and throughout the tenure of the SRI sukuk.	Yes	Air Selangor has committed to disclosing its Sukuk Kelestarian Framework and the necessary information to the sukukholders every year (via an annual allocation report and an impact report) on its corporate website.

No.	Item	Requirement	Alignment	Comment
		<p>For the purpose of disclosure of the details of the issuer and the SRI Sukuk Framework under paragraph 7.05 above, the following information must be included:</p> <ul style="list-style-type: none"> (a) The overall SRI objectives that the issuer intends to achieve. (b) The utilisation of proceeds from the issuance of the SRI sukuk. Where all or part of the proceeds are used for refinancing, an issuer must provide the amount of proceeds allocated to refinancing and which Eligible SRI projects will be refinanced. (c) The Eligible SRI projects to which the proceeds will be allocated. (d) The details of the Eligible SRI projects and, to the extent possible, the impact objectives of the Eligible SRI projects. (e) The processes used by the issuer to evaluate and select the Eligible SRI projects. (f) The criteria used by the issuer to identify and manage material environmental or social risks associated with the Eligible SRI projects. (g) The processes used by the issuer to manage the proceeds from the issuance of the SRI sukuk. (h) A statement that the issuer has complied with the relevant environmental, social and governance standards or recognised best practices relating to the Eligible SRI projects. 	Yes	<p>The Issuer is committed to publishing its Sukuk Kelestarian Framework, which contains items (a) – (h), on its corporate website.</p> <p>For detailed information on disclosure requirements, please refer to Section 3.4 Reporting Commitments.</p>
7.17	External review	If an external reviewer is appointed to assess and provide a report on the Eligible SRI projects or the issuer's compliance with the requirements under these guidelines, such external reviewer's report must be made available on the designated website.	Yes	RAM Sustainability has been appointed to provide a second opinion on the Framework. The review covers an assessment of the Issuer's alignment with the requirements of the SRI Sukuk Framework, the ASEAN GBS, the ASEAN SBS, the ASEAN SUS, the GBP, the SBP, and the SBG as well as the sustainability responsibilities of the Issuer. The second opinion report will be made publicly available on Air Selangor's corporate website and RAM's website (www.ram.com.my).

APPENDIX 2

APPENDIX 2: ASEAN SUSTAINABILITY BOND STANDARDS (ASEAN SUS) CHECKLIST

Reference:

ASEAN Capital Markets Forum – ASEAN Green Bond Standards (GBS)

ASEAN Capital Markets Forum – ASEAN Social Bond Standards (SBS)

Item	No.	Requirement	Alignment	Comment
Eligibility of Issuers	GBS 3.1 SBS 3.1	i) Must be an ASEAN Issuer. ii) In the case of a Non-ASEAN Issuer, the eligible Green Projects must be located in an ASEAN member country.	Yes	The Issuer is an entity incorporated in Malaysia, with business operations in Malaysia.
	GBS 3.2 SBS 3.2	ASEAN Sustainability Bonds must originate from an ASEAN member country.	Yes	The sukuk issued under the Framework originates from Malaysia.
Ineligible Projects	GBS 4.1.6	For clarification purposes, fossil-fuel power generation projects are excluded from the ASEAN GBS.	Yes	The Issuer has stipulated that projects involving the generation of fossil fuel-based energy will be ineligible for funding under the Framework.
	SBS 4.1.7	For clarification, projects which involve activities that pose a negative social impact related to alcohol, gambling, tobacco and weaponry are excluded from the ASEAN SBS. Issuers are also encouraged to develop a list of additional ineligible projects for the issuance of their ASEAN Social Bonds, if applicable.	Yes	The Issuer has stipulated under the Framework that projects involving activities that pose a negative social impact such as those relating to alcohol, gambling, tobacco, and weaponry will not be eligible for funding.
Continuous Accessibility to Information	GBS 4.2.1 SBS 4.2.1	The Issuer of ASEAN Sustainability Bonds must clearly communicate the following to investors: i) The environmental sustainability and social objectives. ii) The process by which the Issuer determines how the projects fit within the eligible Green and Social Project categories identified above. iii) The related eligibility criteria, including, if applicable, exclusion criteria or any other process applied to identify and manage potentially material environmental and social risks associated with the Green and Social Projects.	Yes	Through the Sukuk Kelestarian, the Issuer aims to increase the supply capacity of clean and affordable water to more households and businesses in the Distribution Area, considering the impact of climate change and pollution on its water sources. The eligibility criteria for the use of proceeds and the process of evaluation and selection of eligible projects are detailed in the Framework.
	GBS 4.2.5 SBS 4.2.5	The Issuer must make the following publicly available on a website designated by the Issuer at the time of the issuance and throughout the tenure of the ASEAN Sustainability Bonds: i) The process for project evaluation. ii) The use of proceeds. iii) The external review report on the process (if any).	Yes	The Issuer is committed to publishing the Framework on its corporate website (www.airselangor.com). The Framework includes information that describes the process for project evaluation, the intended use of proceeds and the requirement to obtain a second opinion to confirm the validity of the Framework. The second opinion report will be made publicly available on Air Selangor's corporate website and RAM's website (www.ram.com.my)
	GBS 4.3.1 SBS 4.3.1	Prior to the issuance of the ASEAN Sustainability Bonds, the Issuer must disclose to investors in the documentation for the issuance of the ASEAN Sustainability Bonds the process for managing the net proceeds from the ASEAN Sustainability Bonds.	Yes	The process for managing the net proceeds is described in the Framework. The net proceeds from each issuance of the Sukuk Kelestarian will be deposited into the Issuer's general operating account and managed using a Sukuk Kelestarian Register. Please refer to Section 3.3 Management of Proceeds.

	GBS 4.3.4 SBS 4.3.4	The Issuer must also disclose to investors in the documentation for the issuance of the ASEAN Sustainability Bonds the intended types of temporary placement for the balance of unallocated proceeds.	Yes	Until such net proceeds are allocated to eligible projects and utilised, the funds will only be allowed to invest in Shariah-compliant money-market instruments, and subject to the terms and covenants of the Sukuk Kelestarian. The process for managing the net proceeds is described in the Framework
	GBS 4.4.5 SBS 4.4.5	The Issuer must provide to investors the annual reporting and the external review on the annual reporting, if any, through a website designated by the Issuer and/or annual reports throughout the tenure of the ASEAN Sustainability Bonds.	Yes	The Issuer is committed to publishing an annual allocation report and an impact report, throughout the tenure of the Sukuk Kelestarian. These reports will be made publicly available on the Issuer's corporate website.
Encourage More Frequent Reporting	GBS 4.4.1 SBS 4.4.1	Issuers must report to investors at least once a year, and is encouraged to make more frequent reporting on the use of proceeds until full allocation, and as necessary thereafter in the event of material developments. This should include a list of the projects to which the ASEAN Sustainability Bonds proceeds have been allocated, as well as a brief description of the projects and the amounts allocated and their expected impact.	Yes	The Issuer is committed to an annual disclosure on its corporate website vis-à-vis the use of proceeds until full allocation, and as necessary thereafter in the event of material developments. This will include information on the eligible projects, the allocation of proceeds to the eligible projects, the amount that had been allocated and the impact of eligible projects funded via the Sukuk Kelestarian.
External Review	GBS 5.1 SBS 5.1	Issuers are recommended to appoint external review providers for the issuance of their ASEAN Sustainability Bonds.	Yes	RAM Sustainability has been appointed to provide a second opinion on the Framework. The review covers an assessment of the Framework against the disclosure requirements of the ASEAN GBS, the ASEAN SBS, the ASEAN SUS, the SRI Sukuk Framework, the GBP, the SBP and the SBG as well as the sustainability responsibilities of the Issuer.
	GBS 4.2.4 SBS 4.2.4	It is recommended that the Issuer's processes for project evaluation and selection be supported by an external review.	Yes	The second opinion report by RAM Sustainability covers project evaluation and selection.
	GBS 4.3.5 SBS 4.3.5	It is recommended that the Issuer's management of proceeds be supplemented by the appointment of an auditor or other third party, to verify the internal tracking method and allocation of the proceeds from the ASEAN Sustainability Bonds.	No	This is a voluntary process. The Issuer has not stated any intention to appoint an auditor or other third party to verify the internal tracking method and allocation of issuance proceeds from the Sukuk Kelestarian.
	GBS 4.3.6 SBS 4.3.6	Where the Issuer appoints an auditor or other third party to verify its management of proceeds, the Issuer must make the report produced by the auditor or other third party publicly available on a website designated by the Issuer at the time of issuance of the ASEAN Green Bonds.	No	This is a voluntary process. The Issuer has not stated its intention to appoint an auditor or other third party to verify the internal tracking method and allocation of issuance proceeds from the Sukuk Kelestarian.
	GBS 4.4.4 SBS 4.4.4	It is recommended that the Issuer's annual reporting on the use of proceeds be supplemented by the confirmation of such use of proceeds by an external reviewer, along with any relevant updates on the external review.	No	This is a voluntary process. The Issuer has not stated its intention to appoint an external reviewer to confirm the accuracy of the Issuer's annual reporting on the use of proceeds.

APPENDIX 3



Sustainability Bond / Sustainability Bond Programme External Review Form

Section 1. Basic Information

Issuer name: Pengurusan Air Selangor Sdn Bhd

Sustainability Bond ISIN or Issuer Sustainability Bond Framework Name, if applicable: Air Selangor Sustainable Development Sukuk Kelestarian Framework, Sukuk Murabahah Programme of up to RM10 billion in nominal value

Review provider's name: RAM Sustainability Sdn Bhd

Completion date of this form: 9 November 2020

Publication date of review publication: 9 November 2020

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 GBPs and the SBPs:

- | | |
|--|--|
| <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 (including second opinion) | <input type="checkbox"/> Certification |
| <input type="checkbox"/> Verification | <input checked="" 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 the Second Opinion Report on the Air Selangor Sustainable Development Sukuk Kelestarian Framework.

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):

Proceeds from the issuance of the Sukuk Kelestarian by Air Selangor will be utilised to finance, refinance or invest in the following eligible projects:

- Affordable Basic Infrastructure – Clean Water Supply
- Sustainable Water Management
- Renewable Energy
- Green Buildings

Eligibility criteria for each category is described in the Framework.

Use of proceeds categories as per the GBP:

- | | |
|--|--|
| <input checked="" type="checkbox"/> Renewable energy | <input type="checkbox"/> Energy efficiency |
| <input type="checkbox"/> Pollution prevention and control | <input 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 checked="" 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 type="checkbox"/> Other (please specify): |

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

Use of proceeds categories as per the SBP:

- | | |
|--|--|
| <input checked="" type="checkbox"/> Affordable basic infrastructure | <input type="checkbox"/> Access to essential services |
| <input type="checkbox"/> Affordable housing | <input type="checkbox"/> Employment generation / programs designed to prevent and/or alleviate unemployment stemming from socioeconomic crises |
| <input type="checkbox"/> Food security and sustainable food systems | <input 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 SBPs | <input type="checkbox"/> Other <i>(please specify)</i> : |

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

2. PROCESS FOR PROJECT EVALUATION AND SELECTION

Overall comments on section *(if applicable)*:

The Issuer has outlined the project criteria and measures established to identify eligible projects to be funded under the Framework. A dedicated working group comprising senior officers from the Sustainable Development Section and Finance & Strategy Department will conduct the project evaluation and selection during the Issuer's annual CAPEX budgeting process. The CAPEX budget will be reviewed and approved by the Issuer's board of directors and SPAN.

RAM Sustainability opines that the process employed by Air Selangor are consistent with the practices observed in the sustainability bond/sukuk market in Malaysia.

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 <i>(please specify)</i> : |

Information on Responsibilities and Accountability

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

3. MANAGEMENT OF PROCEEDS

Overall comments on section (if applicable):

The net proceeds from each issuance of the Sukuk Kelestarian will be deposited into the Issuer's general operating account and managed using a Sukuk Kelestarian Register. Pending allocation of net proceeds to eligible projects, the funds can only be invested in Shariah-compliant money-market instruments, and subject to the terms and covenants of the Sukuk Kelestarian. The Sukuk Kelestarian Framework, which contains details of the management of proceeds, is also referenced in the principal terms and conditions of the sukuk.

Tracking of proceeds:

- Sustainability Bond proceeds segregated or tracked by the issuer in an appropriate manner
- Disclosure of intended types of temporary investment instruments for unallocated proceeds
- Other (please specify):

Additional disclosure:

- Allocations to future investments only
- Allocation to individual disbursements
- Disclosure of portfolio balance of unallocated proceeds
- Allocations to both existing and future investments
- Allocation to a portfolio of disbursements
- Other (please specify):

4. REPORTING

Overall comment on section (if applicable):

The process for reporting is in line with the expected norms for sustainability sukuk. Air Selangor is committed to publishing an annual allocation report, and an impact report that provides the relevant information. This report will be made publicly available via Air Selangor's website (www.airselangor.com).

Use of proceeds reporting:

- Project-by-project
- Linkage to individual bond(s)
- On a project portfolio basis
- Other (please specify):

Information reported:

- Allocated amounts
- Sustainability Bond financed share of total investment
- Other (please specify):

Frequency:

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

Impact reporting:

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

Frequency:

- | | |
|--|--------------------------------------|
| <input checked="" type="checkbox"/> Annual | <input type="checkbox"/> Semi-annual |
| <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 checked="" 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): <u>Please refer to Section 3.4 of the Second Opinion Report.</u> |

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): <u>An annual allocation report, and an impact report will be published by the Issuer.</u> |
| <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.)

Corporate website of the Issuer (www.airselangor.com)

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 (please specify): | |

Review provider(s):**Date of publication:**

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

- (i) **Consultant Review:** An issuer can seek advice from consultants and/or institutions with recognized expertise in environmental and social sustainability or other aspects of the issuance of a Sustainability Bond, such as the establishment/review of an issuer's Sustainability Bond framework. "Second opinions" may fall into this category.
- (ii) **Verification:** An issuer can have its Sustainability Bond, associated Sustainability Bond framework, or underlying assets independently verified by qualified parties, such as auditors. In contrast to certification, verification may focus on alignment with internal standards or claims made by the issuer. Evaluation of the environmentally and socially sustainable features of underlying assets may be termed verification and may reference external criteria.
- (iii) **Certification:** An issuer can have its Sustainability Bond or associated Sustainability Bond framework or Use of Proceeds certified against external green and social assessment standards. An assessment standard defines criteria, and alignment with such criteria is tested by qualified third parties / certifiers.
- (iv) **Rating:** An issuer can have its Sustainability Bond or associated Sustainability Bond framework rated by qualified third parties, such as specialised research providers or rating agencies. Sustainability Bond ratings are separate from an issuer's ESG rating as they typically apply to individual securities or Sustainability Bond frameworks/programmes.



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