SUSTAINABLE DEVELOPMENT SUKUK KELESTARIAN FRAMEWORK

Version: 1.0

1. Introduction

Pengurusan Air Selangor Sdn. Bhd. or "Air Selangor", a company wholly owned by the Selangor State Government, was incorporated on 26 February 2014 under the Malaysian Companies Act 2016 to provide holistic water supply services in the state of Selangor and the Federal Territories of Kuala Lumpur and Putrajaya ("Distribution Area").

Air Selangor assumed its role as the sole holistic water licensee under the Water Industry Services Act 2006 following its successful acquisition and consolidation of the former water concession companies previously operating in the Distribution Area.

We are now Malaysia's largest player in the water industry in terms of producing and supplying treated water. On average, Air Selangor provides more than 1,800 million cubic metres of clean water annually, produced by 34 water treatment plants and pumped through over 29,000 kilometres of pipelines which services more than 8 million consumers in the Distribution Area.

Our vision is to be the leading water operator in the region, with a mission to deliver the best possible service experience to our customers. In order to achieve this, we aspire to: -

- Deliver unrivalled water services to our domestic, commercial, industrial, and government customers;

- Provide a consistently adequate, environmentally safe water supply, and value for money services that meet or exceed our customers' expectations; and

- Achieve the highest attainable service standards.

In 2018, Air Selangor launched its 30-year capital investment programme that spans a total of ten operating periods, with each operating period lasting for three years. This capital investment programme will see the implementation of seven Strategic Plans and Initiatives and eight Key Result Areas to ensure safe and sustainable water supply to households and businesses in our serviced areas.

Air Selangor has taken an integrated Risk Management approach by expanding the Risk Management Department's mandate to include both Enterprise Risk Management (ERM) and Sustainable Development (SD). This has enabled Air Selangor to have a holistic view and management of its risks, including environmental, social and governance related risks. As such, we are guided by Air Selangor's Risk Management Policy & Framework as well as our Sustainability Framework to ensure relevant best practices and applicable standards are internalised and applied consistently across our operations and projects where possible.

2. Sustainable Development at Air Selangor

Clean and accessible water is becoming an increasingly threatened resource due to pollution, climate change, and human activity. Rapid development and increasing urbanization in the Klang Valley region have further driven us to strategize on sustainable water supply and good water quality over the long term, to ensure that we would continue to be able to provide safe and clean drinking water for all our customers.

Air Selangor is integrating the principles of sustainability into its business operations through a sustainability strategy for the period of 2020 to 2022, themed "Connecting the Drops". This strategy is aligned to the organisation's Vision and Mission, the United Nations' ("UN") Sustainable Development Goals ("SDGs"), and our 30-year capital investment programme.

The five strategies are: -

- *Strategy 1: Enhancing Governance & Integrity*

  a. Embed sustainability governance mechanisms to ensure management oversight.
  b. Establish and implement global standard of ethical behaviour throughout Air Selangor.

- *Strategy 2: Standardizing Data & Processes*

  a. Integrate and streamline all data management processes and systems across Air Selangor.
  b. Establish a system for monitoring and analysing sustainability related data.

- *Strategy 3: Transparent Communications*

  a. Enhance communications throughout the organization and externally with customers through new and existing platforms.
  b. Establish annual Sustainability Reporting process which integrates performance data and sustainability commitments.

- *Strategy 4: Reducing Environmental Impact*

  a. Improve operational efficiency and cost savings through effective energy management.
  b. Reduce environmental impact of operational waste and effluent.
  c. Lead by example through efficient use of water in the face of climate-change.

- *Strategy 5: Be Socially Responsible*

  a. Embed a culture of health and safety throughout the organisation.
  b. Enhance product quality and protect customer health through continuous improvement.
  c. Identify and develop an impactful flagship corporate responsibility programme.
  d. Create opportunities to promote and enhance employee diversity.

Air Selangor is also in the process of identifying mid-to-long term sustainability priorities to be addressed over the next ten years of our business.

Apart from this, we have identified, prioritized and aligned our performance and initiatives to specific SDGs that are immediately relevant to our business, in support of the national agenda. These SDGs are:

We target to publish our first sustainability report in 2021 which will detail our achievements in the area of economy, environment and society.

3. The Sustainable Development Sukuk Kelestarian Framework

Air Selangor's Sustainable Development Sukuk Kelestarian Framework ("Sukuk Kelestarian Framework" or the "Framework") was developed to ensure transparency, disclosure, and integrity in the issuance of a sustainable and responsible investment Sukuk known as the Sukuk Kelestarian Air Selangor ("Sukuk Kelestarian").

This Framework is aligned with: -

- The International Capital Market Association's (ICMA) 2018 Green Bond Principles, 2018 Social Bond Principles, and 2018 Sustainability Bond Guidelines;

- The ASEAN Capital Markets Forum's (ACMF) 2018 Green Bond Standards, 2018 Social Bond Standards, and 2018 Sustainability Bond Standards; and

- The Securities Commission Malaysia's (SC) Sustainable and Responsible Investment (SRI) Sukuk Framework ("SC SRI Sukuk Framework").

The core components of this Framework are: -

- Use of Proceeds;

- Process for Project Evaluation and Selection;

- Management of Proceeds; and

- Reporting.

4. Use of Proceeds

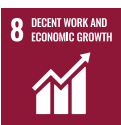Proceeds from the issuance of Sukuk Kelestarian by Air Selangor shall be utilised to finance, refinance, or invest in eligible projects.

The Sukuk Kelestarian Framework stipulates that eligible projects include sustainable water supply projects, sustainable water management projects, renewable energy projects, and green building projects. These are in line with Air Selangor's capital investment programme, sustainability strategy and priority SDGs.

Eligible Projects

Project Category	Project Criteria	Sustainability Objectives & UN's SDG Targets
Sustainable Water Supply	• Capital investment in the development of new water treatment plants or water source projects, including the identification and harnessing of new sustainable water sources. • Development of new dam or alternative storage for water resources, including Hybrid Off River Augmentation Storage (HORAS). • Maintenance, upgrade, improvement, rehabilitation, refurbishment, and/or replacement of existing water treatment or water supply systems, including existing water treatment plants, dams, off-river storages, etc. • Connecting, expanding, improving, rehabilitating, refurbishing, replacing, and/or maintenance of distribution network or systems.	Our aim is to increase supply capacity of clean and affordable water to an ever-growing number of households and businesses in our service areas, considering impacts from climate change and pollution on our water sources. *SDG 6: Clean Water and Sanitation - Ensure availability and sustainable management of water and sanitation for all* UN's SDG Target 6.1 - By 2030, achieve universal and equitable access to safe and affordable drinking water for all. *SDG 9: Industry, Innovation and Infrastructure – Build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation* UN's SDG Target 9.4 - By 2030, upgrade infrastructure and retrofit industries to make them sustainable, with increased resource-use efficiency and greater adoption of clean and environmentally sound technologies and industrial processes, with all countries taking action in accordance with their respective capabilities.

Project Category	Project Criteria	Sustainability Objectives & UN's SDG Targets
		SDG 13: Climate Action - Take urgent action to combat climate change and its impacts UN's SDG Target 13.2 - Integrate climate change measures into national policies, strategies and planning.
Sustainable Water Management	• Capital investment in improving operational efficiency to, amongst others, reduce resource consumption, improve production volume of treated water, and/or improve distribution efficiency. • Capital investment towards achieving zero waste environment, including rehabilitation of existing residuals treatment facilities, construction of new residuals treatment facilities, or construction or expansion of residuals disposal areas. • Enhancement of network communication and network management to, amongst others, reduce service disruptions. • Improving pollution detection and management and enhancing laboratory services to, amongst others, reduce service disruptions. • Increasing the accuracy and timeliness of leak detection to, amongst	Our aim is to improve the way we produce and distribute water to our customers, by optimising the use of our precious natural resources, improving system connectivity to minimise service disruptions and reducing system losses. **SDG 6: Clean Water and Sanitation - Ensure availability and sustainable management of water and sanitation for all** UN's SDG Target 6.4 - By 2030, substantially increase water-use efficiency across all sectors and ensure sustainable withdrawals and supply of freshwater to address water scarcity and substantially reduce the number of people suffering from water scarcity. **SDG 7: Affordable and Clean Energy - Ensure access to affordable, reliable, sustainable and modern energy for all** UN's SDG Target 7.3 - By 2030, double the global rate of improvement in energy efficiency. **SDG 8: Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all** UN's SDG Target 8.4 - Improve progressively, through 2030, global resource efficiency in consumption and production and endeavour to decouple economic growth

Project Category	Project Criteria	Sustainability Objectives & UN's SDG Targets
	others, reduce non-revenue water. • Capital investment on physical or commercial reduction programmes to reduce non-revenue water. • Construction of new reservoirs or pumping stations, or upgrading of existing assets in order to, amongst others, ensure sufficient water storage in the distribution system. • Investment in water efficiency devices, smart technologies, or information and communication technology (ICT) applications, systems or infrastructure, including smart meters to promote water conservation, cloud-based applications, enterprise resource planning or project management or electronic content management systems, Internet of Things (IoT), digitalisation projects, big data analytics, artificial intelligence and/or robotic process automation systems, etc.	from environmental degradation, in accordance with the 10-year framework of programmes on sustainable consumption and production, with developed countries taking the lead. *SDG 12: Responsible Consumption & Production - Ensure sustainable consumption and production patterns* UN's SDG Target 12.2 - By 2030, achieve the sustainable management and efficient use of natural resources. UN's SDG Target 12.4 - By 2020, achieve the environmentally sound management of chemicals and all wastes throughout their life cycle, in accordance with agreed international frameworks, and significantly reduce their release to air, water and soil in order to minimize their adverse impacts on human health and the environment. UN's SDG Target 12.5 - By 2030, substantially reduce waste generation through prevention, reduction, recycling and reuse. *SDG 16: Promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels* UN's SDG Target 16.6 - Develop effective, accountable and transparent institutions at all levels.

Project Category	Project Criteria	Sustainability Objectives & UN's SDG Targets
Renewable Energy	• Implementation of self-generated renewable energy from sources such as solar or mini hydro*. *(*Each mini hydro with a generating capacity of not more than 30 megawatts)*	We aim to leverage opportunities to generate renewable energy arising from our business operations to decrease energy costs and minimise impact on the environment. ***SDG 7: Affordable and Clean Energy - Ensure access to affordable, reliable, sustainable and modern energy for all*** UN's SDG Target 7.2 - By 2030, increase substantially the share of renewable energy in the global energy mix.
Green Building/ Assets	• Capital investment in the construction of new or retrofitting existing assets that meet or to meet widely accepted (locally or internationally) green building standards, such as office space and site buildings at treatment and distribution facilities under sustainable infrastructure.	We aim to improve the sustainability of our assets through retrofitting of existing assets, and better design and construction of new assets. ***SDG 9: Industry, Innovation and Infrastructure – Build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation*** UN's SDG Target 9.4 - By 2030, upgrade infrastructure and retrofit industries to make them sustainable, with increased resource-use efficiency and greater adoption of clean and environmentally sound technologies and industrial processes, with all countries taking action in accordance with their respective capabilities.

Ineligible Projects

Projects involving the generation of fossil fuel-based energy and activities that pose a negative social impact such as those relating to alcohol, gambling, tobacco, and weaponry will be ineligible for funding under this Framework.

5. Project Evaluation and Selection

Eligible projects must meet the eligibility criteria set out in the "Use of Proceeds" section of this framework.

Project evaluation and selection will be carried out by the Sukuk Kelestarian Working Group which comprises senior officers from our Sustainable Development Section and Finance & Strategy Department during the annual capital expenditure budgeting process, or when necessary.

The annual capital expenditure budget is reviewed and approved by the following parties: -

- Our Board of Directors; and

- Suruhanjaya Perkhidmatan Air Negara (also known as SPAN or the National Water Services Commission).

Projects are considered based on how they contribute towards achieving our strategic plans and objectives, their impact on our performance commitments, health and safety, environment and social impact, as well as cost and viability.

If a project is deferred or no longer meets the eligibility criteria, the Sukuk Kelestarian Working Group will, on a best-efforts basis, substitute the project with another eligible project.

In addition to project evaluation and selection, the Sukuk Kelestarian Working Group will also be responsible for the following: -

- Supervision and reporting of proceeds management;

- Monitoring and reporting compliance; and

- To manage any future updates to this Framework.

6. Management of Proceeds

The net proceeds from each issuance of Sukuk Kelestarian will be deposited into our general operating account and managed using a Sukuk Kelestarian Register.

Until such net proceeds are allocated to eligible projects and utilised, the funds will be invested according to our normal liquidity policy and subject to the terms and covenants of the Sukuk Kelestarian.

The Sukuk Kelestarian Register will contain relevant information, including: -

- Details of the Sukuk(s): Stock code, ISIN code, stock description, issuance date, maturity date, issuance size, etc.

- Per Sukuk Kelestarian issued, details of the use of proceeds, including: -

    o   Project category, project criteria, and project description;

    o   Amount of allocation made and utilisation; and

    o   Estimate of impact of the project.

7. Reporting

Air Selangor is committed to publish an annual allocation report, and an impact report, until the proceeds of the Sukuk Kelestarian have been fully allocated. These reports will be made available publicly, on our corporate website.

Allocation Reporting

The allocation report will be made available approximately one year from the date of the first Sukuk Kelestarian issuance, and yearly thereafter until all funds have been utilised. The information disclosed will contain the following details: -

- 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; and

- 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

An annual impact report on a range of social and environmental indicators will be provided alongside the allocation report for each eligible project category until the maturity of the Sukuk Kelestarian issue. These indicators may include where feasible and to the extent possible: -

Project Category	Reporting Indicators
Sustainable Water Supply	• Million cubic metres of clean water produced • Water quality compliance • Length of distribution network • Length of pipe replacement implemented • Number of accounts served • Number of new household water connections • Number of water infrastructure projects built/upgraded

Project Category	Reporting Indicators
Sustainable Water Management	• Energy consumption per cubic meter of water produced • Estimated GHG Emissions reduced • Expected energy saved • Pipe burst index • Non-revenue water reduction • Amount of water saved • Number of pollution incidences detected • Estimated amount of residuals reduced • Reduced supply interruptions to customers
Renewable Energy	• Installed capacity • Annual GHG emissions avoided • Annual renewable energy production
Green Building/Assets	• 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)

8. External Review

Air Selangor has appointed RAM Sustainability Sdn. Bhd. ("RAM Sustainability") as an independent party to provide a Second Party Opinion on the Sukuk Kelestarian Framework.

RAM Sustainability has reviewed the content of the Sukuk Kelestarian Framework and confirmed its adherence to the SC SRI Sukuk Framework, ICMA 2018 Green Bond Principles, 2018 Social Bond Principles, 2018 Sustainability Bond Guidelines, and ACMF 2018 Green Bond Standards, 2018 Social Bond Standards and 2018 Sustainability Bond Standards.

This Second Party Opinion has been made available on our corporate website.

SUHAIMI KAMARALZAMAN
Chief Executive Officer
Pengurusan Air Selangor Sdn. Bhd.

30 September 2020