

# Second-Party Opinion

## Farys Green Finance Framework



### Evaluation Summary

Sustainalytics is of the opinion that the Farys Green Finance Framework is credible and impactful and aligns with the four core components of the Green Bond Principles 2021 and the Green Loan Principles 2023. This assessment is based on the following:



**USE OF PROCEEDS** The eligible categories for the use of proceeds – Sustainable Water and Wastewater Management, Energy Efficiency, Green Buildings, Renewable Energy, and Clean Transportation – are aligned with those recognized by the Green Bond Principles and the Green Loan Principles. Sustainalytics considers that investments in the eligible categories will lead to positive environmental impacts and advance the UN Sustainable Development Goals, specifically SDGs 6, 7, 9 and 11.



**PROJECT EVALUATION AND SELECTION** Farys' Management Committee will be responsible for evaluating and selecting projects and assets in line with the Framework's eligibility criteria. The Management Committee will also oversee an ESG risk management process to identify and mitigate environmental and social risks associated with projects and activities that may be financed under the Framework. Sustainalytics considers Farys' risk management systems to be adequate, and the project evaluation and selection process to be in line with market practice.



**MANAGEMENT OF PROCEEDS** Farys' Finance and Transaction department will be responsible for the management and allocation of proceeds using a portfolio approach and will track the allocation of proceeds using an internal tracking system. Farys intends to fully allocate the net proceeds within 24 months of issuance. Unallocated proceeds may be temporarily held in cash or cash equivalents, in accordance with its treasury criteria. Based on the use of a tracking system and the disclosure of the temporary use of proceeds. Sustainalytics considers this process to be in line with market practice.



**REPORTING** Farys will report on allocation of proceeds and impact on an annual basis until full allocation. Allocation reporting may include, an overview of the instruments issued under the Framework, the total amount outstanding of issued finance instruments, the total amount of investments and expenditures in the eligible assets on the balance sheet, and the amount of unallocated proceeds. Sustainalytics considers this process to be in line with market practice.

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<b>Evaluation date</b>	April 26, 2024
<b>Issuer Location</b>	Ghent, Belgium

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## Introduction

Farys (“Farys” or the “Company”) is a Belgian intermunicipal utility provider operating in three areas: drinking water supply, water sanitation and sports facilities management.<sup>1</sup> Farys was established by public decree in 1923 in Ghent, Belgium.<sup>2</sup> Farys operates exclusively in the Flemish region of Belgium, where it employs nearly 1,000 people.

Farys has developed the Farys Green Finance Framework dated April 2024 (the “Framework”) under which it intends to issue green bonds, green notes, green private debt placements and green term loans,<sup>3</sup> and use the proceeds to finance or refinance, in whole or in part, existing and future projects that are expected to improve the water quality and supply, while ensuring the sustainability of the water sources in the Flemish region. The Framework defines eligibility criteria in five areas:

1. Sustainable Water and Wastewater Management
2. Energy Efficiency
3. Green Buildings
4. Renewable Energy
5. Clean Transportation

Farys engaged Sustainalytics to review the Framework and provide a Second-Party Opinion on the Framework’s environmental credentials and its alignment with the Green Bond Principles 2021 (GBP)<sup>4</sup> and the Green Loan Principles 2023 (GLP).<sup>5</sup> The Framework has been published in a separate document.<sup>6</sup>

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

Sustainalytics’ Second-Party Opinion reflects Sustainalytics’ independent<sup>7</sup> opinion on the alignment of the reviewed Framework with current market standards and the extent to which the eligible project categories are credible and impactful.

As part of the Second-Party Opinion, Sustainalytics assessed the following:

- The Framework’s alignment with the Green Bond Principles 2021, as administered by ICMA, and the Green Loan Principles 2023, as administered by LMA, APLMA and LSTA;
- The credibility and anticipated positive impacts of the use of proceeds; and
- The alignment of the issuer’s sustainability strategy and performance and sustainability risk management in relation to the use of proceeds.

For the use of proceeds assessment, Sustainalytics relied on its internal taxonomy, version 1.16, which is informed by market practice and Sustainalytics’ expertise as an ESG research provider.

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

This document contains Sustainalytics’ opinion of the Framework and should be read in conjunction with that Framework.

<sup>1</sup> Farys, “About Us”, at: <https://www.farys.be/en/about-us>

<sup>2</sup> Information shared with Sustainalytics on a confidential basis.

<sup>3</sup> Farys has communicated to Sustainalytics that green term loans will not include multi-tranche loans.

<sup>4</sup> The Green Bond Principles are administered by the International Capital Market Association and are available at <https://www.icmagroup.org/green-social-and-sustainability-bonds/green-bond-principles-gbp/>.

<sup>5</sup> The Green Loan Principles are administered by the Loan Market Association, Asia Pacific Loan Market Association and Loan Syndications and Trading Association and are available at <https://www.lsta.org/content/green-loan-principles/>

<sup>6</sup> The Farys Green Finance Framework is available at: <https://www.farys.be/nl/informatie-voor-investeerders>

<sup>7</sup> When operating multiple lines of business that serve a variety of client types, objective research is a cornerstone of Sustainalytics and ensuring analyst independence is paramount to producing objective, actionable research. Sustainalytics has therefore put in place a robust conflict management framework that specifically addresses the need for analyst independence, consistency of process, structural separation of commercial and research (and engagement) teams, data protection and systems separation. Last but not the least, analyst compensation is not directly tied to specific commercial outcomes. One of Sustainalytics’ hallmarks is integrity, another is transparency.

Any update of the present Second-Party Opinion will be conducted according to the agreed engagement conditions between Sustainalytics and Farys.

Sustainalytics' Second-Party Opinion, while reflecting on the alignment of the Framework with market standards, is no guarantee of alignment nor warrants any alignment with future versions of relevant market standards. Furthermore, Sustainalytics' Second-Party Opinion addresses the anticipated impacts of eligible projects expected to be financed with bond and loan proceeds but does not measure the actual impact. The measurement and reporting of the impact achieved through projects financed under the Framework is the responsibility of the Framework owner.

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

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

## Sustainalytics' Opinion

### Section 1: Sustainalytics' Opinion on the Farys Green Finance Framework

Sustainalytics is of the opinion that the Farys Green Finance Framework is credible, impactful and aligned with the four core components of the GBP and GLP. Sustainalytics highlights the following elements of the Framework:

- Use of Proceeds:
  - The eligible categories, Sustainable Water and Wastewater Management, Energy Efficiency, Green Buildings, Renewable Energy, and Clean Transportation are aligned with those recognized by the GBP and GLP.
  - Farys has confirmed to Sustainalytics that the Company will avoid double counting of the allocated proceeds and their associated impacts.
  - Under the Sustainable Water and Wastewater Management category, Farys may finance or refinance facilities and technologies in accordance with the following criteria:
    - Leak detection, metering and monitoring equipment and technologies, such as flow meters, loggers, correlators, installation of fibre optics for acoustic detection of leakages in distribution networks, supervisory control and data acquisition systems and spray-in-place pipes.
    - Technologies and facilities that monitor and improve:
      - Water quality through compliance monitoring.
      - Drinking water quality, such as installation of: i) water purification systems including reverse osmosis; ii) digital water meters and systemic replacement of analogue water meters; iii) replacement of cast iron pipes with polyethylene pipes; iv) transitioning from meshed water networks to branch water networks; and v) installation of check valves to prevent back flows. For reverse osmosis, Farys has confirmed to Sustainalytics that the average carbon intensity of electricity used, will be at or below 100g CO<sub>2</sub>e/kwh.
      - Wastewater quality, such as: i) construction of new sewers, ii) separate drainage system for rainwater; and iii) installation of individual sewage treatment systems for remote areas.
  - Flood mitigation projects such as development of retention basins, underground infiltration pipes and rainwater drainage systems. Farys has confirmed to Sustainalytics that the activities will be supported by vulnerability assessment and an adaptation plan that integrates a response plan to the conclusions and findings of the vulnerability assessment.
  - Reducing the intermixing of rainwater and wastewater by installing retention basins, infiltration facilities, separate sewage systems and qualitative assessments of

- overflows of wastewater and sewage systems into water bodies to ensure water purification and reduce pollution.
- Construction, development and renovation of: i) new drinking water production plants; ii) new drinking water and sewerage grids, and replacement of existing worn-out grids; iii) pumping stations; iv) water storage capacities, such as capacity optimization projects using aquifer storage and recovery; and v) wastewater treatment systems.
  - Projects to enhance the resilience of water and wastewater networks, such as DEEPER BLUE,<sup>8</sup> BattEAU<sup>9</sup> and establishment of Farys' transport network<sup>10</sup>. Farys has confirmed to Sustainalytics that the activities will be accompanied by a vulnerability assessment and an adaptation plan to address the risks stemming from climate change resilience projects.
  - Sustainalytics notes the following exclusions in the Framework:
    - Equipment and methods dependent on fossil fuel.
    - Treatment of wastewater from fossil fuel operations, such as fracking.
    - Systems and treatment facilities dedicated to controversial activities having harmful social or environmental impacts.
  - Sustainalytics considers investments under this category to be in line with market practice.
- Under the Energy Efficiency category, Farys may finance or refinance the installation, maintenance and upgrade of energy-efficient technologies and systems in existing administrative facilities and water production facilities. The activities financed may include: installation of LED lights, power savings sensors, CO<sub>2</sub> measurements for variable ventilation, green roofs, roof and wall insulations, boiler room optimization including solar boilers, as well as installation and improvement of Building Management Systems. In addition, water production facilities may also include expenditures related to energy monitoring using the SCADA system. Sustainalytics considers investments under this category to be in line with market practice, noting the following exclusions in the Framework:
    - Financing of new energy efficiency technologies designed or intended for processes that are inherently carbon intensive, primarily driven or powered by fossil fuels.
    - Financing of gas and oil-fired boilers, cogeneration and CHP units.
  - Under the Green Buildings category, Farys may finance or refinance projects in accordance with the following criteria:
    - Construction or acquisition of new office buildings and water and wastewater treatment facilities meeting the following criteria:
      - Buildings that have obtained or are expected to obtain BREEAM Excellent.<sup>11</sup>
      - Buildings that have obtained or are expected to obtain an EPC A or any other equivalent green building certification. Sustainalytics notes that it is market expectation to specify all eligible schemes and certifications, and encourages Farys to report on any specific schemes and certifications it intends to use.
      - Buildings that meet the national requirements for nearly zero-energy buildings (NZEB).<sup>12</sup> Sustainalytics considers the use of energy consumption thresholds to finance buildings relevant within the local context of a country or jurisdiction. Sustainalytics notes that the Company's choice to use globally applicable thresholds represents a deviation from what Sustainalytics considers good practice. Nevertheless, Sustainalytics notes that the selected thresholds represent an improvement compared to average global energy

<sup>8</sup> DEEPER BLUE is a project focusing on the development of a wastewater-to-drinking water treatment plant in Aalst Flanders Environment Agency, "DEEPER BLUE - DEEP buffering for Effluent Reuse, (2023), at: <https://www.vmm.be/water/blue-deal/projecten-hergebruik-effluent/effluentprojecten/deeper-blue-deep-buffering-for-effluent-reuse>

<sup>9</sup> BattEAU is a project focusing on the development of aquifers storage and recovery of groundwater using existing wells in Gijzegem and Oudenaarde Flanders Environment Agency, "BattEAU: Ondergrondse winterzomerbatterij voor drinkwater", (2023), at: <https://www.vmm.be/water/projecten/circulair-water/batteau>

<sup>10</sup> Farys intends to finance the establishment of water pipelines between the transport network of Farys and the water production centre of de Watergroep in Kluizen to ensure resilience to the overall drinking water network. This will aid in managing water supply-related issues in case of interruptions or emergencies, thereby enhancing the reliability and continuity of the water supply in the Flanders region.

<sup>11</sup> BREEAM: <https://bregroup.com/products/breem/>

<sup>12</sup> European Commission, "Nearly zero-energy buildings", at: [https://energy.ec.europa.eu/topics/energy-efficiency/energy-efficientbuildings/nearly-zero-energy-buildings\\_en](https://energy.ec.europa.eu/topics/energy-efficiency/energy-efficientbuildings/nearly-zero-energy-buildings_en)

performance of buildings and further encourages Farys to target assets in the top 15% most energy-efficient buildings in the local context or target an additional 10% on top of the NZEB requirement for buildings to be financed under the Framework.

- Renovation of existing buildings that lead to a minimum 30% improvement in energy consumption compared to pre-renovation levels. Farys has confirmed to Sustainalytics that only expenditures related to retrofits will be financed, unless a building achieves an eligible level of certification as a result of the retrofit, in which case the expenditures related to the retrofit and the asset value of the building can be financed. This is in line with market practice.
- Under the Renewable Energy category, Farys may finance or refinance development of renewable energy projects in accordance with the following criteria:
  - Solar photovoltaic projects.
  - Geothermal projects with direct emissions intensity below 100 gCO<sub>2</sub>e/kWh.
  - Sustainalytics considers investments under this category to be in line with market practice.
- Under the Clean Transportation category, Farys may finance or refinance: i) passenger vehicles with zero emissions; and ii) installation of EV charging points and electric grid infrastructure, such as electric grid connection upgrades. Farys has confirmed that the Framework excludes the financing of parking infrastructure. Sustainalytics considers investments under this category to be in line with market practice.
- Project Evaluation and Selection:
  - Farys' Management Committee will be responsible for the evaluation and selection of eligible projects in line with the Framework's eligibility criteria. The committee comprises the CEO, vice CEO, two directors and one executive manager.
  - The Company has established an ESG risk management process to identify and mitigate environmental and social risks associated with projects and activities that may be financed under the Framework, overseen by the committee. For additional details on risk management systems, please refer to Section 2.
  - Based on the establishment of a managing committee and presence of environmental and social risk management systems, Sustainalytics considers this process to be in line with market practice.
- Management of Proceeds:
  - Farys' Finance and Transaction department will be responsible for the management and allocation of proceeds to eligible projects using a portfolio approach. The Company will track and report the allocation of proceeds through an internal tracking system, using a balance sheet for all green assets and liabilities. The allocation of proceeds will be reviewed on a quarterly basis, until full allocation by Farys Group's executive committee.
  - The Company intends to fully allocate net proceeds within 24 months of issuance of each finance instrument. Unallocated proceeds will be temporarily held in cash or cash equivalents, in accordance with Farys' treasury criteria.
  - Based on the use of a tracking system and the disclosure of temporary use of proceeds, Sustainalytics considers this process to be in line with market practice.
- Reporting:
  - Farys will report on allocation of proceeds and its impact on an annual basis until full allocation of bond and loan proceeds, and will make the reports publicly available on its website.
  - Farys will appoint an independent verifier to review the annual allocation report following issuance.
  - Allocation reporting will include: i) an overview of the green finance instruments issued under the Framework; ii) the total amount outstanding of issued green finance instruments (in EUR); iii) the total amount of investments and expenditures in the eligible green assets on the balance sheet; and iv) the amount of unallocated proceeds (if any).
  - Impact Reporting will include, where feasible: i) number of drinking water pipes (in km); ii) number of sewerage pipes which are part of the investments (in km); iii) number of inhabitants who are connected to a sewer water treatment plant as compared to the total number of inhabitants; iv) number of inhabitants connected to a sewerage network as compared to the total number of inhabitants; v) numbers of shareholders whose territory has a rainwater and

- drought plan drawn up; vi) number of individual wastewater treatment systems; vii) amount of reduction in nitrogen and phosphorus<sup>13</sup> counted in terms of population equivalents; viii) amount of scope 1, 2 and 3 emissions; and ix) energy consumption from renewable energy sources.
- Based on the allocation and impact reporting commitments, Sustainalytics considers this process to be in line with market practice.

### Alignment with the Green Bond Principles 2021 and Green Loan Principles 2023

Sustainalytics has determined that the Farys Green Finance Framework aligns with the four core components of the GBP and GLP.

## Section 2: Sustainability Strategy of Farys

### Contribution to Farys' sustainability strategy

Farys established its overarching Strategy 2019-2025 Working Together for the Future, which outlines its commitment to supplying affordable, high-quality drinking water, while implementing sustainable and circular water distribution and wastewater treatment systems.<sup>14</sup>

Farys supplies drinking water to 61 municipalities in the Flemish region, with a 12,500 km network of pipes and reservoirs supplying drinking water to 1.4 million inhabitants in 2022.<sup>15</sup> Approximately 75% of Farys' water sources come from surface water, which is experiencing scarcity after extended periods of drought.<sup>16</sup> To try to address this issue, Farys invested EUR 51.2 million in potable water production plants, circulating water systems, as well as technologies such as aquifer storage and recovery, leak detection equipment and digital water meters in 2023.<sup>17</sup> The Company has set a target to reduce leakages by 0.5% a year.<sup>18</sup> The Company is also developing aquifer storage and recovery technology, which allows for the optimization and diversification of water sources by storing excess surface water underground during the winter to compensate during water shortages in the dry season.<sup>19</sup> To improve water use efficiency, Farys aims to digitalize all water meters by 2030, with 8,000 meters installed in 2022 through a pilot project.<sup>20</sup> In 2020, the Government of Flanders launched the Blue Deal plan, which sets out more than 70 measures to mitigate the impacts of floods, water shortages and droughts, and aims to create a circular approach to water use to make municipalities more resilient to climate change.<sup>21</sup> The water management initiatives include reducing leakage losses in locks and water networks, increasing rainwater collection and reuse, and generating investments for these initiatives.<sup>22</sup> Based on the Blue Deal, Waterunie, a collaboration between Farys and De Watergroep, launched two pilot projects in 2023, namely: i) Deeper Blue, development of a wastewater-to-drinking water treatment plant in Aalst;<sup>23</sup> and ii) BattEAU, development of aquifers storage and recovery of groundwater uses existing wells in Gijzegem and Oudenaarde.<sup>24</sup>

Regarding sewage treatment, Farys provides 52 municipalities with services related to the maintenance and investment in sanitation infrastructure.<sup>25</sup> Farys currently manages 7,600 km of sewage pipelines, 675 sewage pumping stations and 2,817 individual wastewater treatment facilities.<sup>26</sup> The Company invested EUR 117,4 million in the improvement and maintenance of sewage treatment facilities in 2023.<sup>27</sup> In 2022, the Government of Flanders adopted the River Basin Management Plan Scheldt and Meuse, with the aim of establishing a healthy and robust water system that absorbs the impacts of climate change, protects ecosystems and improves their functions and services between 2022 and 2027.<sup>28</sup> The plan set nitrogen and

<sup>13</sup> These are in alignment with the European Water Framework Directive.

<sup>14</sup> Farys, "Klimaatactieplan", at: <https://www.farys.be/sites/farys/files/media/documents/2023-05-25%20RvB%20Farys%20-%20Bijlage%20bij%20punt%208.2.%20Klimaatactieplan%202023.pdf>

<sup>15</sup> Farys shared its Visienota Drinkwater document with Sustainalytics confidentially.

<sup>16</sup> Ibid.

<sup>17</sup> Farys shared the information with Sustainalytics confidentially.

<sup>18</sup> Farys shared the information with Sustainalytics confidentially.

<sup>19</sup> Farys shared its Visienota Drinkwater document with Sustainalytics confidentially.

<sup>20</sup> Farys, "Jaarverslag 2022", at: <https://www.farys.be/nl/file-download/download/public/3939721>

<sup>21</sup> The Coordination Committee for Integrated Water Policy, "About Blue Deal", at: <https://bluedeal.integraalwaterbeleid.be/about-blue-deal>

<sup>22</sup> Ibid.

<sup>23</sup> Flanders Environment Agency, "DEEPER BLUE - DEEP buffering for Effluent Reuse, (2023), at: <https://www.vmm.be/water/blue-deal/projecten-hergebruik-effluent/effluentprojecten/deeper-blue-deep-buffering-for-effluent-reuse>

<sup>24</sup> Flanders Environment Agency, "BattEAU: Ondergrondse winterzomerbatterij voor drinkwater", (2023), at: <https://www.vmm.be/water/projecten/circulair-water/batteau>

<sup>25</sup> Farys, "Jaarverslag 2022", at: <https://www.farys.be/nl/file-download/download/public/3939721>

<sup>26</sup> Farys shared its Visienota Rioolbeheer document with Sustainalytics confidentially.

<sup>27</sup> Farys shared the information with Sustainalytics confidentially.

<sup>28</sup> Government of Flanders, "River Basin Management Plan Scheldt and Meuse 2022-2027", at: <https://sgbp.integraalwaterbeleid.be/beheerplan/nts-engels-rbmp3-web.pdf>

phosphorus reduction targets to address water pollution in surface water bodies, and to achieve this, Farys has set a milestone of achieving a minimum clean-up rate of 50% in all the municipalities it serves by 2027.<sup>29</sup> This will require 1,480 new individual wastewater treatment facilities and 396 new individual treatment systems to be installed between 2024 and 2027.<sup>30</sup>

Sustainalytics is of the opinion that the Farys Green Finance Framework is aligned with the Company's overall sustainability strategy and initiatives and will further Farys' action on its key environmental priorities.

### Approach to managing environmental and social risks associated with the projects

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

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

- Farys sets out five criteria for assessing the environmental and social aspects of new projects and investments focused on assessing impacts on: i) climate resilience; ii) water availability; iii) security of supply; iv) environment; and v) costs, including indirect social costs. These provide guidance on considering and mitigating potential environmental and social risks associated with the projects from the conceptual stage through to project development and post-implementation management.<sup>31</sup>
- Regarding biodiversity and land use risks associated with large-scale infrastructure projects, Farys conforms with the EU legislation, including the Environmental Impact Assessment (EIA) Directive (2014/52/EU), which requires all projects with potentially significant environmental impacts to be properly assessed before approval. With regard to the protection of biodiversity, the Directive requires measures be taken to avoid, prevent, reduce and, where possible, offset significant adverse effects on the environment, in particular on species and habitats. Regarding land use, the EIA Directive requires projects to identify, describe and assess impacts related to land use.<sup>32</sup> Farys includes in all its project site maintenance agreements provisions relating to biodiversity conservation and ecological management.<sup>33</sup>
- To manage emissions, effluents and waste, the Company is required to follow the applicable EU guidelines and regulations, such as the EU Construction and Demolition Waste Protocol and Guidelines,<sup>34</sup> the EU Waste Framework Directive,<sup>35</sup> the Waste Electrical and Electronic Equipment Directive<sup>36</sup> and the European Waste Shipment Regulation.<sup>37</sup> These instruments require waste management to be carried out without endangering human health or causing harm to the environment.<sup>38</sup>
- Regarding the management of OHS, Belgium has transposed the European Framework Directive on Safety and Health at Work in its national legislation.<sup>39</sup> With respect to OHS, Farys complies with the national legislation, which requires employers to take the necessary measures to protect the safety and health of workers, including the prevention of occupational risks and the provision of adequate

<sup>29</sup> Farys shared its Visienota Rioolbeheer document with Sustainalytics confidentially.

<sup>30</sup> Ibid.

<sup>31</sup> Farys shared Visienota Drinkwater document with Sustainalytics confidentially.

<sup>32</sup> European Parliament, "Directive 2014/52/EU on the assessment of the effects of certain public and private projects on the environment", (2014), at: <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=celex%3A32014L0052>.

<sup>33</sup> Farys, "Klimaatactieplan", at: <https://www.farys.be/sites/farys/files/media/documents/2023-05-25%20RvB%20Farys%20-%20Bijlage%20bij%20punt%208.2.%20Klimaatactieplan%202023.pdf>

<sup>34</sup> European Commission, "EU Construction and Demolition Waste Protocol and Guidelines", (2018), at: [https://single-market-economy.ec.europa.eu/news/eu-construction-and-demolition-waste-protocol-2018-09-18\\_en](https://single-market-economy.ec.europa.eu/news/eu-construction-and-demolition-waste-protocol-2018-09-18_en)

<sup>35</sup> European Parliament, "Directive 2008/98/EC of the European Parliament and of the Council of 19 November 2008 on waste and repealing certain Directives", at: <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32008L0098>

<sup>36</sup> European Parliament, "Directive 2012/19/EU of the European Parliament and of the Council of 4 July 2012 on waste electrical and electronic equipment (WEEE)", (2012), at: <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:32012L0019>

<sup>37</sup> European Parliament, "Regulation (EC) No 1013/2006 of the European Parliament and of the Council of 14 June 2006 on shipments of waste", at: <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=celex%3A32006R1013>

<sup>38</sup> European Commission, "Waste Framework Directive", at: [https://environment.ec.europa.eu/topics/waste-and-recycling/waste-framework-directive\\_en](https://environment.ec.europa.eu/topics/waste-and-recycling/waste-framework-directive_en)

<sup>39</sup> European Commission, "Evaluation of the practical implementation of the EU occupational safety and health (OSH) directives in EU Member States", (2015), at: <https://ec.europa.eu/social/BlobServlet?docId=16895&langId=en>

information and training.<sup>40</sup> The Company also a safety management system to manage OHS risks, which provides guidelines and programmes for risk assessment, safety policies and procedures, training, safety equipment and controls, monitoring and compliance, and emergency preparedness.<sup>41</sup>

- To address issues related to water supply reliability and water quality, in addition to complying with all relevant European and Flemish government regulations on quality control and regular analysis of drinking water, Farys carries out all quality control in its laboratory, which complies with ISO 17025.<sup>42</sup> This standard is also incorporated into the laboratory's quality management system, approved by the Government of Flanders and accredited by BELAC.<sup>43</sup> In addition, the laboratory is VLAREL<sup>44</sup> accredited by the Flemish Government for the water sector, a regulation on accreditation in the living environment sector.
- To manage risks associated with community relations and stakeholder participation, Farys has communication procedures in place regarding drinking water supplies for customers.<sup>45</sup> In the event of unforeseen interruptions to drinking water supplies, the Company has established protocols for communicating with the relevant communities and media.
- Sustainalytics further notes that Farys operates in Belgium, which is recognized as a Designated Country by the Equator Principles, demonstrating robust environmental and social governance systems, legislation and institutional capacity to mitigate common environment and social risks associated with the projects financed under the Framework.<sup>46</sup>

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

### Section 3: Impact of Use of Proceeds

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

#### Importance of financing sustainable water and wastewater management in Belgium

According to the European Commission, water scarcity directly affected approximately 11% of the population in Europe in 2022,<sup>47</sup> with more than 16 million people still lacking access to basic drinking water and more than 31 million people in need of basic sanitation in the European region.<sup>48</sup> In 2019, Belgium was ranked 18 out of 164 countries, third highest in Europe, in the extremely high-risk category for countries facing water scarcity.<sup>49</sup> Belgium is heavily dependent on rainfall as its rivers only account for 40% of the country's freshwater availability.<sup>50</sup> Belgium overall and the Flanders region in particular, have a very low water availability per capita due to a combination of high population density and limited presence of surface and groundwater.<sup>51</sup> In addition, as a result of climate change, the average location in Flanders is likely to experience a further decline in the minimum groundwater level, exacerbating the already threatened dependence on groundwater.<sup>52</sup> For phreatic groundwater extractions in Belgium, the number of vulnerable groundwater extractions may increase by 10% in 2030 and 24% in 2100, as compared to the situation in 2023.<sup>53</sup> Furthermore, the occurrence of low water flows, dry watercourses and water buffers are likely to increase by 2100, leading to poorer water quality and a decrease in drinking water supply.<sup>54</sup>

<sup>40</sup> Council of the European Communities, "Council Directive of 12 June 1989 on the introduction of measures to encourage improvements in the safety and health of workers at work", (1989), at: <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:31989L0391&from=EN>

<sup>41</sup> Farys shared the information with Sustainalytics confidentially.

<sup>42</sup> Farys shared the information with Sustainalytics confidentially.

<sup>43</sup> FPS Economy, "Accreditation", at: <https://economie.fgov.be/en/themes/quality-and-safety/accreditation>

<sup>44</sup> Government of Flanders, "VLAREL", at: <https://navigator.emis.vito.be/detail?wold=38542&woLang=en>

<sup>45</sup> Farys shared the information with Sustainalytics confidentially.

<sup>46</sup> Equator Principles, "Designated and Non-Designated Countries", at: <https://equator-principles.com/about-the-equator-principles/>

<sup>47</sup> European Commission, "Safer Drinking Water For All Europeans", (2022), at: <https://circabc.europa.eu/ui/group/1c566741-ee2f-41e7-a915-7bd88bae7c03/library/c2acf520-37a2-41fb-889e-f71517c30815/details?download=true>

<sup>48</sup> World Health Organization, "Water and Sanitation", at: [https://www.who.int/europe/health-topics/water-sanitation-and-hygiene-wash#tab=tab\\_2](https://www.who.int/europe/health-topics/water-sanitation-and-hygiene-wash#tab=tab_2)

<sup>49</sup> Kuzma, S. (2023), "25 Countries, Housing One-quarter of the Population, Face Extremely High Water Stress", World Resources Institute, at: <https://www.wri.org/insights/highest-water-stressed-countries>

<sup>50</sup> European Commission, "Environmental Implementation Review 2022 – Belgium", (2022), at: <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52022SC0261>

<sup>51</sup> Flanders Environment Agency, "Droogte", at: <https://klimaat.vmm.be/themas/droogte#section-6>

<sup>52</sup> Ibid.

<sup>53</sup> Flanders Environment Agency, "Grondwater", at: <https://klimaat.vmm.be/themas/grondwater#section-2>

<sup>54</sup> Flanders Environment Agency, "Droogte", at: <https://klimaat.vmm.be/themas/droogte#section-6>



To limit water scarcity and drought related issues in the Flemish region, the Flemish government launched the Blue Deal in 2020, which focuses on smart and sustainable water use. The Blue Deal is a part of the Flemish Resilience Recovery Plan, which as a total budget of EUR 343 million, focusing on three key themes: i) smart water use (using alternative water sources such as rainwater, wharf water); ii) wet nature (restoring peatlands, swamp forests, valleys and marsh areas); and iii) green-blue infrastructure (nature-based solutions combining green and blue elements of environment together, using grasslands, parks, green facades, ponds, water banks).<sup>55</sup> The Flemish government has also set up a high level task force to monitor the progress of the Blue Deal.<sup>56</sup>

Based on the above, Sustainalytics is of the opinion that Farys’ investments in drinking water and wastewater treatment will contribute to the improved access to clean drinking water and sanitation in the Flemish Region.

### Contribution to SDGs

The Sustainable Development Goals were adopted in September 2015 by the United Nations General Assembly and form part of an agenda for achieving sustainable development by 2030. The instruments issued under the Farys Green Finance Framework are expected to help advance the following SDGs and targets:

Use of Proceeds Category	SDG	SDG target
Sustainable Water and Wastewater Management	6. Clean Water and Sanitation	6.3 By 2030, improve water quality by reducing pollution, eliminating dumping and minimizing release of hazardous chemicals and materials, halving the proportion of untreated wastewater and substantially increasing recycling and safe reuse globally
Energy Efficiency	7. Energy Efficiency	7.3 By 2030, double the global rate of improvement in energy efficiency
Green Buildings	9. Industry, Innovation and Infrastructure	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
Renewable Energy	7. Affordable and Clean Energy	7.2 By 2030, increase substantially the share of renewable energy in the global energy mix
Clean Transportation	11. Sustainable Cities and Communities	11.2 By 2030, provide access to safe, affordable, accessible and sustainable transport systems for all, improving road safety, notably by expanding public transport, with special attention to the needs of those in vulnerable situations, women, children, persons with disabilities and older persons

<sup>55</sup> The Coordination Committee for Integrated Water Policy, “About Blue Deal”, at: <https://bluedeal.integraalwaterbeleid.be/about-blue-deal>

<sup>56</sup> Ibid.

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## **Conclusion**

Farys has developed the Farys Green Finance Framework, under which it may issue or obtain green bonds, green notes, green private debt placements and green term loans and use the proceeds to finance projects or activities under the following categories Sustainable Water and Wastewater Management, Energy Efficiency, Green Buildings, Renewable Energy, and Clean Transportation. Sustainalytics considers that the projects funded by the proceeds are expected to provide a positive environmental impact.

The Farys Green Finance Framework outlines a process by which proceeds will be tracked, allocated and managed, and commitments have been made for reporting on the allocation and impact of the use of proceeds. Furthermore, Sustainalytics believes that the Farys Green Finance Framework is aligned with the overall sustainability strategy of Farys and that the use of proceeds categories will contribute to the advancement of UN Sustainable Development Goals 6, 7, 9 and 11. Additionally, Sustainalytics is of the opinion that Farys has adequate measures to identify, manage and mitigate environmental and social risks commonly associated with the eligible projects funded by the proceeds.

Based on the above, Sustainalytics is confident that Farys is well positioned to issue or obtain green bonds and loans and that the Farys Green Finance Framework is robust, transparent and in alignment with the four core components of the Green Bond Principles (2021) and Green Loan Principles (2023).

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