



Corporate Policy

# *Financial Affairs*



## **1 OBJECTIVE**

The purpose of this policy is to describe concepts, criteria and define responsibilities for managing financial resources, contracting financing, securities or other financial instruments.

## **2 APPLICATION**

This Policy is applicable to FORESEA, including their subsidiaries that do not have a Board of Directors, to all members, Officers and members of the Board of Directors, in any jurisdiction.

In addition, this Policy serves as a guide for the members of the boards of directors appointed by FORESEA, in subsidiaries or affiliates, so that, in line with all other directors, they approve and implement a policy on financial affairs containing the principles, concepts and all other guidelines defined and explained in this policy, without neglecting, however, to promote the complements and other guidelines which are necessary for adaptation to the characteristics of their respective businesses and to the contributions of all other directors.

## **3 ACRONYMS AND DEFINITIONS**

**CA-FORESEA:** Board of Directors of FORESEA. Executive collegiate, deliberative body, responsible for approving the strategic direction and monitoring the company's performance, deliberating on other matters within its competence and exercising the control functions that are relevant to them.

**CEO:** Chief Executive Officer, is responsible for FORESEA 's external representation.

**COMEX:** Executive Committee.

**Control:** as defined by the Accounting Pronouncements Committee – CPC 18.

**Cross default clauses:** These determine that the debtor will be in a default status in the agreement every time they fail to fulfill any other obligations in other agreements.

**Clear market clauses:** These inhibit the debt issuer and/or their shareholders and subsidiaries from going to the market while the structuring of a financing operation is in progress.

**Finance & Investment Committee:** advisory committee to CA-FORESEA.

**Hedge:** It consists of assuming a long or short position in a derivative (Futures, Options, Forwards) or investment, aiming to minimize or eliminate the risk of other assets such as: commodities, currencies and stocks.

**Hedge Accounting:** Accounting practice whose purpose is to offset the mark-to-market movement of the derivative in the profit and loss account.

**Horiens:** a risk consulting and insurance solutions company that supports FORESEA in risk, security and insurance matters.

**Rating:** Note that the credit risk agencies assign an issuer (country or company) according to their ability to repay a debt. It is good for investors to know the risk rating.

**Risk Committee:** support committee for the President of FORESEA.



**Risk:** effect of uncertainty in achieving objectives, characterized by deviations from positive or negative expectations. Risk is often expressed in terms of a combination of the consequences of an event and the associated probability of occurrence.

**VP:** Vice President of the company.

## **4 DESCRIPTION**

### **4.1 Basic Concepts**

FORESEA's qualified growth considers the need to preserve their financial and equity strength and, additionally, assumes a continuous capacity to:

- enable structured financing and working capital for projects;
- equity contribution for projects; and
- provision of guarantees in required operations.

FORESEA's credit capacity with financial institutions, insurance companies and investors is finite and, due to its impact on maintaining the course of survival, growth and perpetuity, it is addressed as an intangible asset that is essential for FORESEA. In this context, it is essential that *using the credit capacity* is in line with the *qualified growth strategy*.

FORESEA's performance in structured projects that demand their own and third-party resources, assumes, in each project, pursuing the segregation of risks and their own credit capacity, i.e., minimize the financial commitment and the commitment of securities.

It is FORESEA's goal to have independent, self-sustainable projects, therefore any securities with appeal against FORESEA's assets must be explicitly detailed in the proposed resolutions.

The securities provided by FORESEA, if enforced, represent a risk to the shareholders' assets and do not have the indemnity nature of insurance. The securities can be provided through FORESEA's corporate endorsement or through an instrument issued by third parties (insurance companies or financial institutions). In the latter case, counter-guarantees are required from the borrower (guarantor), allowing the insurance company or the financial institution issuing the security to reach FORESEA's assets in the event of execution ("Indemnity Agreements").

The competencies for contracting financial operations and providing securities respect the authority limits established in FORESEA's Articles of Incorporation, in FORESEA's Policy on Corporate Governance and in this Policy.

### **4.2 Financial Health**

FORESEA's financial health is ensured by adapting the liquidity and dimensioning of corporate indebtedness and contingent securities vis-à-vis the generation of operating cash and dividends.

For FORESEA, financial health is sufficient and necessary for:

- preserving the liquidity and solvency of the projects and FORESEA;
- permanent and growing creation of value for shareholders; and



- maintenance of the normal course of their operations, with no need for circumstantial contributions of resources by shareholders.

FORESEA's financial macro equation foresees, whenever possible, the maintenance of financial resources available to FORESEA in the volume necessary for maintaining operations. It is incumbent upon the CEO of FORESEA to state the proposed financial macro equation for the approval of CA-FORESEA.

The macro indicators of the structured projects are presented at the meetings of the Financial & Investment Committee (CFI) of CA-FORESEA, together with FORESEA's financial macro equation.

### **4.3 Foreign Currency and Monetary Risk Management**

FORESEA operates in multiple currencies and with multiple correction indexes. Due to this, the cash flow and the economic result of the operations are subject to fluctuations and volatility in exchange rates, interest and price indexes.

The reduced volatility on Cash flow and Result is permanently sought using the following instruments:

- preferably, within the scope of agreements with customers and capital providers, parity of asset and liability flows in the same currency and/or index; and
- once the alternatives to achieve the aforementioned goal have been exhausted, contracting hedging instruments with financial institutions which allow the recomposition of the parity of asset and liability flows, without including further risks to FORESEA.

Under no circumstances is the hedge contracted without having a cash flow to be protected as a corresponding entry.

Obtaining results of a speculative nature primarily through the arbitrage of currencies, interest rates or asset prices is not a goal of FORESEA and, therefore, it is not delegated to their CEO.

The accounting practice of Hedge Accounting is adopted, whenever applicable, ensuring proper economic balance of expenses and revenues arising from hedge transactions.

When evaluating operations, the risks related to the cash flow projection over a horizon of at least 12 months are observed.

#### **4.3.1 General Guidelines**

When contracting hedge transactions, the following are preferably used:

- financial institutions considered solid, as the other parties; and
- basic instruments that have high liquidity.

It is incumbent upon the CEO of FORESEA, with the support of the Finance & Investments VP:

- to assess whether protection should be contracted individually per project, subject to the benefits of offsetting asset and liability exposures within a group of income centers; and



- to have full knowledge of the operation and risks involved in the hedge instruments contracted, including the measurement of economic-financial, accounting and legal effects.

#### **4.4 Management of Financial Cash and Cash Equivalents**

FORESEA's financial cash and cash equivalents are allocated with a view to ensuring an adequate level of liquidity for the operation, monetizing cash balances through financial investments ensuring consistent risk and liquidity, and reduce other party risk.

##### **4.4.1 General Guidelines for Financial Investments**

FORESEA companies' cash and cash equivalents are invested with priority for short-term liquidity. Any surpluses of cash and cash equivalents are allocated, as a priority, to financial investments with financial institutions primarily offering yield security, with priority given to those offering credit limits.

The following guidelines are observed in asset operations:

- Full knowledge of all risks involved in the operations;
- Diversification among financial institutions, avoiding excessive concentrations;
- Not making financial investments that could result in loss of principal in the respective currency of the investment, such as investments in banknotes, securities, crypto assets and funds containing assets with variable income, except for the investments provided for in item 4.4.3. Eligible Investments; and
- Financial investments containing embedded derivative instruments are only made when there is hedging purpose.

##### **4.4.2 Management of Other Parties Risk**

When defining other parties which are eligible for financial investments, the Credit Risk Rating of the Other Party is checked by a specialized agency (local long-term rating for Brazilian institutions, and global rating for international institutions) and the concentration of exposure with the other party.

The following criteria are observed:

- Only financial institutions and/or issuers of bonds and securities whose classification agency rating is equal to or greater than the Minimum Rating are accepted as other parties (Annex 1 – Minimum Ratings Table).
- The exposure of FORESEA's cash and cash equivalents to another party must respect a percentage ratio (in relation to total cash and cash equivalents) lower than a concentration index, which varies depending on the other party's rating (Annex 2 – Exposure Limits Tables).



- FORESEA's exposure to a given other party cannot exceed a percentage in relation to the owners' equity of the other party, which varies depending on the other party's rating (Annex 2 – Exposure Limits Tables).
- The diversification of investments, respecting the previous conditions, is applied for a corporate cash balance from US\$ 50 million. If corporate cash is below this value, the concentration of investments in a single institution is allowed, provided its rating is equal to or greater than the Minimum Rating.

#### **4.4.3 Allowed Investments**

The decision for investment products analyzes the best conditions among the following options:

- Certificates of deposit and securities from financial institutions;
- Sovereign and corporate bonds (domestic and foreign);
- Quotas of low or very low risk liquidity funds and/or investment funds, according to the classification presented by the financial institution in the investment leaflet;
- Quotas of foreign exchange investment funds, when for temporary exchange protection of the amount invested vis a vis commitments undertaken by the operation;
- Committed operations backed by sovereign or corporate bonds (domestic or foreign); and
- Other instruments with characteristics and risks similar to those mentioned above.

Financial investments in sovereign bonds of the Brazilian government are considered a local AAA rating and are not subject to the exposure limits defined in item 4.4.2. Management of Other Parties Risk.

For financial investments in an investment fund, the following guidelines are observed:

- Only those managed by third parties and whose investment portfolio complies with the provisions of this Policy are accepted;
- The portion allocated to third-party corporate bonds, at market value, does not exceed 10% of total cash and cash equivalents;
- The portion allocated to non-exclusive or common investment funds does not exceed 20% of total cash; and
- Investments made by an exclusive investment fund comply with the terms established in this Policy. It is considered the fund's rating, also subject to the limit of the Owners' Equity of the investment fund, in accordance with item 4.4.2 Management of Other Parties Risk.

#### **4.4.4 Non-Allowed Investments**

The following investment products **are not allowed** for allocation of FORESEA's cash and cash equivalents:

- Shares and/or variable income securities that may cause financial loss;



- Future contracts (including commodities) and/or derivatives of a speculative nature, with no operating cash flow associated;
- Quotas in foreign exchange investment funds, when of a purely speculative nature;
- Direct or indirect purchase of cryptocurrencies of any kind; and
- Financial instruments that financially leverage their investments, aiming at increasing return.

The list of non-allowed investments is not exhaustive and, in case of any questions, the Corporate Treasury team should be consulted.

#### **4.4.5 Limits, Levels and Breaches**

It is incumbent upon the Person in Charge of Corporate Treasury, by delegation of the Finance & Investments VP, to perform the financial operations provided for in this section, monitor and adjust exposures according to risk limits.

Liability breaches are understood as those caused by reasons exogenous to FORESEA, such as downgrading the rating of other parties to levels below those acceptable under the terms of this Policy.

Asset breaches are those caused by FORESEA's direct action, such as redemptions of financial investments with a certain other party, thus increasing the concentration limit in all other parties. In this dynamic context, FORESEA's exposures are evaluated on a monthly basis by the Corporate Treasury team and any breach is addressed as quickly as possible by the Finance & Investments VP, and are reported at the following meeting of FORESEA's COMEX. Breaches that, altogether, exceed the amount of US\$ 50 million are timely reported to the CEO of FORESEA by the Person in Charge of Corporate Treasury, together with a proposal for reclassification.

All financial transactions are made in accordance with the guidelines contained in a specific guideline on limit of levels for payments.

#### **4.5 Relationship with Financial Institutions**

The main purpose of FORESEA's relationship with the financial market is to maintain and expand:

- The funding sources for FORESEA;
- The financial market's understanding of FORESEA's business, providing a more accurate perception of the financial strength of FORESEA and their subsidiaries (including the projects);
- The information about FORESEA and about third parties providing:
  - better performance in the respective segments of activity; and/or
  - in business opportunities, including partnerships, associations and acquisitions;
- The relationship with financial institutions in the world, also using the geographic base of operational activity;



- The competitiveness of transaction costs, including, but not limited to fund-raising costs, commissions, financial investment fees, bank charges and other costs; and
- Sources of reference to potential customers, suppliers, investors, other financial institutions and governments about FORESEA's trustworthiness, principles and history.

The CEO of FORESEA, together with the Finance & Investments VP, in the relationship with financial institutions, seeks to establish an ethical dialogue with a long-term perspective, subject to the criteria provided on the Compliance System.

When selecting financial institutions, the following guidelines are observed:

- Priority to financial solidity, using objective evaluation criteria;
- Objective criteria for evaluating financial solidity alone are not sufficient for selecting a financial institution, they must be added to perception, acuity and sensitivity concerning what happens within the context of the dynamics of such market;
- Formation of long-term partnerships to support FORESEA's operations in Brazil and in other countries; and
- Competencies of the financial institutions in each of the product lines, thus optimizing the allocation of reciprocities.

#### **4.6 Guidelines for Contracting Debts and Guarantees**

Financing operations applicable to FORESEA can be structured and contracted in the following ways:

- Structured Financing, primarily granted based on the cash generation capacity and quality of a given project or segregated asset. This category:
  - may provide for additional and limited support or securities by FORESEA, characterizing a "Limited Recourse Project Finance". In this case, using FORESEA's corporate credit limits with lenders should be only partial.
- **Corporate Financing**, granted based on the full support of FORESEA, in the form of an accommodation, suretyship or security interests, including fiduciary sale, bond or mortgage of assets. Such financing use FORESEA's corporate credit limits with lenders.

##### **4.6.1 Contracting Structured Financing**

Financing operations for business expansion are performed preferably in the category of Structured Financing. Notwithstanding the "non-recourse" nature of the project's shareholders and/or FORESEA, in addition to the lack of an explicit cross default and clear market clause involving FORESEA, all of their other projects, shareholders and their respective affiliates, all debt contracted must be seen as a financial liability, in part, or in its entirety, if FORESEA has corporate control.





If the nature of the project and/or transaction does not allow enabling a Structured Financing (including Project Finance), the following are still sought:

- The segregation of a given section of the project that may be sufficient to break down a portion of the financing into the category “Structured” or Project Finance; and/or
- The structuring of contractual categories preventing or minimizing the accounting consolidation of financial liabilities related to project and/or operation indebtedness.

As it is essential to grant contingent securities from the project’s sponsors, characterizing a “Limited Recourse Project Finance”, the securities must:

- Cover only the performance obligations undertaken by FORESEA within the scope of the agreement with the Customer;
- Be limited to the project construction period or until a period in which the assertiveness of the project’s cash flow is demonstrated;
- Be preferably in the category of Equity Support Agreement, i.e., the project shareholder’s obligation to keep their subsidiary solvent and not to pre-pay the financing obligations;
- Have clearly identified and pre-established exposure limits providing for exclusions that are outside FORESEA’s domain (such as Government and force majeure acts); and
- Have a range limited to FORESEA’s scope.

In the Structured Financing agreements, clauses of early maturity of project debt are prohibited without prior possibility of cure, by the shareholder, through the contribution of funds to the SPE to maintain their liquidity.

The Equity Support Agreement must provide that such contributions may occur, at shareholder’s discretion, in the form of subordinated debt instruments or of any other instrument whose redemption of funds by the shareholder does not depend on a capital reduction of the SPE.

Special attention is given to provisions that may lead to the accumulation of cash and cash equivalents in the SPE, which, had it not been for such provisions, would be liable to be distributed to the shareholders.

Any use of “bridging loans” for adaptation of the cash flow of a project or an Investment only occurs if:

- the commitment of lenders for the long-term loan is assured, or
- the “bridging loan” has securities restricted to the project.

Any exceptionality regarding the contracting of “bridging loans” shall depend on the prior approval in compliance with the scope of delegation established in FORESEA’s Corporate Governance Policy and in this Policy.

Projects involving Structured Financing go through FORESEA’s Risk Committee in advance, in line with the Risk Management Policy and its breakdown into specific guidelines and require Horiens to be involved in the program’s modeling phase, as well as in the negotiation and definition of the terms and conditions agreed in the insurance policies and guarantees.



#### **4.6.2 Contracting Corporate Financing**

If it is not feasible to contract Structured Financing, the contracting of Corporate Financing is preferably sought.

Every project or investment supported by Corporate Financing must prove to be self-sustainable in terms of its ability to pay its liabilities, and consequently waive, in its base case, the execution of the security.

Regardless of whether there are FORESEA financing guarantees or not, segregation of said credit limit should be sought and the option of replacing any guarantee from FORESEA's controlling shareholder should be envisaged, even if this represents a higher financial cost.

It is also forbidden to include in any financing operation, regardless of its modality, cross default, cross guarantees or clear market clauses, whose impacts may go beyond FORESEA's operations and may affect its shareholders and respective affiliates.

#### **4.7 General Provisions**

Should any questions regarding the contents of this Policy on Financial Affairs arise, the Member cannot omit and must seek additional guidelines and clarifications from their direct leader and, if necessary, from FORESEA's Finance & Investments VP or Corporate Treasury team.

#### **4.8 Awareness and Certification**

All FORESEA members and all other audiences covered by this document must be aware of this Policy on Financial Affairs within a maximum of 90 days after the date of approval.

### **5 RESPONSIBILITIES**

#### **5.1 CEO of FORESEA**

It is incumbent upon the CEO of FORESEA:

- The search and/or preservation of the economic-financial self-sustainability;
- The preservation of financial health;
- The preservation and expansion of the financial leverage capacity, and the establishment of the FORESEA's own credit limits with financial institutions; and
- Submit to CA-FORESEA the Resolution Proposals ("RP") for the financial affairs which engagement, as provided for in FORESEA's Articles of Incorporation, in the Corporate Governance Policy or in this Policy, depend on prior approval by CA-FORESEA.



## **5.2 Finance & Investments VP**

The Finance & Investments VP, in line with the CEO of FORESEA, is responsible for:

- The operationalization of this Policy and the implementation, whenever necessary, of Financial Guidelines, Manuals and Procedures applicable to FORESEA, their subsidiaries and, whenever possible, jointly-controlled companies;
- Ensuring support for Leaders in the line of entrepreneurship in the implementation of this Policy, its monitoring and permanent updating;
- The execution and accounting consolidation of FORESEA's Legal Entities;
- Supporting the CEO of FORESEA in the financial affairs;
- Ensuring the updating, development and consolidation of FORESEA's institutional relationship with financial institutions, investors, the insurance market and government entities related to financial affairs;
- Monitoring and expanding the availability of FORESEA's corporate credit limits with lenders and investors;
- Supporting the CEO of FORESEA in the permanent assessment of the impacts on FORESEA's financial macro equation arising from Investments within the scope of the Transaction;
- Supporting the Leaders in the design, structuring and financing of new projects and/or in consolidations, acquisitions and associations;
- Contributing and permanently influencing the training and qualification of those in charge of the financial areas of operations; and
- Maintaining constant dialogue and coordination with Horiens' leaders.

The CEO of FORESEA and the Finance & Investments VP are in charge of ensuring compliance with this Policy by formulating and implementing financial procedures and strategies consistent with the guidelines established by the board of directors and subject to the criteria provided for in the Compliance System Policy.

## **6 REFERENCE DOCUMENTS**

- Policy on Compliance System
- Policy on Corporate Governance
- Policy on Risk Management

## **7 REFERENCE PROCESSES MAPS**

NA



## **8 ANNEXES**

- ANNEX 01 – Minimum Rating
- ANNEX 02 – Exposure Limits Tables
- ANNEX 03 – Ratings Table



### **ANNEX 01 – Minimum Rating**

The Minimum Rating is defined according to the table below or to the global rating of Brazil's sovereign rating, whichever is lower:

<b>Rating Agency</b>	<b>Local Minimum Rating</b>	<b>Global Minimum Rating</b>
Fitch Rating	A+	BBB-
Moody's Investor	A1	Baa3
Standard & Poor's	A+	BBB-



## ANNEX 02 – Exposure Limits Tables

### Limit of Exposure of Cash and Cash Equivalents

Is equivalent to a percentage ratio (in relation to total cash and cash equivalents) lower than a concentration index, which varies depending on the other party's rating.

Local Rating	Limit per Institution
AAA	30%
AA+	25%
AA	20%
AA-	15%
A+	10%

Global Rating	Limit per Institution
AAA	30%
AA+ to AA-	25%
A+ to A	20%
A- to BBB+	15%
BBB to Minimum Rating	10%



### ANNEX 03 – Ratings Table

Moody's		S&P (Standard & Poor's)		Fitch		Category
Long-Term	Short-Term	Long-Term	Short-Term	Long-Term	Short-Term	-
Aaa	P-1	AAA	A-1+	AAA	F1+	Prime
Aa1		AA+		AA+		High degree
Aa2		AA		AA		
Aa3		AA-		AA-		
A1	P-2	A+	A-1	A+	F1	Average high degree
A2		A		A		
A3		A-	A-2	A-	F2	
Baa1	P-3	BBB+	A-3	BBB+	F3	Average low degree
Baa2		BBB		BBB		
Baa3		BBB-		BBB-		
Ba1	Not prime	BB+	B	BB+	B	Speculative non-investment degree
Ba2		BB		BB		
Ba3		BB-		BB-		
B1		B+		B+		Highly speculative
B2		B		B		
B3		B-		B-		
Caa1	Not prime	CCC+	C	CCC	C	Substantial Risk
Caa2		CCC				Extremely speculative
Caa3		CCC-				In moratorium with little expectation of recovery
Ca		CC				
C	C	D	/	DDD	/	In moratorium
/	DD					
/	D					

Fonte/Source: [https://pt.wikipedia.org/wiki/Classifica%C3%A7%C3%A3o\\_de\\_cr%C3%A9dito](https://pt.wikipedia.org/wiki/Classifica%C3%A7%C3%A3o_de_cr%C3%A9dito) acessado em/visited on 26/05/2023