

**PRE-ISSUANCE VERIFIER'S REPORT
(REPORT OF FACTUAL FINDINGS, AGREED-UPON PROCEDURE)**

By VIGEO EIRIS
For Eólica Serra Das Vacas Holding II's 2017 first Green Bond issuance
Based on Climate Bonds Standard version 2.1

SCOPE

Eólica Serra Das Vacas Holding II SA (or the "Issuer") is considering the issuance of its 2017 first Green Bond (or "bond") and intends to use the proceeds to refinance future payments, repayments of expenses and/or payment of debts related to the development of the Eólica Serra das Vacas – phase II wind farm complex, located in the city of Paratama, Pernambuco, Brazil.

PEC Energia is a Brazilian company, founded in 2008, specialized in the development and implementation of renewable energy projects in Brazil. To date, the company's portfolio consists of 15 projects in 9 Brazilian States with the potential to generate 3GW. The Eólica Serra das Vacas – phase II wind farm complex, consists of 2 wind farms with an installed capacity of 50.6MW.

In this context, Vigeo Eiris (or the "Verifier") has been commissioned by the Issuer, as stated in the engagement contract, to perform the Pre-Issuance Verification of this bond, as independent third party provider approved by the Climate Bonds Standard Board.

Vigeo Eiris has conducted its verification in August 2017, based on an Agreed-Upon Procedure, with the aim of assessing the compliance of the Issuer's 2017 first Green Bond with the Climate Bonds Standard version 2.1 for pre-issuance requirements and with associated sector-specific technical criteria, as defined on Climate Bonds Initiative's (or "CBI") website.

The work undertaken by Vigeo Eiris to form this verification statement included:

- Planning and management of the verification.
- Desk review of the bond and associated documentation provided by the Issuer.
- Assessment of evidences provided by the Issuer against the Climate Bonds Standard 2.1.
- Internal quality control on the hereby Verifier's Report and conclusions.
- Provision of Vigeo Eiris' Verifier's Report to the Issuer and to CBI.

The methodology, criteria, findings and assurances addressed by this Report of Factual Findings are detailed below.

RESPONSIBILITIES OF THE ISSUER AND OF VIGEO EIRIS

The responsibility of Vigeo Eiris is to provide an external and independent assurance on the compliance of the Issuer's 2017 Green Bond with the Climate Bonds Standard version 2.1 requirements and associated sector criteria.

This report relies on the information provided by the Issuer to the Verifier: documentation and explanations presented during the assessment, based on the understanding that this information was provided to Vigeo Eiris in good faith. Vigeo Eiris hasn't performed an audit nor other tests to check the accuracy of the information provided by the Issuer.

The Issuer is fully responsible for attesting the compliance with its commitments as defined in its policies, for their implementation and their monitoring, and for the information provided.

SUMMARY OF FACTUAL FINDINGS

This Pre-Issuance Verification has been conducted against the Climate Bond Standard (CBS) version 2.1 requirements:

- Part A: General requirements to be applied to all Climate Bonds.
- Part B: CBI's Sector Criteria for Wind version 1.0.

The verification process is performed in accordance with relevant general principles and professional standards of independent auditing, and in line with the International Standard on Related Services 4400 (ISRS 4400), based on the agreed-upon procedure.

The verification included checking whether the provisions of the CBS 2.1 were consistently and appropriately applied and the collection of evidence supporting the verification. The details and areas covered by the verification are summarized in the following pages (see Verification criteria & findings section).

The proceeds from the Green Bond will be allocated to two wind farms, forming the Eólica Serra das Vacas – phase II wind farm complex, for which environmental objectives have been set in the external review report. These resources will be used for the reimbursements of expenses and/or repayment of debt already made by the Issuer for the building of the two wind farms, and for future payments of expenses related to these projects. These wind farms projects fall into one of the “Energy” area of the Climate Bonds Taxonomy, namely “Wind”. The issuer took the commitment to review the bond after one year to reaffirm conformance with the Climate Bonds Standard.

This Report of factual findings is valid as of the date of issuance limited to the Issuer's 2017 first Green Bond.

Paris, August 11th, 2017



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Disclaimer

Transparency on the relation between Vigeo Eiris and the Issuer: Vigeo Eiris has never executed any audit mission nor consultancy activity for PEC Energia or the Issuer until so far and no established relationship (financial or other) exists between Vigeo Eiris and PEC Energia or the Issuer.

Liability: this Report of factual findings is a document prepared by the Verifier that conveys the Verifier's findings on the bond alignment with the relevant requirements of the Climate Bonds Standard, but it does not provide Climate Bonds Certification itself. Providing these findings does not mean that Vigeo Eiris certifies the tangibility, the excellence or the irreversibility of the projects financed by the Green Bond. No assurance is provided by Vigeo Eiris regarding the financial performance of the Issuer nor of the Bond, nor the value of any investment in the Bond, nor of the environmental footprint of the Bond or the compliance with the commitments taken by the Issuer. Vigeo Eiris cannot be liable for any loss suffered as a result of information or data provided by the Issuer. Vigeo Eiris is not liable for the induced consequences when third parties use this opinion either to make investments decisions or any kind of business transaction.

Restriction on distribution and use of this Assurance Report: this report is provided by Vigeo Eiris to the Issuer and to CBI and can only be used by them. The distribution and publication of this report is at the discretion of the Issuer, submitted to Vigeo Eiris approval.

VERIFICATION CRITERIA & FINDINGS

The supporting elements and explanations supporting the Bond issuance provided by the Issuer to Vigeo Eiris were both historical (for projects evaluation and selection process and Nominated Projects) and hypothetical or projected (for the expected environmental benefits, the proposed financial accounting system, and the monitoring & reporting system associated to the bond, to be implemented over the term of the bond).

The Issuer showed a good responsiveness in providing information to the Verifier. We believe that procedures we have performed and the evidence we have obtained are sufficient and appropriate to provide a basis for our findings.

Summary criteria for assertions of compliance with the Climate Bonds Standard version 2.1

Vigeo Eiris has assessed the Issuer's 2017 first Green Bond and the Nominated Projects against criteria and requirements detailed within the Climate Bonds Standard version 2.1:

- Part A: General requirements to be applied to all Climate Bonds.
 1. Selection of Nominated Projects & Assets.
 2. Internal Processes & Controls.
 3. Reporting Prior to Issuance.
- Part B: CBI's Sector Criteria for Wind version 1.0.

Assessment of the Issuer's 2017 first Green Bond against Pre-Issuance Requirements of Climate Bonds Standard

CBI requirements	Vigeo Eiris' factual findings	Errors or exception
Part A: General Requirements		
1. Selection of Nominated Projects & Assets		
<p>1.1. The Issuer shall establish, document and maintain a decision-making process which it uses to determine the eligibility of the Nominated Projects & Assets.</p>	<p>The debentures' term sheets indicates that the proceeds will be allocated to future payments and/or reimbursements of expenses related to the implementation of two wind farms and dedicated transmission lines: Eólica Serra Das Vacas V and Eólica Serra Das Vacas VII. These two wind farms form the Eólica Serra das Vacas – phase II wind farm complex.</p>	<p>As the Nominated Projects are already identified by the Issuer, there is no mention of decision-making process.</p>
<p>This includes, without limitation: 1.1.1. a statement on the environmental objectives of the bond</p>	<p>The external review report, conducted by the ESG consultant and included in the final pre-issuance Bond disclosure documentation, includes the objectives of the two Nominated Projects which are:</p> <ul style="list-style-type: none"> - The implementation of a total of 22 wind turbines and a total installed capacity of 50,6 MW, and an expected annual generation of 198 GWh. - The reduction of 16.18 thousand tCO₂E per year compared to the average of the Brazilian energy matrix in 2016 (0,0817 tCO₂E/MWh). 	<p>None</p>
<p>1.1.2. a process to determine whether the Nominated Projects & Assets meet the eligibility requirements specified in Part B (Eligibility) of the Climate Bonds Standard</p>	<p>The external review report includes the process for assessment of the eligibility of the Nominated Projects to the CBI's sector-specific criteria. This report confirms that the funds will be " fully allocated to future payments, reimbursements of expenses and/or debt payments related to the implementation of the two wind farms and dedicated transmission line, within Eólica Serra das Vacas – phase II wind farm complex". These projects meet the eligibility requirements of the Climate Bonds Standard as they fall into one of the "Energy" area of the Climate Bonds Taxonomy, namely "Wind" (see Part B).</p>	<p>None</p>
<p>1.2. The Issuer shall assess that all proposed Nominated Projects & Assets to be associated with the bond meet the bond's documented objectives as stated under Clause 1.1 and are likely to conform to the relevant eligibility requirements under Part B of the Climate Bonds Standard.</p>	<p>The external review report presents the results of the assessment process conducted by the ESG consultant on whether the selected projects are aligned to the eligibility requirements. The document also displays the results of the assessment of the social and environmental performance of the projects, regarding defined criteria : the environmental performance is assessed as "confortável¹" by the external consultant.</p>	<p>None</p>

¹ "Confortável" is assigned to the project or company that meets the minimum requirements for compliance with legislation in the specific theme, in addition to being in line with international standards (i.e IFC Performance Standards) and the highest socio-environmental performance, contributing broadly to sustainable development, including commitments to maintain this contribution over the long term. Please refer to page 14 of the Second Party Opinion for more details about the environmental performance methodology.

<p>1.3. The Issuer shall document the Nominated Projects & Assets which are proposed to be associated with the bond and which have been assessed as likely to be Eligible Projects & Assets. The Issuer shall establish a list of Nominated Projects & Assets which can be kept up-to-date during the term of the bond.</p>	<p>The projects have been assessed by an independent ESG consultant. The list of Nominated Projects is disclosed in the external review report and indicates that two wind power projects called Eólica Serra Das Vacas V and Eólica Serra Das Vacas VII, located in the state of Pernambuco, in Brazil, have been assessed likely to be Eligible Projects.</p>	<p>As the two wind farms are already built, the list of Eligible Projects is equivalent to the list of selected projects.</p>
<p>1.4. Nominated Projects & Assets shall not be nominated to other Certified Climate Bonds unless it is demonstrated by the Issuer that distinct portions of the Nominated Projects & Assets are being funded by different Certified Climate Bonds or that the existing Certified Climate Bond is being refinanced via another Climate Bond.</p>	<p>According to Issuer's debentures' term sheet, it is established that the two Nominated Projects have never been nominated to other Climate Bonds listed as such on CBI's database (clause 9.1 cc of the debentures' term sheets).</p>	<p>None</p>
<p>1.5. The expected Net Proceeds of the bond shall be no greater than the Issuer's debt obligation to the proposed Nominated Projects & Assets, or the Fair Market Value of the proposed Nominated Projects & Assets which are owned by the Issuer..</p>	<p>As indicated in the debentures' term sheets, the proceeds amount is identified to be R\$ 52,000,000. These expected net proceeds represent 16,77% of the estimated total amounts of financial resources needed for the Nominated Projects (R\$310,000,000), which is not greater than the Issuer's debt obligation to the Nominated Projects.</p> <p>Remaining resources will be financed by the Brazilian Development Bank (BNDES) and the Issuer's own capital.</p>	<p>None</p>
<p>2. Internal Processes & Controls</p>		
<p>2.1. The systems, policies and processes to be used for management of bond funds and investments made shall be documented by the Issuer and disclosed to the Verifier, and shall include arrangements for the following activities:</p>	<p>The debentures' term sheets and the external review report identify and describe the systems, policies, processes, and controls for the management of bond funds and investments.</p>	<p>None</p>
<p>2.1.1. Tracking of proceeds: The Net Proceeds of the bond can be credited to a sub-account, moved to a subportfolio, or otherwise tracked by the Issuer in an appropriate manner and documented.</p>	<p>As detailed in the debentures' term sheets, the Net Proceeds of the bond will be allocated to Eólica Serra Das Vacas Holding II S.A., sub holding of PEC Energia, the holding that controls the two SPVs, each being dedicated to each of the two Nominated Projects.</p> <p>Each SPV will receive the proceeds in a dedicated centralizing account specifically created for the debenture and which will be operated only by the managing bank.</p> <p>The proceeds will be tracked thanks to their transfer through the two SPVs, this guarantees that all their resources and assets will be destined to the unique purpose of electricity generation from wind power.</p>	<p>Of note, the accounts of the two SPVs will not be verified by a third party.</p>

<p>2.1.2. Managing unallocated proceeds: The balance of unallocated Net Proceeds can be managed as per the requirements in Clause 6.2:</p> <ul style="list-style-type: none"> - 6.2.1. Held in temporary investment instruments that are cash, or cash equivalent instruments, within a Treasury function; or - 6.2.2. Held in temporary investment instruments that do not include greenhouse gas intensive projects which are inconsistent with the delivery of a low carbon and climate resilient economy; or - 6.2.3. Applied to temporarily reduce indebtedness of a revolving nature before being redrawn for investments or disbursements to Nominated Projects & Assets. 	<p>According to the debenture's term sheet, the unallocated proceeds (whenever they won't be destined for reimbursements of expenses) will be allocated in cash equivalent instruments until their allocation.</p>	<p>None</p>
<p>2.1.3. Earmarking funds to Nominated Projects & Assets: An earmarking process that can be used to manage and account for funding to the Nominated Projects & Assets and enables estimation of the share of the Net Proceeds being used for financing and refinancing.</p>	<p>A specific clause has been integrated to the debentures' term sheets avoiding changes in the scope of the original projects and the use of the resources for other reasons than the funding (reimbursements and/or expenditures) related to the Nominated Projects managed via SPVs (clause 3.8). The proceeds will be directly allocated to the two SPVs (through the Issuer), ensuring that all the proceeds will be dedicated to the unique purpose of wind power electricity generation and transmission.</p>	<p>None</p>
<p>3. Reporting Prior to Issuance</p>		
<p>3.1. The Issuer shall disclose in the Bond Disclosure Documentation:</p>	<p>See below.</p>	<p>None</p>
<p>3.1.1. The investment areas, as provided in Clause 9.1, into which the Nominated Projects & Assets fall.</p>	<p>As indicated in the external review report, the Nominated Projects, as wind farm projects, fall in the 'Wind' classification under 'Energy' head of Climate Bonds Taxonomy.</p>	<p>None</p>
<p>3.1.2. The intended types of temporary investment instruments for the management of unallocated proceeds in accordance with Clause 2.1.2.</p>	<p>The intended types of temporary investment instruments for the management of unallocated proceeds, i.e. in cash equivalent instruments, are disclosed in the Bond Disclosure Documentation, in the debentures' term sheet.</p>	<p>None</p>
<p>3.1.3. The Verifier selected by the Issuer for the pre-issuance and the post-issuance engagements.</p>	<p>The approach taken by the Verifier, i.e. a pre-issuance Agreed-Upon Procedure, managed by Vigeo Eiris, is disclosed by the Issuer in Clause 9.1 (ee) of the debentures' term sheet.</p>	<p>None</p>
<p>3.1.4. Whether periodic Assurance Engagements will be undertaken during the term of the bond to reaffirm conformance with the Climate Bonds Standard, and the expected frequency of any periodic Assurance Engagements.</p>	<p>According to the debentures' term sheet, the Issuer commits to review the bond after one year in conformance of the Climate Bonds Standard requirement.</p>	<p>None</p>

Part B: Eligible Projects & Assets

9. Climate Bonds Taxonomy

<p>9.1. Nominated Projects & Assets, as identified by the Issuer under Clauses 1.3 and 4.2, shall fall into one or more of the investment areas contained in the latest version of the Climate Bonds Taxonomy.</p>	<p>All the Nominated Projects fall into one investment area of the Climate Bonds Taxonomy: Wind.</p>	<p>None</p>
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10. Technical Criteria

<p>10.1. Nominated Projects & Assets shall meet the specific eligibility criteria provided in the latest version of the relevant Sector-Specific Criteria document, namely Sector Criteria for Wind (version 1.0): Eligible Projects & Assets relating to wind energy generation shall be projects & assets that operate or are under construction to operate in one or more of the following activities:</p> <ul style="list-style-type: none"> 1.1. The development, construction and operation of wind farms 1.2. Operational production or manufacturing facilities wholly dedicated to wind energy development 1.3. Wholly dedicated transmission infrastructure for wind farms 	<p>As indicated in the external review report, the two Nominated Projects fit to two out of the three sector-specific technical criteria of the Climate Bond Taxonomy:</p> <ul style="list-style-type: none"> - The development, construction and operation of wind farms. - Wholly dedicated transmission infrastructure for wind farms. 	<p>None</p>
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<p>10.2. Where the proceeds of a bond are allocated to Nominated Projects & Assets that are covered by more than one Sector-Specific Criteria (e.g. solar and wind investments in a portfolio), then each of the Nominated Projects & Assets shall meet the specific eligibility criteria provided in the Sector-Specific Criteria relevant to that Nominated Project & Asset.</p>	<p>Not applicable</p>	<p>None</p>
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List of supporting elements provided by the Issuer

- Debentures' term sheets.
- Debentures' external review report.

About Vigeo Eiris

Vigeo Eiris is a global provider of environmental, social and governance (ESG) research to investors and public and private corporates. The agency evaluates the level of integration of sustainability factors into organisations' strategy and operations, and undertakes a risk assessment to assist investors and companies' decision-making. Vigeo Eiris offers two types of services through separate business units:

- **Vigeo Eiris rating** offers databases, sector-based analyses, ratings, benchmarks and portfolio screening, to serve all ethical and responsible investment strategies.
- **Vigeo Eiris enterprise** works with organisations of all sizes, from all sectors, public and private in order to support them in the integration of ESG criteria into their business functions and strategic operations.

Vigeo Eiris methodologies and rating services adhere to the strictest quality standards and have been certified to the independent ARISTA® standard. Vigeo Eiris is CBI (Climate Bonds Initiative) Verifier. Vigeo Eiris' research is referenced in several international scientific publications.

Vigeo Eiris is present in Paris, London, Boston, Brussels, Casablanca, Milan, Montreal, Santiago, Stockholm and Tokyo and has a team of 200. The agency works with partners through its Vigeo Eiris Global Network.

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