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Independent Limited Assurance Report to the Directors of China Three Gorges Corporation

Assurance conclusion

Based on our limited assurance procedures, as described in this statement as of June 1, 2017, nothing has come to our attention that causes us to believe that the bond issuance processes of China Three Gorges Corporation and its indirectly owned subsidiary Three Gorges Finance II (Cayman Islands) Limited (collectively "CTG"), including the use of proceeds, project evaluation and selection, management of proceeds and information disclosure and reporting, in relation to the notes being issued as green bond (the "2017 Green Bond") are not, in all material respects, in accordance with *the Green Bond Principles, 2016* and *Climate Bonds Standard*.

Scope

We have performed a limited assurance engagement in relation to CTG's 2017 Green Bond issuance in order to assure whether the subject matter detailed below meets, in all material respects, the principle as presented below as of June 1, 2017.

Subject Matter

The subject matter for our assurance is the 2017 Green Bond issuance process as set out in *China Three Gorges Corporation Guideline for Green Bond Financing* (the "Green Bond Guideline") including:

- Use of proceeds;
- Project evaluation and selection, including nominated projects and their adherence to the eligibility criteria;
- Policies and procedures for the management of proceeds; and
- Policies and procedures for information disclosure and reporting.

Principles

The principles for our procedures are the *Green Bond Principles, 2016* and *Climate Bonds Standard*.

Green Bond Principles, 2016 is published by the Executive Committee of the Green Bond Principles, with the International Capital Market Association ("ICMA") serving as Secretariat.

Climate Bonds Standard is published by the Climate Bonds Initiative.

Assurance Approach

Our assurance approach was conducted in accordance with the International Standard on Assurance Engagements 3000: *Assurance Engagements Other than Audits or Reviews of Historical Financial Information* ("ISAE 3000").

Management Responsibility

The management of CTG (the "Management") is responsible for:

- Preparation, presentation and implementation in relation to the use of proceeds as described in the Green Bond Guideline in accordance with *the Green Bond Principles, 2016*;
 - Preparation, presentation and implementation of the policies and internal controls (comprising use of proceeds, project evaluation and selection, management of proceeds, and information disclosure and reporting) as described in the Green Bond Guideline in accordance with the *Green Bond Principles, 2016*; and
 - Establishing appropriate risk management and internal controls in relation to the collection, preparation and presentation of data in accordance with the Green Bond Guideline so that it is free from material misstatement, whether due to fraud or error.
- Interviewing selected business unit personnel to understand the key issues in relation to CTG's policies and procedures;
 - Reviewing CTG's policies of project evaluation and selection for CTG's 2017 Green Bond;
 - Reviewing CTG's policies of proceeds management for CTG's 2017 Green Bond;
 - Reviewing CTG's policies of information disclosure and reporting for CTG's 2017 Green Bond;
 - Confirming eligibility of nominated projects for inclusion in CTG's 2017 Green Bond;
 - Checking the accuracy of calculations performed; and
 - Obtaining and reviewing evidence to support key assumptions and other data.

Assurance Practitioner's Responsibility

Our responsibility is to assure the subject matter is presented in accordance with the *Green Bond Principles, 2016*, in all material respects. Our assurance engagement has been planned and performed in accordance with ISAE3000.

Our Approach

Our assurance procedures performed included, but were not limited to:

- Assessing policies and procedures established by CTG in relation to the issuance of CTG's 2017 Green Bond;

Assurance Findings

Use of Proceeds

Our procedures performed included reviewing the Green Bond Guideline, conducting interviews with the Asset Finance Department of CTG, and accessing policies and procedures in the use and management of proceeds according to *Green Bond Principles, 2016*.

Based upon the above procedures, we understand that all the proceeds of the 2017 Green Bond will be used to fund eligible green projects in the renewable energy category, including the production and transmission of renewable energy, and the manufacturing of renewable energy appliances and products; renewable energy include solar energy, wind energy and biomass energy.

Project Evaluation and Selection

Our procedures performed included reviewing the Green Bond Guideline, conducting interviews with the Asset Finance Department of CTG, WindMW Financial Department, ACE Investment Fund LP, accessing policies and procedures on project evaluation and selection, and examining projects documents according to *the Green Bond Principles, 2016*.

Based upon the above procedures, we understand that CTG evaluated and selected projects in the following steps:

A list of project nominations, to be initially shortlisted among different project investment proposals, shall be prepared in accordance with the requirements of the Green Bond Guideline in respect of project classification and assessment criteria. The screening principles and criteria shall be strictly followed and compliance of the selected projects with national laws and regulations and CTG's funds management system shall be ensured. The list of nominated projects shall be reviewed in accordance with the requirements of the Green Bond Guideline in respect of project classification and assessment criteria. The reviewed list of nominated projects and materials relating to green bonds shall undergo an internal approval process and will then be submitted to key management personnel for approval.

Our procedures covered 13 projects under the renewable energy category for which the proceeds may be allocated.

The issue amount matches the eligible part of the investment scale in Project Meerwind and Project ENEOP. A small amount of proceeds will be used to support projects from categories explicitly recognized by *Green Bond Principles*.

We conformed to the international assurance standards and conducted assurance of 13 projects for which the proceeds may be allocated. The 13 projects all come from the category of renewable energy (wind power plants).

Expected environmental benefits of nominated projects are as follows:

- Project Meerwind, consisting of two wind farms Meerwind Süd and Meerwind Ost, is located in the German Bight in the North Sea 23 km north of the island of Helgoland with an installed capacity of 288 MW. The wind farms consist of 80 wind turbines with a power output of 3.6 MW each. The on-grid electricity in 2017 is estimated as of 1,350,900 MWh, which will reduce approximately 1.25 million tCO₂ compared to coal.
- Project ENEOP, consisting of 12 wind farms, is situated off Portugal with an installed capacity of 422.3 MW. The on-grid electricity in 2017 is estimated as of 983,106 MWh, which will reduce approximately 0.96 million tCO₂ compared to coal¹.

¹ The GHG emission reductions are calculated based on the emission factor from "RECOMENDAÇÃO N.º 2/2011 ROTULAGEM DE ENERGIA ELÉTRICA" which was published by ERSE, the Energy Services Regulatory Authority

We reviewed CTG's 2015 Social and Responsibility Report, 2015 Environmental Protection Annual Report and conducted assessment of CTG's management policies, practices and achievements regarding environmental and social integrity and stakeholder engagement. We also conducted interviews with responsible departments and fully examined CTG's performance in areas of social and environmental integrity.

Based upon the above procedures, we understand that CTG has established a management foundation for environmental and social integrity, developed a general working mechanism for information record and management, and was able to disclose information effectively; CTG could provide financial support to other stakeholders and promoted social and environmental development; CTG has published management policies regarding employee, community engagement, and environment, along with customized stakeholder engagement; CTG has carried out environmental and social related work up to the international standards; and CTG has set up social engagement mechanism and could effectively manage its social contribution.

Management of Proceeds

Our procedures performed included reviewing the Green Bond Guideline, conducting interviews with Asset Finance Department of CTG, and accessing policies and procedures in the management of proceeds according to *the Green Bond Principles, 2016*.

Based upon the above procedures, we understand that CTG has established a mechanism to manage the proceeds in the following aspects:

In terms of management of proceeds, CTG will use a designated account to keep record of the source and use of proceeds, and relevant information shall be maintained and updated on a regular basis.

In respect of the allocation of funds, prior to releasing capital to projects, CTG will evaluate, screen and review projects according to the Green Bond Guideline. After release of the fund, allocation of proceeds will be reviewed by CTG on a regular basis in order to make sure that all proceeds are invested in green projects in accordance with the eligibility criteria set out in the Green Bond Guideline.

So long as its 2017 Green Bond is outstanding, unallocated proceeds shall not be invested in greenhouse gas (GHG) intensive, highly polluting nor energy-intensive projects.

Information Disclosure and Reporting

Our procedures performed included reviewing the *China Three Gorges Corporation 2017 Green Bond Offering Circular* and Green Bond Guideline, conducting interviews with Asset Finance Department and Social Responsibility Office accessing the preparation of information disclosure pre- and post-issuance according to *the Green Bond Principles, 2016*.

Based upon the above procedures, we understand that CTG has developed the *China Three Gorges Corporation 2017 Green Bond Offering Circular* and fully prepared itself for the information disclosure; CTG has developed a mechanism for information disclosure and reporting, and intends to disclose 2017 Green Bond information regularly.

Prior to the issuance, CTG engaged us as a qualified third party to conduct 2017 Green Bond pre-issuance assurance so as to make sure that all proceeds are likely to be invested in green projects and that those projects already nominated have sound environmental and social benefits and meet the eligibility criteria set out in the Green Bond Guideline. CTG has clearly defined the project evaluation and selection process, the proceeds management process and the information disclosure process in the *China Three Gorges Corporation 2017 Green Bond Offering Circular*.

So long as its 2017 Green Bond is outstanding, CTG will make and keep readily available up-to-date information on the use of the proceeds and the environmental performance of the eligible green projects on an annual basis on its official website (www.ctg.com.cn/) and through other channels where feasible, such as annual reports or social responsibility report. The following contents will be disclosed annually: 1. a brief description of the eligible green projects to which the 2017 Green Bond proceeds were allocated, and the amount and percentage allocated to each category; 2. the expected environmental impacts of the eligible green projects to which the 2017 Green Bond proceeds have been allocated. CTG will adopt some quantitative performance measures of certain categories, where feasible, and disclose them on an aggregated portfolio basis. The above information will be reviewed by a third party verification body.

Limitations

There are inherent limitations in performing assurance for example, limited assurance engagements are mainly based on enquires and it is possible that fraud, error or non-compliance may occur and not be detected. There are additional inherent risks associated with assurance over non-financial information including reporting against standards which require information to be assured against source data compiled using definitions and estimation methods that are developed by the reporting entity. Finally, adherence to ISAE 3000, and *Green Bond Principles, 2016* is subjective and will be interpreted differently by different stakeholder groups.

Process conducted in the limited assurance, and the scope of this process will be less than that of reasonable assurance. Our assurance work and report will not express an opinion on the effectiveness and performance of CTG's management system and procedure.

Our assurance was limited to the CTG's 2017 Green Bond issuance, and did not include statutory financial statements. Our assurance is limited to policies and procedures in place as of June 1, 2017, ahead of the issuance of CTG's 2017 Green Bond.

Use of Report

Our responsibility in performing our assurance activities is to the directors of CTG only and in accordance with the terms of reference for this engagement as agreed with them. We do not therefore accept or assume any responsibility for any other purpose or to any other person or organization. No statement is made as to

whether the criteria are appropriate for any third party purpose.

requirements. Our team has required competencies and experience for this assurance engagement.

Our Independence and Assurance Team

The firm and all professional personnel involved in this engagement have met the independence requirements of mainland China or International professional ethical

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June 1, 2017