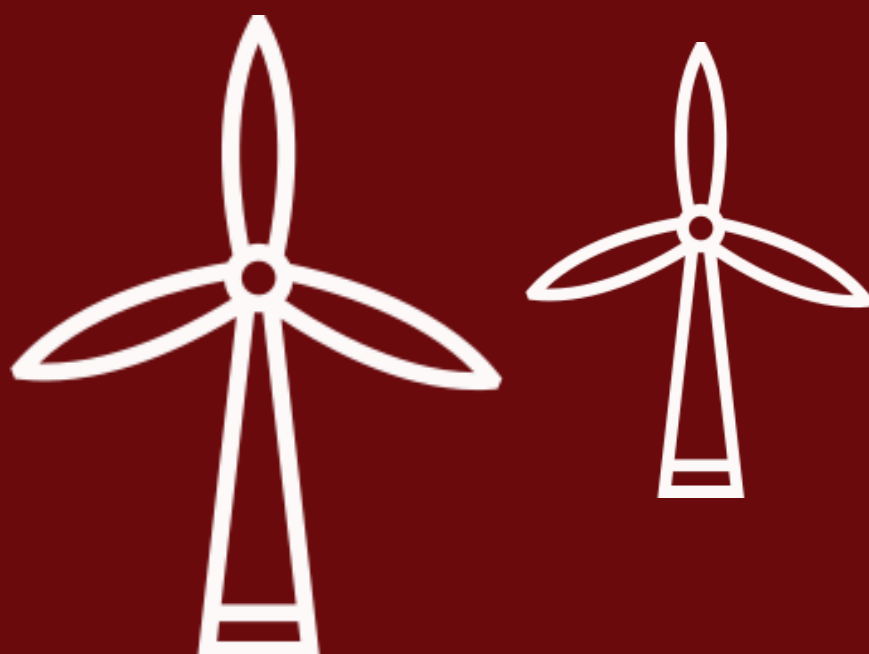


# Assessment Report

Pre-Issuance Reasonable Assessment Engagement

First Climate Bond Issuance of SERRA DO MEL HOLDING S.A. in 2021

*Climate Bond Standard version 3.0 and CBI Wind Energy Criteria (September 2020)*



## About SITAWI

SITAWI Finance for Good is a Brazil-based organization whose mission is to mobilize capital for positive environmental and social impact. We develop financial solutions for social impact and advise the financial sector on how to incorporate environmental and social issues into strategy, risk management and investment analysis. We are one of the 5 best ESG research houses for investors according to Extel Independent Research in Responsible Investment - IRRRI 2019 – and a pioneer in the green bond market in Brazil.

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# 1. Engagement Summary

This Report aims to provide a Pre-Issuance Verification for the Serra do Mel S.A. 2021 First Issuance of Non-convertible Debentures (“Bond”) to be issued by Serra do Mel Holding S.A (“Issuer”), a subsidiary of Echoenergia Participações S.A. (“Echoenergia”), as a Certified Climate Bond. The assessment was conducted by SITAWI Finance for Good (“Verifier”), as an independent third-party provider accredited by the Climate Bonds Standards Board.

The proceeds obtained from the issuance will be used for future expenses and costs related to six wind energy generation projects, namely Vila Alagoas II, Vila Espírito Santo I, Vila Espírito Santo II, Vila Espírito Santo III, Vila Espírito Santo IV e Vila Espírito Santo V. (“Nominated Projects & Assets”).

SITAWI’s assessment method follows the Climate Bonds Standards, Version 3.0<sup>1</sup>. The assessment followed Climate Bond Initiative (CBI)’s general requirements (applicable to all bonds) and the Wind Sector Eligibility Criteria of the Climate Bonds Standard Version 1.2 under the Climate Bonds Standard (Version September 2020).

The assessment process consisted of:

- Planning the assessment;
- Risk Assessment;
- Performing the assessment, including client preparation, obtaining evidences and practitioner assessment;
- Forming the assessment conclusion;
- Preparing the assessment report;
- Submission for CBI certification.

The assessment relied on both confidential and public information and documents provided by Echoenergia, desk research and remote interviews conducted with the sustainability and finance areas. This process was carried out between January 27<sup>th</sup> and February 25<sup>th</sup>, 2021.

The assessment process was performed in accordance with relevant general principles & professional standards of independent auditing, and in line with the International Standard on Assessment Engagements other than Audits or Reviews of Historical Financial Information (ISAE 3000), International Standard in Quality Control (ISQC 1, 2009) and Code of Ethics for Professional Accountants of International Ethic Standards Board for Accountants (IESBA, 2019).

The professionals that performed this assessment have previous knowledge and experience on applying Climate Bonds Standard version 3.0 and Climate Bond Sector Criteria and are familiar with the sector’s main ESG risks and opportunities.

SITAWI had access to all documents and professionals requested, thus being able to provide an opinion with a reasonable<sup>2</sup> level of assurance regarding completeness, accuracy, and reliability. The Issuer displayed a high level of transparency during the execution of this process.

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<sup>1</sup> <https://www.climatebonds.net/files/files/climate-bonds-standard-v3-20191210.pdf>

<sup>2</sup> “In a reasonable assurance engagement, the practitioner reduces assurance engagement risk to an acceptably low level in the circumstances of the engagement to obtain reasonable assurance as the basis for a positive form of expression of the practitioner’s conclusion. The level of assurance engagement risk is higher in a limited assurance engagement than in a reasonable assurance engagement because of the different nature, timing or extent of evidence-gathering procedures” (ISAE 3000, 2013).

SITAWI is not an Echoenergia's shareholder, subsidiary, supplier or client. In 2020, SITAWI provided a second party opinion for a different green bond issuance, which is not part of the scope of this assessment report. SITAWI declares to have no conflict of interest to provide an independent assessment regarding the current issuance.

The assessment contained in this Report is based on both public and confidential documents provided by Echoenergia. We cannot attest the completeness, preciseness, or reliability of these sources. Therefore, SITAWI will not be held responsible for any decisions based upon information contained in this report.

SITAWI is responsible to provide an external and independent assessment on the conformance of the Bond with the Climate Bonds Standard version 3.0 requirements and associated sector-specific technical criteria. We reinforce that the analysis and opinion in this report shall not be taken as an investment recommendation or a proxy for liquidity or returns.

## 2. Assessment Statement

The proceeds from the Bond will be allocated to six wind farms in Rio Grande do Norte State, in Brazil: namely Vila Alagoas II, Vila Espírito Santo I, Vila Espírito Santo II, Vila Espírito Santo III, Vila Espírito Santo IV e Vila Espírito Santo V. The use of proceeds is set in the Bond's indenture.

Based on the reasonable assessment procedures conducted and evidence obtained, in our opinion, the First Climate Bond Issuance of SERRA DO MEL HOLDING S.A. in 2021 is in conformance, in all material respects, with the Wind Sector Eligibility Criteria of the Climate Bonds Standard Version 1.2 of Climate Bonds Taxonomy and applicable sector-specific technical criteria (Version September 2020). The Issuer is committed to reviewing the bond up to 24 months to confirm compliance with the Climate Bonds Standard.

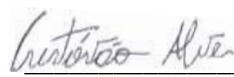
### Practitioner Team



**Camilla Aguiar**  
Practitioner  
[cfontenelle@sitawi.net](mailto:cfontenelle@sitawi.net)



**Valéria Andrade**  
Practitioner  
[vandrade@sitawi.net](mailto:vandrade@sitawi.net)



**Cristóvão Alves**  
Practitioner  
Leader  
[calves@sitawi.net](mailto:calves@sitawi.net)



**Gustavo Pimentel**  
Leader Responsible  
for Quality  
[gpimentel@sitawi.net](mailto:gpimentel@sitawi.net)

Rio de Janeiro, February 25, 2021

### 3. Summary of Findings

Upon guidance from the Climate Bond Standards, Version 3.0, SITAWI assessed the Bond issuance and the Nominated Projects & Assets, with the following subdivisions:

1. Pre-Issuance Certification Checklist Assessment
2. Wind Sector Eligibility Criteria of the Climate Bonds Standard Version 1.2 (Version September 2020)<sup>3</sup> Assessment

#### 3.1. Pre-Issuance Certification Checklist Assessment

The following assessment is based on the Part A of the Climate Bonds Standards Version 3.0, namely the Pre-Issuance Requirements. It is organized according to the items listed in the Pre-Issuance Certification Checklist<sup>4</sup> provided by CBI. Climate Bonds Standard Requirements are listed, followed by each requirement's factual findings. Each of the four sections (1. Use of Proceeds; 2. Process for Evaluation and Selection of Projects and Assets; 3. Management of Proceeds; 4. Reporting Prior To Issuance) is concluded with SITAWI's assessment conclusion.

##### 1. Use of Proceeds

- 1.1 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.**

The Bond's indenture indicates that its proceeds will be allocated to the costs related to the generation of wind energy (indenture's covenant 5.1). The covered expenses include future payments of costs or debts related to six wind farms at Rio Grande do Norte State: Vila Alagoas II, Vila Espírito Santo I, Vila Espírito Santo II, Vila Espírito Santo III, Vila Espírito Santo IV e Vila Espírito Santo V.

- 1.2 The expected Net Proceeds of the Bond shall be no greater than the Issuer's total investment exposure to the proposed Nominated Projects & Assets, or the relevant proportion of the total Market Value of the proposed Nominated Projects & Assets which are owned or funded by the Issuer.**

According to clause 2.2 of the Bond's indenture, the issuance value is BRL 142,000,000.00. The financial instrument is a non-convertible bond, which will fund future capital expenses related to the Nominated Projects & Assets.

The proceeds of the bond are smaller than the project total CAPEX. According to the Issuer's sources and uses table, it is estimated that Serra do Mel II will sum up to BRL 979,000,000.00. Thus, the issuance is equal to 14.5% of the issuer's exposure to the Nominated Projects & Assets.

- 1.3 Nominated Projects & Assets shall not be nominated to other Certified Climate Bonds, Certified Climate Loans, Certified Climate Debt Instruments, green bonds, green loans, or other labelled instruments (such as social bonds or SDG bonds) unless it is demonstrated by the Issuer that:**

<sup>3</sup> [https://www.climatebonds.net/files/files/Sector%20Criteria%20-%20Wind%20v1\\_2\\_28September2020.pdf](https://www.climatebonds.net/files/files/Sector%20Criteria%20-%20Wind%20v1_2_28September2020.pdf)

<sup>4</sup> <https://www.climatebonds.net/files/files/pre-issuance-certification-checklist-CBS-v3.docx>

- 1.3.1 **Distinct portions of the Nominated Projects & Assets are being funded by different Certified Climate Bonds, Certified Climate Loans, Certified Climate Debt Instruments, green bond, green loans or other labelled instruments or;**
- 1.3.2 **The existing Certified Climate Bond, Certified Climate Loan or Certified Climate Debt Instrument is being refinanced via another Certified Climate Bond, Certified Climate Loan or Certified Climate Debt Instrument.**

The Bond's indenture also indicates that the Nominated Projects & Assets have never been nominated for any other green/climate or analogous certification.

In our opinion, the Bond is in conformance, in all material respects, with the 'Use of Proceeds' portion of the Pre-Issuance Certification Checklist.

## 2. Process for Evaluation and Selection of Projects and Assets

### 2.1 The Issuer shall establish, document and maintain a decision-making process which it uses to determine the eligibility of the Nominated Projects & Assets. The decision-making process shall include, without limitation:

#### 2.1.1 A statement on the climate-related objectives of the Bond.

According to the Issuer, the climate-related objectives of the bond are the reduction of greenhouse gas (GHG) emissions, through the increase of renewable energy available in the Brazilian power mix. Table 1 describes the nominated projects, their installed capacity and gross annual power generation, according to Serra do Mel II's Wind Project and Energy Production Report 2019:

Table 1 – Nominated Projects Climate Benefits

Project Name	Installed Capacity (MW)	Gross Annual Generation (GWh/yr)	Estimated GHG emissions avoided (tCO <sub>2</sub> e/yr) <sup>5</sup>
Vila Alagoas II	21	122.4	9,180.0
Vila Espírito Santo I	33.6	194.4	14,580.0
Vila Espírito Santo II	37.8	213.6	16,020.0
Vila Espírito Santo III	37.8	213.7	16,027.5
Vila Espírito Santo IV	37.8	213.6	16,020.0
Vila Espírito Santo V	37.8	216.1	16,207.5
Total	205.8	1173.8	88,035.0

#### 2.1.2 How the climate-related objectives of the Bond are positioned within the context of the Issuer's overarching objectives, strategy, policy and/or processes relating to environmental sustainability.

Serra do Mel Holding S.A. is a subsidiary of Echoenergia. As stated in the Clause 1.1 of the Bond's indenture, Echoenergia's social object as defined by its bylaws is (i) the exploration of production, generation, transmission, distribution and sale of electric energy; (ii) the commercialization of credits derived from the reduction of carbon emissions, due to the entry into operation of projects developed by the Company;

<sup>5</sup> The avoided GHG emissions was estimated by multiplying the GHG emission factor of the Brazilian power grid (0.075 tCO<sub>2</sub>/MWh) by the gross annual power generation. The GHG emission factor was provided by the Ministry of Science, Technology, Innovations and Communications (2019).

and (iii) participation in the capital of other companies. Currently, the company operates exclusively with wind energy projects<sup>6</sup>.

Echoenergia aims to become a benchmark in the renewable energy sector. Its mission is to generate energy minimizing environmental negative impacts and its vision is to become the most efficient among companies operating in the renewable sector.

Considering the aforementioned points, the climate-related objectives of the Bond are aligned with its core business and strategy.

### **2.1.3 Issuer's rationale for issuing the Bond.**

The issuer's rationale for issuing the Bond is to optimize the project's capital structure, matching the long term and stable revenues with its liabilities

### **2.1.4 A process to determine whether the Nominated Projects & Assets meet the eligibility requirements specified in Part C (Clauses 9 and 10) of the Climate Bonds Standard.**

Clause 5.1 of the Bond's indenture states that the issuance's proceeds will be directed to the Nominated Projects & Assets, which are wind farms. Therefore, all Nominated Projects meet the CBI eligibility criteria and fall into the investment areas below.

9. Climate Bonds Taxonomy: The Nominated Projects & Assets fall into the "Wind" under "Energy" investment area as included in the Climate Bonds Taxonomy.

10. Sector Eligibility Criteria: The Nominated Projects & Assets meet the specific eligibility requirements provided in the Wind Sector Eligibility Criteria document (see section 3.2).

## **2.2 Issuer should include under Clause 2.1 further aspects of the decision-making process, including:**

### **2.2.1 Related eligibility criteria, including, if applicable, exclusion criteria or any other process, applied to identify and manage potentially material environmental, social or governance risks associated with the Nominated Projects & Assets.**

As stated by the Issuer, Echoenergia and its subsidiaries have an internal process and dedicated sector to manage environmental and social risks. Besides, clause 8.1.XXIV on the indenture points out the obligation to follow environmental and social legislation. Some of the issues explicitly cited are prohibition of slavery-like labor, child labor and prostitution. In addition, environmental protection and health and safety aspects are also specified.

### **2.2.2 Green standards or certifications referenced in the selection of Nominated Projects & Assets.**

According to the Issuer, the Nominated Projects & Assets does not hold green certifications.

### **2.2.3 The issuer shall assess that all proposed Nominated Projects & Assets to be associated with the Bond meet the documented objectives as stated under Clause 2.1.1 and are likely to conform to the relevant eligibility requirements under Part C (Clauses 9 and 10) of the Climate Bonds Standard.**

9. Climate Bonds Taxonomy: All of the Nominated Projects & Assets fall into the "Wind" under "Energy" investment area as included in the Climate Bonds Taxonomy.

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<sup>6</sup> Echoenergia's active projects<sup>1</sup> description are available in its website: <https://www.echoenergia.com.br/en/nossos-ativos/>



10. Sector Eligibility Criteria: The Nominated Projects & Assets meet the specific eligibility requirements provided in the Wind Sector Eligibility Criteria document (see section 3.2).

Clause 5.1 of the Bond's indenture states that the issuance's proceeds are exclusively for the Nominated Projects & Assets (see 3.1 section, CBI clause 1.1), that comply with CBI's clauses 9 and 10.

In our opinion, the Issuance is in conformance, in all material respects, with the 'Process for Evaluation and Selection of Projects and Assets' portion of the Pre-Issuance Certification Checklist.

### 3. Management of Proceeds

#### 3.1 The systems, policies, and processes to be used for management of the Net Proceeds shall be documented by the Issuer and disclosed to the Verifier, and shall include arrangements for the following activities:

##### 3.1.1 The Net Proceeds of the Bond can be credited to a sub-account, moved to a sub-portfolio, or otherwise tracked by the Issuer in an appropriate manner and documented.

The Issuer is a subsidiary of Echoenergia Participações S.A. The nominated projects and assets are linked to special purpose vehicles (SPVs), a separate legal entity for the projects' development, as disclosed in clauses 1 and 7.9 of Bond's indenture. Such SPVs have segregated subaccounts and financial statements, which enables the proper tracking of the proceeds.

The proceeds will be temporarily held in a current account entitled to the Issuer. Whenever required, the proceeds will be allocated to the respective SPV, which, in turn, will direct the proceeds to the Nominated Projects and Assets. Table 2 summarizes the Nominated Projects, the SPVs and the investment amount for each one of them, according to the Bond's indenture (clause 5.1):

Table 2 - Nominated project, SPVs and estimated amount allocated

SPV	Project Name	Estimated Issuance amount allocated to the project (%)
Echo 8	Vila Alagoas II	4
	Vila Espírito Santo I	17
	Vila Espírito Santo II	13
Echo 9	Vila Espírito Santo III	34
	Vila Espírito Santo IV	21
Echo 10	Vila Espírito Santo V	11

The proceeds will be used exclusively for future capital expenses related to wind farms, in accordance with the Bond's indenture. According to the Issuer, the proceeds will be fully allocated within 12 months after the issuance.

Furthermore, Clause 8.1 states that all SPVs' financial statements are going to be audited by a third-party.

##### 3.1.2 The balance of unallocated Net Proceeds can be managed as per the requirements in Clause 7.3.

According to clause 5.2.7 of the Bond's indenture, the unallocated net proceeds will be withheld in temporary investment instruments that are cash equivalent, such as public debt securities ("Letras Financeiras do Tesouro – LFT"), and temporary investment instruments that do not include greenhouse gas intensive projects such as Bank Deposit Certificate ("Certificado de Depósito Bancário").

**3.1.3 The earmarking process 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.**

The proceeds should be used exclusively for future expenses related to wind energy farm's capital expenditures, in accordance with the Bond's indenture. Serra do Mel Holding S.A. will hold the proceeds in a segregated central account and, when needed, will transfer to the respective SPVs.

In our opinion, the Bond is in conformance, in all material respects, with the 'Management of Proceeds' portion of the Pre-Issuance Certification Checklist.

**4. Reporting Prior To Issuance**

**4.1 The Issuer shall include in the Disclosure Documentation:**

**4.1.1 The investment areas, as provided in Clause 9.1, into which the Nominated Projects & Assets fall.**

The indenture indicated that the Nominated Projects & Assets fall in the 'Wind' classification under the 'Energy' head of the Climate Bonds Taxonomy.

**4.1.2 The intended types of temporary investment instruments for the management of unallocated Net Proceeds in accordance with Clause 7.3.**

According to clause 5.2.7 of the Bond's indenture, intended types of temporary investment instruments for the management of unallocated Net Proceeds are high liquidity instruments, namely: public debt securities ("Letras Financeiras do Tesouro – LFT"), fixed income instruments with low carbon intensity and high liquidity depositary receipts ("Certificado de Depósito Bancário").

**4.1.3 The Verifier engaged by the Issuer for the mandatory verification engagements.**

The bond indenture mentions 'SITAWI Finanças do Bem' as the Verifier engaged by the Issuer for the mandatory verification engagements.

**4.1.4 The intended approach to providing Update Reports to reaffirm conformance with the Climate Bonds Standard while the Bond remains outstanding, including the location of the published documents.**

The debenture indenture, clauses 5.2.1 and 5.2.2, includes the intended approach to providing Update Reports to reaffirm conformance with the Climate Bonds Standard while the Bond remains outstanding. The Update Reports will be published on the Issuer's website<sup>7</sup>.

**4.1.5 The CBI Disclaimer provided in the Certification Agreement.**

The Bond's indenture (clauses 5.2.3, 5.2.4, 5.2.8, 5.2.9 and 5.2.10) includes the CBI Disclaimer provided in the Certification Agreement.

In our opinion, the Bond is in conformance, in all material respects, with the 'Reporting Prior to Issuance' portion of the Pre-Issuance Certification Checklist.

<sup>7</sup> <https://www.echoenergia.com.br/en/>

### 3.2. Climate Bonds Initiative's taxonomy and Wind Sector Eligibility Criteria of the Climate Bonds Standard Version 1.2 (Version September 2020) Assessment

The following assessment is based on the Part C of the Climate Bonds Standards Version 3.0, namely the Eligibility of Projects & Assets. It is organized according to the items listed in the Wind Energy Taxonomy and its respective sectorial criteria under the Climate Bonds Standard provided by CBI. The Sectorial Criteria Requirements are listed, followed by each requirement's factual findings. The section (3.2) is concluded with SITAWI's assessment conclusion.

**Mitigation Component: Wind energy generation shall be projects & assets that operate or are under construction to operate in one or more of the following activities:**

- 1) The development, construction and operation of wind farms
- 2 Operational production or manufacturing facilities wholly dedicated to wind energy development
- 3) Wholly dedicated transmission infrastructure for wind farms.

As indicated in the bond indenture, the six eligible projects fall under the activity 1 above: The development, construction and operation of wind farms.

In our opinion, the bond is in conformance, in all material respects, with the Wind Sectorial Criteria under the Climate Bonds Standard (Version September 2020).

## 4. Supporting Documents

- Debenture indenture;
- Serra do Mel II Wind Project and Energy Production Report 2019
- Interview with the Issuer and Echoenergia
- Echoenergia's institutional presentation
- Sources and uses table