

Assessment Report

March 21st, 2022 | Rio de Janeiro

Pre-Issuance Reasonable Assessment Engagement

Second Climate Bond Issuance of Aliança Geração de Energia S.A S.A.

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

Practitioner Team

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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 - IRRI 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 Fifth Issuance of Non-convertible Debentures (“Bond”) to be issued by Aliança Geração de Energia S.A. (“Aliança” or “Issuer”) 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. This issuance is the second Climate Bond of Aliança Geração de Energia S.A.

The proceeds will be allocated to reimbursements and future expenses related to the implementation of Gravier and Acauã Wind Complexes (“Nominated Projects & Assets”). The use of proceeds is set in the Bond’s indenture.

This is the second climate issuance directed to the Gravier project. The first one has represented about 51% of the project’s total costs and the second one will represent about 44%. Aliança is the only shareholder in the project thereby the value of green emissions is not greater than the issuer’s exposure to the green project, since the sum of the climate bonds proceeds is less than the project’s total value.

Regarding the Acauã project, the present climate issuance will represent about 7% of its total costs. Both projects are also being financed with equity and other non-labelled debentures¹.

SITAWI’s assessment method follows the Climate Bonds Standards, Version 3.0². 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 evidence 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 the Issuer, desk research and remote interviews conducted with the sustainability and finance areas. This process was carried out between February and March 2022.

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 in applying Climate Bonds Standard version 3.0 and Climate Bond Sector Criteria and are familiar with the sector’s main ESG risks and opportunities.

¹ The Third Issuance was not labelled as a climate bond.

² <https://www.climatebonds.net/files/files/climate-bonds-standard-v3-20191210.pdf>

SITAWI had access to all documents and professionals requested, thus being able to provide an opinion with a reasonable³ level of assurance regarding completeness, accuracy, and reliability. The Issuer displayed a high level of transparency during the execution of this process.

SITAWI is not Aliança Geração de Energia S.A's shareholder, subsidiary, supplier or client. SITAWI declares to have no conflict of interest to provide an independent assessment regarding the current issuance. SITAWI was responsible for a Second-Party Opinion on the Fourth Issuance of Non-convertible Debentures issued by Aliança Geração de Energia S.A in 2021. The issuance was labelled as a green bond.

The assessment contained in this Report is based on both public and confidential documents provided by Aliança Geração de Energia S.A. SITAWI cannot attest or be held responsible for the completeness, preciseness, or reliability of these sources.

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.

³ "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).

2. Assessment Statement

The proceeds from the Bond will be allocated to reimbursements and future expenses related to the implementation of Gravier Wind Complex and Acauã Wind Complex. 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 Second Climate Bond Issuance of Aliança Geração de Energia S.A in 2022 is in conformance, in all material respects, with the Wind Sector Eligibility Criteria of the Climate Bonds Initiative Version 1.2 and applicable sector-specific technical criteria (Version September 2020), and with the Climate Bonds Standard Version 3.0. The Issuer is committed to reviewing the bond for up to 24 months to confirm compliance with the Climate Bonds Standard.

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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)⁴ 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 Checklist⁵ provided by CBI. Climate Bonds Standard Requirements are listed, followed by each requirement of 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) contains SITAWI's conclusions.

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 the proceeds will be allocated to the costs related to the construction of two Wind Complexes (indenture's clause 3.8.1). The covered expenses include future expenses (about 56%) and reimbursements (about 44%) related to the implementation of Gravier Wind Complex in Icapuí municipality, Ceará State, and Acauã Wind Complex in Santana dos Matos, Lagoa Nova, Tenente Laurentino and São Vicente municipalities, Rio Grande do Norte State (Brazil). None of the facilities has/will have >15% fossil fuel back up. The proceeds will also finance a wholly dedicated transmission infrastructure for Acauã Wind Complex, whose costs are accounted for in the project's total CAPEX.

The lookback period for the refinancing share is 24 months. The remaining proceeds will be allocated to the projects within 24 months. The Gravier Wind Complex is in the final stage of construction and its operations are due to occur after April 2022. The Acauã Wind Complex is in the initial phase of construction and its operations are due to occur after March 2023.

- 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.**

The financial instrument is a non-convertible bond, which will finance and reimburse expenses related to the Nominated Projects & Assets. The issuance value is BRL 240,000,000.00.

The expected cost of the Gravier project is BRL 429,000,000.00, and the expected cost of the Acauã project is BRL 732,000,000.00, which include the dedicated transmission infrastructure's coast. The climate issuance will represent about 44% of the total costs

⁴ https://www.climatebonds.net/files/files/Sector%20Criteria%20-%20Wind%20v1_2_28September2020.pdf

⁵ <https://www.climatebonds.net/files/files/pre-issuance-certification-checklist-CBS-v3.docx>

of the Gravier project and about 6% of the Acauã project. Therefore, the net proceeds of the bond are smaller than the project total CAPEX.

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:

- 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.**

In 2021, Gravier Wind Complex have been nominated for a green/climate bond. The proceeds of the first issuance represented about 51% of the CAPEX costs, and the proceeds of the second issuance will represent about 44% of it.

As presented below, the sum of the proceeds derived from the two climate bonds is less than the project's total value.

Table 1 – Estimated CAPEX vs. Climate bonds proceeds

Source		Gravier Wind Complex
1st Climate Bond Issuance		BRL 220,000,000.00
2nd Climate Bond Issuance	Reimbursement*	BRL 100,945,423.92
	Future expenses*	BRL 89,054,576.08
Equity		BRL 19,000,000.00
Total (CAPEX)		BRL 429,000,000.00

*The breakdown between reimbursement and future values is estimative and can change according to the project cash flow and the date of debentures' sale off.

The same issuance has been subject to a second-party opinion provided by SITAWI.

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 in the Brazilian power grid. Table 2 describes the nominated projects, the installed capacity and gross annual power generation, according to Gravier and Acauã Wind Complexes' Consolidated Reports on Power Generation ("Estudo de Vento" in Portuguese):

Table 2 – Gravier and Acauã Benefits

Project	Installed Capacity (MW)	Estimated Gross Annual Generation (GWh/yr)	Estimated GHG emissions avoided (tCO2e/yr) ⁶
Gravier Wind Complex	71.4	370.9	46,881.76
Acauã Wind Complex	109.2	597.7	75,549.28

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.

The Issuer's social object as defined by its bylaws is the economic and commercial exploitation of energy generation systems, consulting services and participation in other electric power generation companies or ventures. Currently, the company operates only renewable energy projects in Brazil⁷.

The Issuer has a formalized Environmental Policy that includes guidelines and commitment to environmental issues, which is also applied to its subsidiaries, controlled companies and/or consortia. The environmental management of the Nominated Projects & Assets is held by Aliança's dedicated team. Moreover, Aliança has an internal Environmental Legislation Control and Assessment System, which provides registers with the status of environmental licenses, authorizations and conditions.

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.

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 the eligible projects and assets are already defined prior to the issuance, there is no mention of the decision-making process.

⁶ The avoided GHG emissions was estimated by multiplying the GHG emission factor of the Brazilian power grid (0.1264 tCO2/MWh) by the gross annual power generation. The GHG emission factor was provided by the Ministry of Science, Technology, Innovations and Communications.

⁷ Available at: http://ri.aliancaenergia.com.br/conteudo_pt.asp?idioma=0&conta=28&tipo=55343

The Issuer has stated there is an internal process and dedicated employee to manage environmental and social risks. To demonstrate the adequate internal capacity to ensure that the environmental benefits of projects can be achieved, Aliança has relied on an EMS inspired by the requirements of the ISO 14001:2015 standard.

It is important to highlight that the Nominated Projects & Assets also have their environmental license in force. Besides, Bond's indenture points out the obligation to follow environmental and social legislation. Some of the issues explicitly cited are the prohibition of slavery-like labour, child labour, race and gender discrimination. In addition, environmental protection and health and safety aspects are also specified. The indenture sets an early termination clause in case of non-compliance.

SITAWI has conducted an in-depth assessment on the environmental and social management aspect of the eligible projects and assets. It has been concluded that the projects have a comfortable E&S management system in place.

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

The projects do not have any green standards or 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.

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).

The Bond's indenture states that the issuance's proceeds are exclusively for the Nominated Projects & Assets, which comply with CBI's clauses 9 and 10. None of the facilities has/will have >15% fossil fuel back up.

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 nominated projects and assets are operated by special purpose vehicles (SPV), separate legal entities for the projects' development. The remaining portion of the proceeds will be held in the Issuer's central account and transferred to its segregated subaccounts of the SPV, which enables the proper tracking of the proceeds.

Early termination clauses have been included in the debenture's indenture to avoid changes in the scope of the projects or the use of proceeds for another purpose than the development of wind power projects.

The bond falls under the Brazilian category of “incentivized infrastructure bond” since the project to be financed is classified as a priority project by the Brazilian Ministry of Mines and Energy. Thus, the bond must also comply with the provisions of Law 12,431/11, in order not to lose the special tax treatment benefits.

The proceeds will be fully allocated within 24 months after the issuance.

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

According to the Issuer's internal investment policy, whenever the proceeds are not immediately destined for future expenses of the Gravier and Acauã Wind Complexes, they will be allocated in cash and high-liquidity low-risk instruments, such as fixed-income instruments issued by financial institutions. As the funds will finance the portfolio of financial institutions as a whole, the risk of contamination in these cash instruments is lower.

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.

According to the Issuer, about 44% of the proceeds will be allocated to reimburse expenses related to the implementation of Gravier and Acauã Wind Complexes. The remaining portion of the proceeds, about 56%, will be held in the Issuer's central account and transferred to its segregated subaccounts and financial statements of the SPV from up to 24 months.

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 prepare a Green Bond Framework and make it publicly available prior to Issuance or at the time of Issuance. The Green Bond Framework shall include, without limitation:

4.1.1 Confirmation that the Bonds issued under the Green Bond Framework are aligned with the Climate Bonds Standard. This may include statements of alignment with other applicable standards, such as the EU Green Bond Standard, the ASEAN Green Bond Standard, Chinese domestic regulations, Japanese Green Bond Guidelines, etc.;

The Green Bond Framework declares alignment with Climate Bond Standard version 3.0. and the Green Bond Principles, by the International Capital markets Association (ICMA).

4.1.2 A summary of the expected use of proceeds, as defined under Clause 1.1, and the expected contribution of the relevant sectors or sub-sectors to the rapid transition required to achieve the goals of the Paris Climate Agreement;

According to the Framework, the Green Bond will be allocated for future payments and reimbursement of costs related to the implementation of the Gravier and Acauã Project, wind farms located in Ceará and the Rio Grande do Norte (Brazil). The eligible projects will increase in 180.6 MW the installed capacity of renewable energy in the Brazilian power mix and, consequently, the reduction of greenhouse gas (GHG) emissions.

4.1.3 A description of the decision-making process, as defined under Clause 2.1, with particular reference to the requirements in Clause 2.1.2;

Since the projects that will receive the proceeds from the bond are already defined, there is no mention of the decision-making process after the issuance. According to the Framework, before receiving investments, projects developed by Aliança Geração de Energia S.A are submitted for budget approval, supported by the project's financial analysis and alignment with the company's strategy, and approved by the Board of Officers and subsequently by the Board of Directors and Shareholders' Meeting. Aliança has an adequate internal capacity to ensure that the project's environmental benefits can be achieved, with an environmental management system aligned with the requirements of the ISO 14001:2015 standard. Additionally, Aliança has an Operations Officer, which controls all processes related to the operations of the Gravier and Acauã Project plant.

- 4.1.4 Information on the methodology and assumptions to be used for: confirming, where required by relevant Sector Eligibility Criteria, the characteristics or performance of Nominated Projects & Assets required to conform to the relevant eligibility requirements under Part C of the Climate Bonds Standard; and any other additional impact metrics that the issuer will define.**

The Framework declares that the projects fit into CBI Taxonomy for wind energy. The Gravier and Acauã Project fit into the CBI Taxonomy as a wind energy generation facility (onshore wind farm).

- 4.1.5 A summary of the approach to the management of unallocated Net Proceeds in accordance with Clause 3.1;**

The Framework states that the proceeds will be temporarily allocated in low-risk high liquidity fixed income instruments issued by the financial institution. The allocation of proceeds used will be annually reviewed by an external audit.

- 4.1.6 The intended approach to providing Update Reports to reaffirm conformance with the Climate Bonds Standard while the Bond remains outstanding;**

The Framework states that the issuer will provide information regarding the allocation of proceeds and its environmental impacts until the full allocation. The financial and environmental indicators will be published in the Sustainability Report, which will be available on the company's website. This report will disclose information about the amount of renewable energy generated annually (MWh) by the project and the respective GHG emission avoided (MtCO₂e).

- 4.1.7 The list of proposed Nominated Projects & Assets associated with the Bond and the investment areas, as provided in Clause 9.1, into which the Nominated Projects & Assets fall. Where there are limits on the amount of detail that can be made available about specific Nominated Projects & Assets, information shall be presented on the investment areas which the Nominated Projects & Assets fall into, as provided in Clause 9.1, and the Issuer shall provide an explanation of why detail on Nominated Projects & Assets is limited; 15 Climate Bonds Standard Version 3.0**

The Framework specifies that the Bond will finance and reimburse costs, exclusively, related to CAPEX for the Gravier and Acauã Project implementation. The project was approved as a priority project by the Ministry of Mines and Energy, through Ordinance No. 332/SPE, for the purposes of art. 2 of Law No. 12,431.

- 4.1.8 Where a proportion of the Net Proceeds are used for refinancing, an estimate of the share of the Net Proceeds used for financing and refinancing, and the relevant Nominated Projects & Assets or investment areas which may be refinanced. This may also include the expected look-back period for refinanced Nominated Projects & Assets.**

The framework informs that the proportion of reimbursement is about 44% and the remaining 56% for future expenses. The Issuer informs that the proceeds will be allocated up to 24 months after the Issuance.

4.2 The Issuer shall include in the Disclosure Documentation:

4.2.1 Tthe investment areas, as provided in Clause 9.1, into which the Nominated Projects & Assets fall.

The Bond's indenture indicated that the Nominated Projects & Assets fall in the 'Wind' classification under the 'Energy' head of the Climate Bonds Taxonomy (clause 4.16.1).

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

In accordance with a declared commitment duly signed by the responsible managers of the Aliança's Finance and Fundraising department, whenever the proceeds are not immediately destined for reimbursements of expenses of the wind farms, they will be allocated in high-liquidity low-risk fixed-income instruments issued by financial institutions, complying with Aliança's financial investment policy. As the funds will finance the portfolio of financial institutions as a whole, the risk of contamination in these cash instruments is lower.

4.2.3 The Verifier engaged by the Issuer for the mandatory verification engagements.

The Bond's indenture mentions an accredited verifier was engaged by the Issuer for the mandatory verification engagements.

4.2.4 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's indenture 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 and sent to its fiduciary agent.

4.2.5 The CBI Disclaimer provided in the Certification Agreement.

The Bond's indenture 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.

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 Sectoral 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 operating 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.

The Nominated Projects fall under the activity 1, 2 and 3 above: the development, construction and operation of wind farms, dedicated transmission lines and dedicated operational facilities. None of the facilities has/will have >15% fossil fuel back up.

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

4. Supporting Documents

- Bond's indenture;
- Second Party Opinion Report;
- Aliança's Green Bonds Framework.
- Consolidated Reports on Power Generation;
- Interview with the Issuer;
- Declaration of temporary investments of the issuance proceeds
- Issuer's institutional presentation
- Issuer's website