

## Rumo S.A.

### PRE-ISSUANCE VERIFICATION LETTER

#### Low Carbon Transport CRITERIA OF THE CLIMATE BONDS STANDARD

**Type of engagement:** Assurance Engagement

**Period engagement was carried out:** February 2020

**Approved verifier:** Sustainalytics

**Contact address for engagement:** 125 Maiden Lane, Suite 602, New York NY 10038, U.S.A.

**Pre-Issuance Engagement Leader:** Zach Margolis, [zach.margolis@sustainalytics.com](mailto:zach.margolis@sustainalytics.com), (+1) 647 695 4341

**Post-Issuance Engagement Support:** Winnie Toppo, [winnie.toppo@sustainalytics.com](mailto:winnie.toppo@sustainalytics.com), (+1) 647 317 3648

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### Scope and Objectives

Rumo S.A. ("Rumo", or the "Company") has engaged Sustainalytics to review and verify that Rumo's green bond meets the requirements under the Low Carbon Transport criteria of the Climate Bonds Standard.

Rumo S.A. is a Brazilian logistic company, offering services for rail transport, port elevation and storage. It is the largest railway operator in Brazil, operating 12 transshipment terminals, six port terminals and managing approximately 14 thousand kilometres of railway network. Rumo conveyed to Sustainalytics that its sustainability strategy focuses on reducing atmospheric emissions from its operations as well as enhancing the quality of raw materials it uses in order to improve durability of its infrastructure and assets.

Rumo plans to use the proceeds raised under the Green Bond Framework to:

- Acquisition, replacement and upgrade of rolling stock
- Expand rail infrastructure, such as increasing the length of sidings, as well as building new sidings and double lines
- Upgrade rail infrastructure in order to allow more heavily-loaded machinery.

### Climate Bonds Standards Criteria

Pre-issuance requirements under Version 2.1:<sup>1</sup>

- Low Carbon Land Transport<sup>2</sup>
  - Criterion 4: Emission threshold for dedicated freight railway lines
  - Criterion 5: Dedicated freight railway lines – fossil fuel exclusion

### Issuing Entity's Responsibility

Rumo was responsible for providing information and documents relating to:

- The details concerning the selection process for the Nominated Projects
- The details of the Nominated Projects
- The management systems for internal processes and controls for Nominated Projects, including: tracking of proceeds, managing unallocated proceeds and earmarking funds to Nominated Projects
- The details of Rumo's reporting commitments prior to issuance, including: investment areas, management of unallocated proceeds and frequency of periodic Assurance Engagements

### Independence and Quality Control

Sustainalytics, a leading provider of ESG and corporate governance research and ratings to investors, conducted the verification of Rumo's green bond, issued to finance purchase of new locomotives, rolling stock

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<sup>1</sup> Pre-Issuance Requirements under the Climate Bond Standards:

[https://www.climatebonds.net/files/files/Climate%20Bonds%20Standard%20v2\\_1%20-%20January\\_2017.pdf](https://www.climatebonds.net/files/files/Climate%20Bonds%20Standard%20v2_1%20-%20January_2017.pdf)

<sup>2</sup> Low Carbon Transport technical criteria:

<https://www.climatebonds.net/files/files/Low%20Carbon%20Transport%20Background%20Paper%20Feb%202017.pdf>

and infrastructure upgrades, and provided an independent opinion informing Rumo as to the conformance of the green bond with the Pre-Issuance requirements and Low Carbon Transport criteria of the Climate Bonds Standard.

Sustainalytics has relied on the information and the facts presented by Rumo. Sustainalytics is not responsible if any aspect of the Nominated Projects referred to in this opinion including estimates, findings, opinions, or conclusions are incorrect. Thus, Sustainalytics shall not be held liable if any of the information or data provided by Rumo's management and used as a basis for this assessment were not correct or complete.

Sustainalytics makes all efforts to ensure the highest quality and rigor during its assessment process and enlisted its Sustainability Bonds Review Committee to provide oversight over the assessment of the bond.

### **Verifier's Responsibility**

The work undertaken as part of this engagement included conversations with relevant Rumo employees and review of relevant documentation to confirm the green bond's conformance with the Climate Bonds Certification Pre-Issuance Requirements, which include:

- Conformance of Rumo's green bond with the Climate Bonds Standard Version 2.1;
- Conformance with the Low Carbon Transport Technical Criteria;
- Conformance with the Internal Processes & Controls requirements;
- Conformance with Reporting Prior to Issuance requirements.

### **Basis of the Opinion**

Sustainalytics conducted the verification in accordance with the Climate Bond Standard Version 2.1 and with International Standard on Assurance Engagements 3000 – Assurance Engagements other than Audits or Reviews of Historical Information.

Sustainalytics planned and performed the verification by obtaining evidence and other information and explanations that Sustainalytics considers necessary to give limited assurance that Rumo's green bond meets the requirements of the Climate Bond Standard. Upon reviewing evidence and other information, Sustainalytics is of the opinion that Rumo will ensure compliance with Climate Bond Standard requirements.

### **Conclusion**

Rumo plans to use the proceeds raised by its green bond to finance investments, including in rolling stock and physical infrastructure, that support a rail network that is compliant with the emission threshold for dedicated freight railway lines and that is not intended to transport fossil fuels. See Schedule 1A: Detailed Findings.

Based on the limited assurance procedures conducted of Rumo's green bond under the Low Carbon Transport criteria of the Climate Bonds Standard, nothing has come to Sustainalytics' attention that causes us to believe that, in all material aspects, Rumo's green bond is not in conformance with the Climate Bond Standard's Pre-Issuance Requirements.

## Schedule 1A: Detailed Findings

Sustainalytics has analyzed the projects which may be financed by Rumo's green bond, and has determined that they comply with the following criteria of the CBI Low Carbon Land Transport standard:

### Criterion 4: Emission threshold for dedicated freight railway lines

The current emissions intensity of Rumo's freight rail operations is 17.1gCO<sub>2</sub> per net ton-kilometer (gCO<sub>2</sub>/tkm). This value falls below the established 2020 threshold of 25 gCO<sub>2</sub>/tkm. Sustainalytics notes that (i) this intensity is also compliant with the 2030 and 2050 thresholds and (ii) that Rumo intends to continue to work to decrease its carbon emissions

### Criterion 5: Dedicated freight railway lines – fossil fuel exclusion

Rumo's Framework expressly excludes investments in "infrastructure and rolling stock for railway lines that are built with the overriding objective of transporting fossil fuels".

## Schedule 1B: Detailed Overview of Nominated Projects and Assets

Rumo has provided details on its current portfolio of eligible projects, from which it will select project for financing. Summary is provided in the table below:

Example of Eligible Green Projects	Rationale	Expected Amount (R\$ million)	Expected Amount (USD million) *
Replacement of rolling stocks	Purchase of new locomotives and rolling stock that will provide higher fuel efficiency and produce fewer GHG emissions. New locomotives include purchase of GE AC4400CW or similar locomotives	991	222
	Acquisition and installation of technology and/or devices that will improve efficiency of locomotives and as a result contribute to reduce fuel consumption	120	27
Infrastructure to double lines, new yards and yards' extension	Built new sidings and double line some stretches to improve traffic conditions to reduce time spent in crossovers and save fuel	936	209
	Extension of current length of sidings, allowing increase the length of the train from 80 Railcars (1.500m) to 120 Railcars (2.400m)	723	162
Railway modernization	Replacement of raw materials applied to existing infrastructure for greater durability and increased load bearing capability of 32.5 ton/axle	1,338	300

\* Exchange rate used 4.46 Brazilian Real (R\$) = 1 United States Dollar (USD)

## Schedule 2A: Pre-Issuance General Requirements

Selection of Nominated Projects and Assets:	<p><b>1.1</b> Statement on the environmental objectives of the bond</p> <p><b>1.2</b> Confirmation that Nominated Projects and Assets meet the Climate Bonds criteria</p> <p><b>1.3</b> Document a list of Nominated Projects and Assets</p> <p><b>1.4</b> Confirmation that Nominated Projects and Assets will not be nominated to other Climate Bonds</p> <p><b>1.5</b> Confirmation that Net Proceeds of the Green Bond shall not be greater than the value of the Nominated Projects and Assets</p>
Internal Processes and Controls	<p><b>2.1.1</b> Tracking of proceeds</p> <p><b>2.1.2</b> Managing of unallocated proceeds</p> <p><b>2.1.3</b> Earmarking funds to Nominated Projects and Assets</p>
Reporting Prior to Issuance	<p><b>3.1.1</b> Investment area of Nominated Projects and Assets</p> <p><b>3.1.2</b> Intended types of temporary investments for the management of unallocated proceeds</p> <p><b>3.1.3</b> Approach of Verifier</p> <p><b>3.1.4</b> Whether periodic Assurance Engagement will be undertaken, and the expected frequency of any periodic Assurance Engagements</p>

## Schedule 2B: Conformance to the Pre-Issuance Requirements

Procedure Performed	Factual Findings	Error or Exceptions Identified
Verification of requirements specified under Selection of Nominated Projects and Assets	<p><b>1.1</b> The objective of the bond is to primarily use proceeds to finance purchase of new locomotives, rolling stock and infrastructure upgrades</p> <p><b>1.2</b> The Nominated Projects and Assets meet the Low Carbon Transport criteria of the Climate Bond Standard.</p> <p><b>1.3</b> The Nominated Projects and Assets include:</p> <ul style="list-style-type: none"> <li>Acquisition, replacement and upgrade of new locomotives and rolling stock that provide higher fuel efficiency,</li> <li>Extension of current length of sidings as well as build new sidings and double lines to reduce time at crossovers, thereby saving fuel,</li> <li>Purchase raw material that provides greater durability to Rumo's infrastructure and assets.</li> </ul> <p><b>1.4</b> Rumo's management confirms that the projects shall not be nominated to other Climate Bonds.</p> <p><b>1.5</b> Rumo's management confirms that the net proceeds of the bond shall not be greater than the value of the projects.</p>	None
Verification of requirements specified under Internal Processes and Controls	<p><b>2.1.1</b> Rumo's management confirms that proceeds will be segregated and tracked in a systematic manner and will be exclusively used to finance Nominated Projects.</p> <p><b>2.1.2</b> Rumo's management confirms that unallocated proceeds will be temporarily placed in liquid instruments such as cash and/or cash equivalents and/or bank deposits, in accordance with the company's ongoing treasury policy.</p> <p><b>2.1.3</b> Rumo's management has confirmed that the proceeds from the bond will be placed in Rumo's treasury and managed by the treasury department.</p>	None
Verification of requirements specified under Reporting Prior to Issuance	<p><b>3.1.1</b> Rumo's management confirms that the proceeds of the transaction will primarily be used to purchase new locomotives, rolling stock and finance infrastructure upgrades.</p> <p><b>3.1.2</b> Rumo's management confirms that unallocated proceeds shall be temporarily placed in liquid instruments such as cash and/or cash equivalents and/or bank deposits, in accordance with the company's ongoing treasury policy.</p> <p><b>3.1.3</b> The bond's offer letter confirms that an approved third party verifier has been appointed to confirm the bond's conformance with pre and post issuance requirements of the Low Carbon Transport criteria of the Climate Bonds Standard.</p>	None

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	<b>3.1.4</b> Rumo has confirmed that it will select an approved third party verifier will conduct periodic assurance within a year’s time to reaffirm conformance of the bond with the Low Carbon Transport criteria of the Climate Bonds Standard.	
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## Sustainalytics

Sustainalytics is a leading independent ESG and corporate governance research, ratings and analytics firm that supports investors around the world with the development and implementation of responsible investment strategies. With 13 offices globally, the firm partners with institutional investors who integrate ESG information and assessments into their investment processes. Spanning 30 countries, the world's leading issuers, from multinational corporations to financial institutions to governments, turn to Sustainalytics for second-party opinions on green and sustainable bond frameworks. Sustainalytics has been certified by the Climate Bonds Standard Board as a verifier organization, and supports various stakeholders in the development and verification of their frameworks. In 2015, Global Capital awarded Sustainalytics "Best SRI or Green Bond Research or Ratings Firm" and in 2018 and 2019, named Sustainalytics the "Most Impressive Second Party Opinion Provider". The firm was recognized as the "Largest External Reviewer" by the Climate Bonds Initiative as well as Environmental Finance in 2018, and in 2019 was named the "Largest Approved Verifier for Certified Climate Bonds" by the Climate Bonds Initiative. In addition, Sustainalytics received a Special Mention Sustainable Finance Award in 2018 from The Research Institute for Environmental Finance Japan and the Minister of the Environment Award in the Japan Green Contributor category of the Japan Green Bond Awards in 2019.

For more information, visit [www.sustainalytics.com](http://www.sustainalytics.com)

Or contact us [info@sustainalytics.com](mailto:info@sustainalytics.com)

