

ASSESSMENT

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Send Your Feedback

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China Mengniu Dairy Company Limited

Second Party Opinion – Sustainable Finance Framework Assigned SQS2 Sustainability Quality Score

Summary

We have assigned an SQS2 Sustainability Quality Score (Very good) to China Mengniu Dairy Company Limited's (Mengniu) sustainable finance framework, dated July 2025. The company has established its use-of-proceeds framework with the aim of financing projects across seven eligible green categories and three eligible social categories. The framework is aligned with the four components of the International Capital Market Association's (ICMA) Green Bond Principles (GBP) 2025 and Social Bond Principles (SBP) 2025, and the Loan Market Association, Asia Pacific Loan Market Association and Loan Syndications & Trading Association's (LMA/APLMA/LSTA) Green Loan Principles (GLP) 2025 and Social Loan Principles (SLP) 2025. The framework demonstrates a significant contribution to sustainability.

Sustainability quality score



Alignment with principles

USE OF PROCEEDS

Overall alignment



FACTORS

ALIGNMENT



Contribution to sustainability

Final contribution to sustainability



Preliminary contribution to sustainability

Relevance and magnitude

Additional considerations No adjustment

POINT-IN-TIME ASSESSMENT

Scope

We have provided a Second Party Opinion (SPO) on the sustainability credentials of Mengniu's sustainable finance framework, including the framework's alignment with the ICMA's GBP 2025 and SBP 2025, and the LMA/APLMA/LSTA's GLP 2025 and SLP 2025. Under the framework, the company plans to issue use-of-proceeds sustainable financing instruments (SFI) to finance projects across seven green categories and three social categories, as outlined in Appendix 3 of this report.

Our assessment is based on the last updated version of the framework received on 16 July 2025, and our opinion reflects our point-in-time assessment¹ of the details contained in this version of the framework, as well as other public and non-public information provided by the company.

We produced this SPO based on our [Assessment Framework: Second Party Opinions on Sustainable Debt](#), published in March 2025.

Issuer profile

China Mengniu Dairy Company Limited (Mengniu) is a leading company in China's dairy market. With Mengniu as its core brand, the group and its subsidiaries are collectively among the leading manufacturers in the sector, with a diversified product range including liquid milk products, such as ultra-high-temperature (UHT) milk, milk beverages, yogurt, ice cream, and other dairy products. As of 31 December 2024, the company's strategic investments included a 56.36% stake in China Modern Dairy Holdings Ltd (CMD), its unconsolidated subsidiary deriving most of its revenue from the sale of raw milk; a 29.99% stake in China Shengmu Organic Milk Limited; a 99.97% stake in Yashili International, a domestic manufacturer of infant milk formula; and a 36.63% stake in Shanghai Milkground Food Tech Co., Ltd. (Milkground), a domestic manufacturer of cheese products. Its strategic shareholder includes COFCO Corporation (COFCO), one of the largest suppliers, by revenue, of agricultural and food products in China.

China Mengniu faces moderate exposure to environmental risks due to its reliance on natural capital for the production of its dairy products, as well as potential waste and pollution risks associated with the product packaging materials. These challenges are mitigated by China Mengniu's good compliance with industry regulations and its existing internal controls. China Mengniu faces moderate exposure to social risks, particularly from the food and beverage industry's potential risks around customer relations, health and safety, and responsible production regarding food safety. These risks are mitigated by the company's long operating track record and strengthened risk controls. Overall the industry is closely monitored by the government industry regulators regarding food safety and other social risk related regulations. Its strategic investors, including COFCO and Arla Foods Amba, also provide expertise around food safety and quality controls.

Strengths

- » Financing of a diverse range of projects that are relevant to the company's business activities, with the objective of minimizing environmental impacts and generating social benefits across the value chain.
- » The environmental and social (E&S) risk management system is robust, as illustrated by policies and procedures.
- » Transparent project evaluation and selection process with clear exclusion criteria.
- » Regular monitoring of the selected projects' compliance with the eligibility and exclusion criteria.

Challenges

- » Although the company operates in the mid to downstream segments of the dairy value chain, the eligible project categories do not address enteric emissions, which constitute the largest source of methane emissions in the dairy sector.
- » There is no independent verification of the reporting on the E&S benefits associated with the financed projects.

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Alignment with principles

Mengniu's sustainable finance framework is aligned with the four components of the ICMA's GBP 2025 and SBP 2025, and the LMA/APLMA/LSTA's GLP 2025 and SLP 2025. For a summary alignment with principles scorecard, please see Appendix 1.

- | | |
|---|---|
| <input checked="" type="checkbox"/> Green Bond Principles (GBP) | <input checked="" type="checkbox"/> Green Loan Principles (GLP) |
| <input checked="" type="checkbox"/> Social Bond Principles (SBP) | <input checked="" type="checkbox"/> Social Loan Principles (SLP) |
| <input type="checkbox"/> Sustainability-Linked Bond Principles (SLBP) | <input type="checkbox"/> Sustainability Linked Loan Principles (SLLP) |

Use of proceeds



Clarity of the eligible categories – BEST PRACTICES

Mengniu has clearly communicated the nature of the expenditures as capital expenditures, operational expenditures, and research & development expenses. The eligibility and exclusion criteria for all eligible project categories are clearly defined, including the target populations for the social categories. Mengniu has confirmed that all eligible projects will be located in China.

Clarity of the environmental or social objectives – BEST PRACTICES

Relevant and coherent environmental and social (E&S) objectives are defined for all eligible categories and are clearly stated in the framework. All the eligible categories are relevant to the respective E&S objectives to which they aim to contribute. Mengniu has also referenced the United Nations' (UN) Sustainable Development Goals (SDGs) in articulating the objectives of the eligible categories, and the objectives are coherent with these recognized international standards (see Appendix 2).

Clarity of expected benefits – ALIGNED

Mengniu has identified clear and relevant expected E&S benefits for the eligible categories based on the projects to be financed. The benefits are measurable and will be quantified in the annual reporting. While the actual share of refinancing will be disclosed in the annual allocation reporting, the company has not made a firm commitment to disclosing the estimated share of refinancing to investors prior to issuance. The company has committed to a look-back period of no longer than three years from the time of issuance.

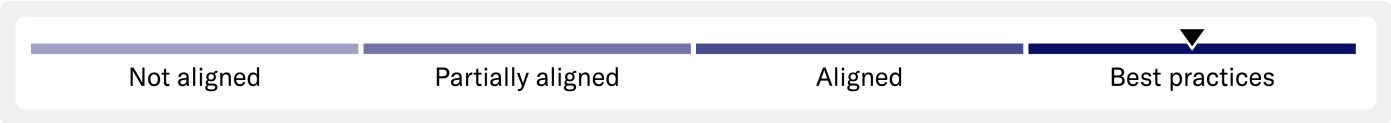
Process for project evaluation and selection



Transparency and clarity of the process for defining and monitoring eligible projects –BEST PRACTICES

The company's decision-making process for the selection and evaluation of projects is clearly structured, and is outlined in its publicly available framework. Mengniu has set up a Secretary Department of Sustainable Development Executive Committee (Secretary Department), comprising members from the Corporate Affairs, Investor Relations, and Finance Departments, which is responsible to select and evaluate projects in line with the eligibility criteria outlined in the framework. The Secretary Department will meet at least annually to monitor the eligible projects in each reporting period, and will undertake regular monitoring of the asset pool to ensure the compliance of the financed projects with the eligibility and exclusion criteria. The Secretary Department will oversee the E&S risk assessment and management of financed eligible projects, leveraging its existing sustainability and risk management framework. This is in addition to ensuring that eligible projects meet applicable national and international E&S standards and regulations. Such details are publicly disclosed in the framework. In the event a project no longer fulfills the eligibility criteria, the net proceeds will be reallocated to other eligible projects as soon as reasonably practicable.

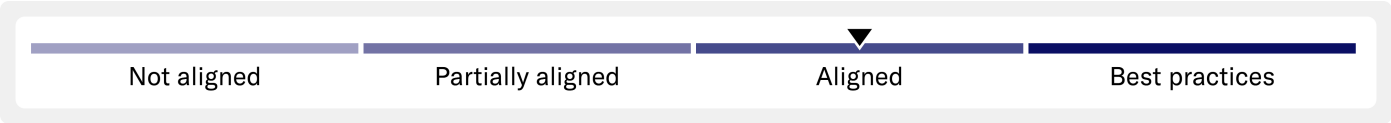
Management of proceeds



Allocation and tracking of proceeds – BEST PRACTICES

Mengniu has defined a clear process for the management of proceeds in its publicly available framework. The proceeds of each SFI will be deposited in general funding accounts and will be earmarked for allocation using a sustainable finance register. The company has confirmed through internal documentation that it will adjust the balance of the tracked proceeds annually to match allocations to eligible projects. The company expects to fully allocate net proceeds within 24 months from the date of issuance. Unallocated proceeds will be held in accordance with Mengniu's liquidity management policy, and will be kept as cash and cash equivalents, and not be invested in greenhouse gas (GHG)-intensive activities or high environmental impact activities included in the exclusion criteria in the framework.

Reporting



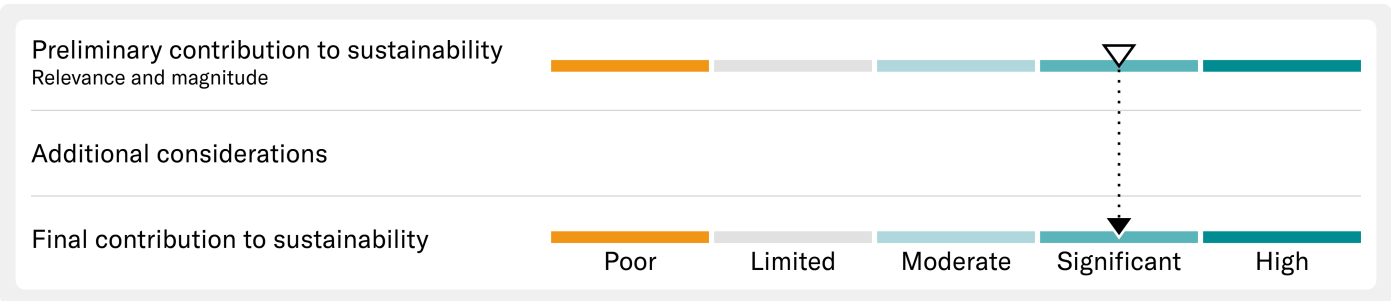
Reporting transparency – ALIGNED

Mengniu will publish both allocation and impact reports annually until full allocation of proceeds and on a timely basis in the event of material developments to financed projects. These reports will be publicly available on the company's website. The allocation report will include the description of the eligible projects, the amount of proceeds allocated to each eligible project category, the amount of unallocated proceeds, the share of proceeds used for financing versus refinancing, and selected examples of projects financed.

The company has identified relevant E&S reporting indicators for each eligible category within its framework, and the methodologies and assumptions used to report on E&S impacts will be disclosed as part of the impact reporting, if feasible. However, there is no firm commitment from the company to engage independent external verifications for both tracking and allocation of funds and the reported E&S metrics of the financed projects.

Contribution to sustainability

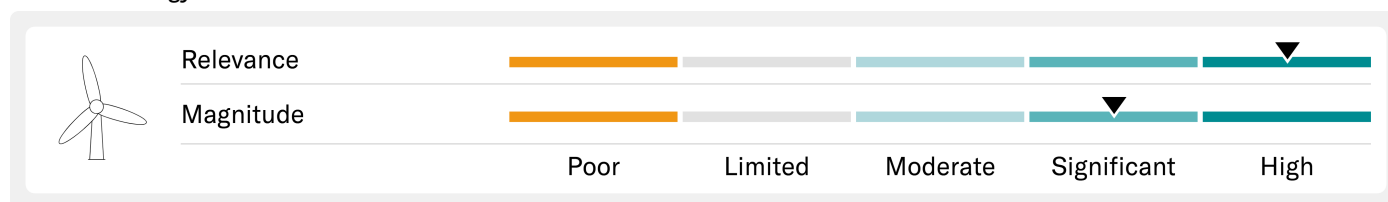
The framework demonstrates a significant overall contribution to sustainability. This reflects a preliminary contribution to sustainability score of significant, based on the relevance and magnitude of the eligible project categories, and we have not made an adjustment to the preliminary score based on additional contribution to sustainability considerations.



Preliminary contribution to sustainability

The preliminary contribution to sustainability is significant, based on the relevance and magnitude of the eligible project categories. Based on the information provided by Mengniu, we expect most of the proceeds from forthcoming issuances to be allocated to the green building; sustainable water and wastewater; circular economy adapted products, production technologies and processes; employment generation & SME financing; food security and sustainable food system; and renewable energy categories. A detailed assessment by eligible category has been provided below.

Renewable energy

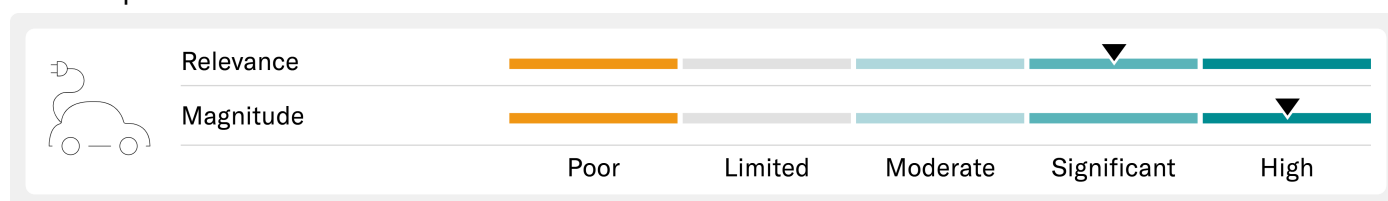


Projects financed under this category are highly relevant in the project locations and addresses one of Mengniu's key sustainability challenges of reducing GHG emissions across its operations. Expanding renewable energy capacity is important for China's transition to clean energy and achieving the country's dual carbon goals. Addressing emissions from both energy consumption and dairy operations are also highly relevant for the company. From a sectoral perspective, companies in the dairy sector consume substantial amounts of electricity and fossil fuels throughout the production and distribution chains, highlighting the need for on-site renewables to reduce operational emissions. The projects will support Mengniu's goal of achieving carbon peak by 2030, and carbon neutrality across its whole industry chain by 2050.

The magnitude of this category is significant. Mengniu has confirmed that the majority of proceeds under this category will be allocated to solar photovoltaic (PV) projects, which are among the cleanest renewable options with minimal externalities, thus making a considerable contribution to climate change mitigation. Other eligible renewable energy projects in this category will utilize the best available technologies and criteria, including those for concentrated solar power (CSP) and onshore wind energy. Environmental and social impact assessments (ESIAs) will be conducted for eligible projects to mitigate potential E&S externalities, particularly for CSP and wind projects. Although there is currently no immediate pipeline for CSP and wind projects, the company has clarified that if financed in the future, it will not be involved in their construction. For bioenergy projects, the company has confirmed that these projects will replace fossil fuel-powered operations, which is expected to significantly reduce emissions due to this transition. Moreover, Mengniu has confirmed that bioenergy feedstocks will be sourced exclusively from residues and waste materials, such as manure, and exclude all woody biomass. It also confirmed there will be a monitoring and contingency plan to minimize methane leakage at the facilities. Mengniu has confirmed that all projects are likely to be constructed at its factories and other operational sites to generate renewable energy primarily for its own consumption, aiming to reduce operational emissions.

This category also includes renewable energy power purchase agreements (PPAs) and purchase of renewable energy certificates (RECs), which are largely indirect methods of procuring renewable energy in the marketplace, thus, offering a lower emission mitigation potential compared to direct on-site renewable energy generation. Nevertheless, Mengniu has confirmed that it will prioritize on-site generation and ensure that only hourly matched bundled RECs are eligible. For PPAs, the company has stated that only physical PPAs will be eligible, with a preference for local PPA agreements. However, there is limited clarity on whether the company will procure electricity from both newly constructed and existing PPA facilities, and whether these contracts will be long-term. Additionally, while the company has confirmed through internal documentation that it does not anticipate any near-term allocation of proceeds to PPA projects, we lack visibility for REC projects.

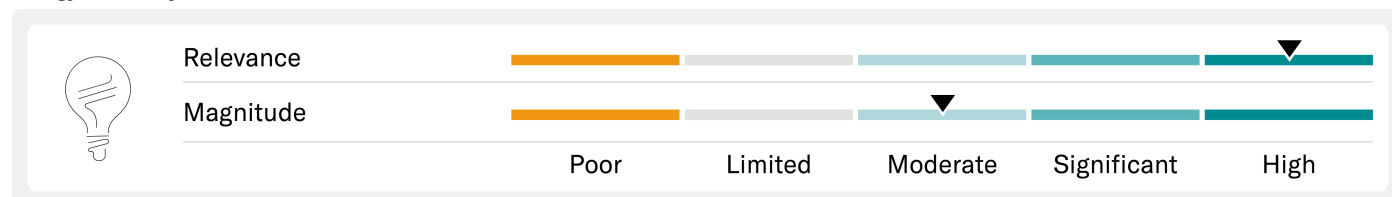
Clean transportation



The relevance of this category is significant due to its potential to reduce carbon emissions and improve air quality through the promotion of zero direct emission transportation. In China, the transportation sector poses a significant sustainability challenge, accounting for 8% of total energy-related GHG emissions in 2022² and contributing substantially to air pollution. However, decarbonizing Mengniu's own fleet is not the most pressing sustainability priority for the dairy sector and the company, given its relatively minor emissions footprint within the milk supply chain.

The magnitude of this category is high, as the financed projects are likely to contribute to China's transition to clean transportation. Mengniu will exclusively finance fully electric road transportation, which produces zero direct emissions and represent the best available technologies without causing lock-in effects. This category also includes investments in transportation infrastructure, such as electric vehicle charging stations, which are recognized as eligible under the EU Taxonomy. While the short- to medium-term environmental benefits of this infrastructure may be limited in regions where the electricity grid remains heavily reliant on fossil fuels, its long-term impact is likely to be positive as grid decarbonization progresses. Furthermore, any infrastructure intended for the transport of fossil fuels will be excluded from financing.

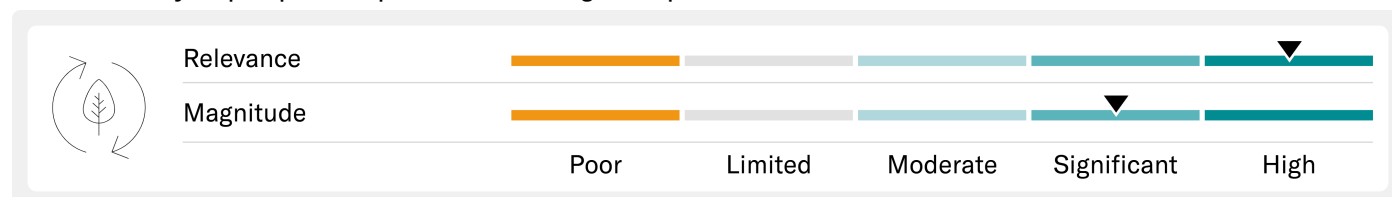
Energy efficiency



The relevance of this category is high. Enhancing energy efficiency is crucial to China's energy transition and national GHG emissions reduction strategy, which includes various initiatives aimed at enhancing energy efficiency across both residential and industrial sectors. The eligible projects are also highly relevant for Mengniu, as dairy production and processing are energy-intensive operations. Implementing energy efficiency measures is essential to reducing energy consumption and greenhouse gas emissions in the company's operations, supporting Mengniu's sustainability goals of reaching carbon peak by 2030 and achieving carbon neutrality across the entire industry chain by 2050.

The magnitude of this category is moderate as the eligible projects will positively impact emissions reduction through improved energy efficiency. Mengniu has confirmed that the list of eligible projects are exhaustive, with most involving proven technologies that have limited negative externalities. These projects will be confined to the company's operations, ensuring clear visibility on their end-use. Additionally, Mengniu has confirmed to us that all eligible off-grid power units and energy storage systems will be fully dedicated to storing energy generated from renewable sources, and projects involving upgrades to fossil fuel-related assets will be excluded to prevent lock-in concerns. However, Mengniu has set an energy efficiency threshold of 20%, which falls short of the market best practice of 30%. Furthermore, for projects like upgrading cold storage systems, there is limited clarity on whether the best available technological solutions and climate-friendly refrigerants will be utilized.

Circular economy adapted products, production technologies and processes



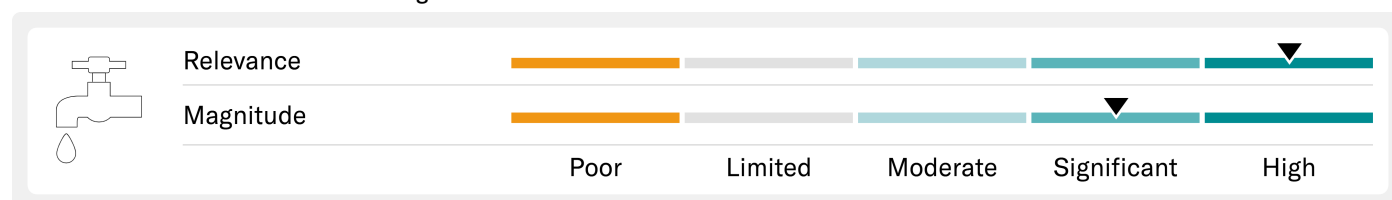
The relevance of this category is high because issues related to packaging waste and biowaste are critical to China's environmental goals and sustainable development strategies. According to the State Administration for Market Regulation, packaging waste in China constitute approximately 30% to 40% of domestic waste, much of which is generated from excessive packaging³. In 2023, domestic waste reached 390 million tons with a treatment rate of 99.4%. However, current treatment methods are predominantly landfill and incineration, which pose significant environmental impacts. Additionally, biowaste from livestock farming amounted to 1.96 billion tons in 2023⁴. The central government strongly encourages converting biowaste into fertilizers to mitigate environmental impact⁵. As a leading dairy product manufacturer, and with the Chinese dairy market projected to continue growing, transitioning to a circular economy is crucial for both the country and Mengniu. Moreover, promoting the reduction and recyclability of plastic in Mengniu's products is a key aspect of achieving a circular economy, although it is not financed under this category.

The magnitude of financed projects is significant because the financed facilities for sustainable packaging can significantly improve the recyclability and reusability of packaging materials, thereby reducing waste and promoting a circular economy. Eligible projects will mainly finance facilities for sustainable packaging and biowaste management, encompassing treatment, production, and utilization

activities. However, there is limited visibility regarding which projects the majority of proceeds will be allocated to. Mengniu has confirmed that eligible projects will be confined to its own operations, ensuring visibility on their end-use. According to Mengniu, 100% of outer cartons for its products are made from recycled paper, while nearly 89% of inner packaging consists of papers certified by the Forest Stewardship Council (FSC) or the Sustainable Forestry Initiative (SFI). While these certifications support sustainable sourcing and forest conservation, they may not directly facilitate the transition to a circular economy.

The financed biowaste treatment projects involve processing manure through anaerobic digestion or composting to produce biogas, which will be used to generate electricity and fed directly into the national power grid. Mengniu has confirmed the implementation of a comprehensive contingency plan to minimize methane leakages, including preventive measures and emergency responses. The treated residues from the process are fully utilized as fertilizers, achieving nearly zero waste discharge. However, it is unclear what type of composting technology will be utilized.

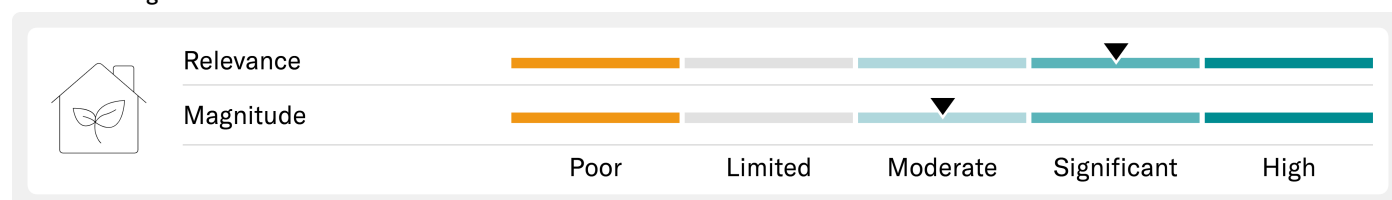
Sustainable water and wastewater management



The relevance of this category is high. China experiences considerable water scarcity, with 1,992 m³ per capita water resources, which is below the global average of 5,429 m³, according to World Bank data.⁶ The dairy industry requires substantial amounts of water for various processes, including livestock farming, irrigation for feed crops, and production processes. Studies indicate that cheese and milk are among the top freshwater consumers per 100g protein, highlighting the relevance of this category to the issuer's core business. Additionally, improper management of wastewater from dairy products manufacturing affects water security due to the high organic content. Infrastructure and sanitation issues contribute to pollutants being discharged into ground and surface waters, impacting living conditions. Mengniu employs a lifecycle approach to assess its water resource management, underscoring the relevance of this category to the issuer's overall sustainability strategy.

This category has a significant magnitude because eligible projects are likely to generate long-term positive impacts by promoting sustainable water management and are unlikely to generate significant lock-in effects. According to the issuer, the majority of funds will be allocated to water recycling facilities and wastewater collection and treatment facilities. This initiative includes a variety of projects and activities, including certifications, training sessions, regular monitoring and evaluation, and the integration of new technologies throughout the production process. Mengniu aims to increase the water recycling rate by 5% and reduce water intake per ton of product by 10% by 2030, compared to 2023. However, the overall target does not indicate an ambitious threshold for individual water-saving projects. Water quality from these facilities is required to comply with national and local discharge standards. Financed sludge treatment facilities contribute to reducing wastewater discharge, with methane generated from the sludge being recovered and reused as an energy source. The facility ensures the effluent meets discharge standards or reuse quality requirements through filtration and disinfection, although specific technical thresholds for water savings and energy efficiency are not detailed. While the issuer has established EU Taxonomy-aligned thresholds for net average energy consumption and water leakage levels, these criteria apply solely to water supply facilities, leaving the energy performance of other systems undefined.

Green buildings

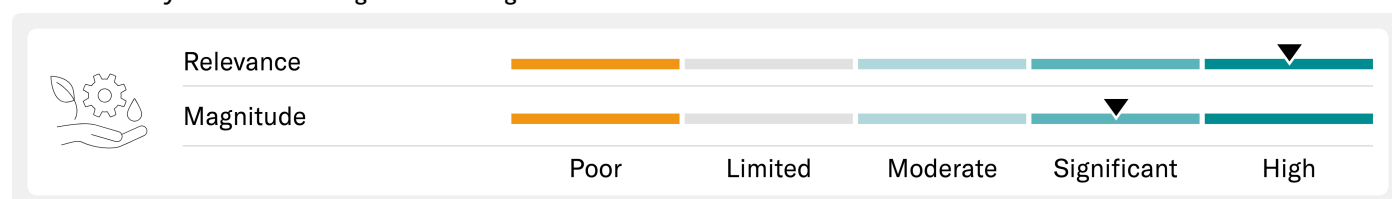


The relevance of this category is significant. In China, financing energy-efficient buildings is vital because the construction and building sector is a major contributor to carbon emissions, responsible for 48% of the nation's total emissions in 2022, including the embodied carbon.⁷ The expansion of building stocks due to ongoing urbanization has made achieving carbon neutrality in this sector essential

for meeting the country's dual carbon targets. Initiatives that promote low-carbon development in the building sector will support China's carbon neutrality efforts and align with national strategies to encourage green buildings. However, reducing GHG emissions from buildings is not the issuer's primary sustainability challenge, as emissions from livestock farming remain a more pressing concern.

The magnitude of this category is considered moderate due to the anticipated positive environmental impact of the buildings financed under this category. According to the issuer, the majority of proceeds from forthcoming issuances will be allocated to the construction of a new dairy product factory, where the factory is certified with a LEED Gold rating. However, without specific energy efficiency thresholds for project eligibility, relying solely on the certifications could result in varying levels of energy performance. Effluents from the factory will adhere to the national standard 'Discharge Standard of Water Pollutants for the Food Processing and Manufacturing Industry,' which aligns closely with standards in developed countries and aims to reduce environmental externalities. For warehouses that may be financed under future issuances, Mengniu will target a three-star rating under China's Green Warehouse Requirements and Evaluation. Although this rating promotes various environmental benefits, such as energy and water savings and sustainable land and material use, it does not specify quantitative thresholds on energy performance. The moderate score also reflects the fact that the majority of proceeds will be allocated to new building construction, inherently involving negative externalities like embodied carbon emissions from construction materials and environmental and social risks during the construction phase. While these risks are partially mitigated by a mandatory environmental impact assessment (EIA) required by regulation, the issuer has not established specific criteria or quantitative thresholds for embodied carbon.

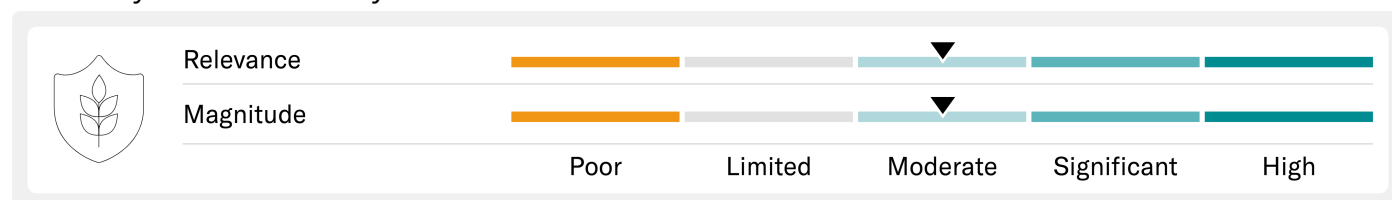
Environmentally sustainable management of living natural resources and land use



This category is highly relevant due to the need for environmentally sustainable management of water and soil resources impacted by intensive cattle farming. China's rapid economic development and the growing emphasis on health have increased the demand for dairy products, with local supplies expanding accordingly. As a result, livestock farming has become a source of pollution affecting both water and soil. Water pollution stems from the discharge of high-concentration organic wastewater, while improper manure treatment leads to soil contamination with heavy metals. Furthermore, substantial areas of agricultural land and fresh water resources are allocated to animal feed production, exacerbating deforestation issues. These environmental challenges are particularly relevant to Mengniu given it is a dairy product manufacturer.

The magnitude of this category is significant because the financed projects are likely to contribute to the stated environmental objectives. Initiatives in this category include sourcing raw milk certified by internationally recognized standards such as EU Organic, ACO, and NASAA. Procuring certified sustainably sourced raw milk provide several environmental benefits, including reduced pesticide and fertilizer use, lower eutrophication potential, improved soil quality and biodiversity, and enhanced animal welfare. Furthermore, Mengniu has committed to a 'zero deforestation' policy for raw milk sourcing, which is expected to mitigate deforestation risks throughout the value chain. Nevertheless, certain environmental externalities are inherent to agricultural and dairy production.

Food security and sustainable food systems

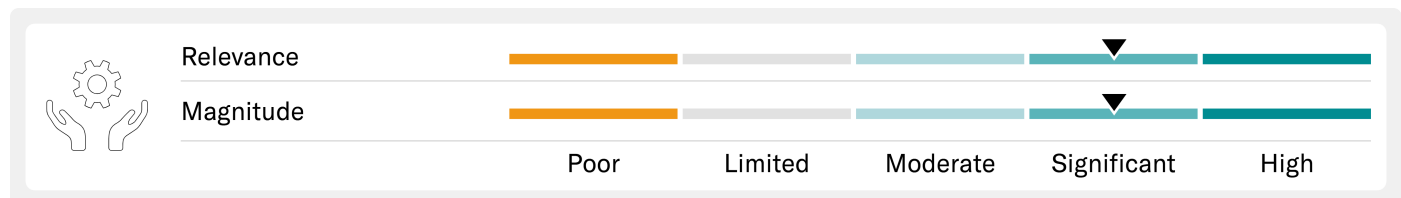


This category is moderately relevant for ensuring equal inclusion faced by the target populations in China. Projects financed under this category, which include providing free or subsidized milk to these populations, are not considered the most critical sustainability issue for the country, as China does not generally face significant undernourishment concerns.⁸ While milk distribution and nutritional

education align with Mengniu's dairy business, they are less critical to the company's key social priorities, such as ensuring product quality and safety. Instead, these activities are considered part of Mengniu's corporate philanthropic initiatives.

The projects under this category will have a moderate impact in improving the social inclusion of vulnerable groups in China, including preschool children, teenagers from low-income rural or ethnic minority backgrounds, children of migrant workers, and the elderly. Mengniu will distribute its milk products either free of charge or at a subsidized rates to ensure affordability. In certain instances, Mengniu will collaborate with local Party committees, governments, agricultural and livestock departments, and partner farms to distribute free or subsidized milk and dairy products to the target population. The company will also offer nutritional education by inviting experts to deliver on-site lectures aimed at introducing nutritional values and promoting healthy milk consumption and lifestyles among teenagers. While these efforts are expected to yield short- to medium-term benefits, such as improved nutritional intake and greater access to essential food products for marginalized communities, they are not considered long-term structural solutions. This is because socioeconomic advancements resulting from these projects are difficult to quantify, and establishing a direct causal link between the provision of free milk and the socioeconomic improvement of vulnerable target groups is challenging to measure and validate.

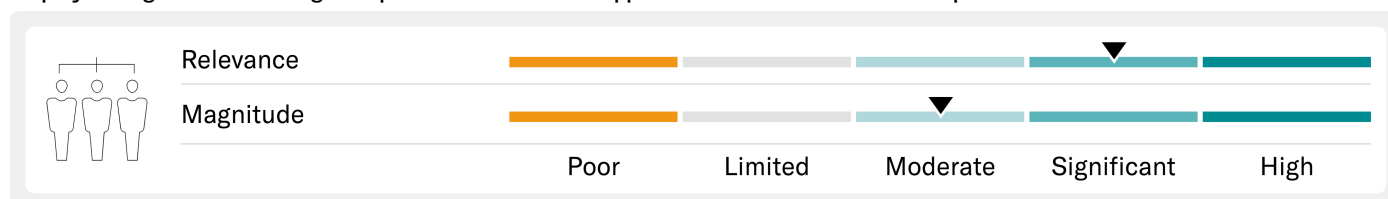
Access to essential services – vocational training



Projects under this category are significantly relevant in supporting China's dairy industry, aligning with the 14th Five-Year Plan's goals of optimizing production, regional development, and smart farming. China's dairy production has made substantial progress in recent years, driven by the accelerated adoption of mechanized, digital, and intelligent equipment, along with key technological advancements in dairy farms. In 2023, the proportion of large-scale dairy farms in China with more than 100 cows increased to 76%, reflecting a strong trend toward industrialization. Among these farms, over 99% utilized total mixed ration feed mixers, 100% had mechanical milking, and 83.7% and 79.1% adopted precision feeding and automated milk recording respectively.² Mengniu has supported this progress by promoting sustainable practices across all its cooperative farms, including 92%+ manure utilization, full deployment of smart temperature control systems, and standardized operating procedures (SOPs). Despite Mengniu's strong industry position and access to advanced farming technology and a skilled workforce, continuous vocational training remains essential to equip Mengniu's farm partners with the skills needed to maintain high standards and ensure consistent product quality.

The magnitude of this category is significant as vocational trainings are expected to strengthen local dairy farmers' and herdsmen's knowledge of sustainable agriculture. Mengniu plans to offer vocational training to all its partner dairy farmers and herdsmen. Given Mengniu's leading position in dairy production and its extensive operational network across China, the initiative has broad reach. Among them, small-scale farmers are considered more vulnerable due to limited access to resources compared to their larger counterparts. To ensure affordability, Mengniu has confirmed that all training will be provided free of charge. The vocational training programs will align with those previously offered by the company in collaboration with local governments, universities, and industry experts. Key initiatives include the "Golden Key" Dairy Cow Demonstration, which improves farm productivity and milk quality through expert-led evaluations and training on topics such as precision feeding and disease prevention. Mengniu also promotes its SOP Upgrade Guidance Manual to standardize practices across six core areas: milking parlor management, calf rearing, nutrition management, breeding management, veterinary care, and equipment management. These are delivered through on-site sessions, workshops, and expert lectures. Additionally, Mengniu supports all its cooperative farms in implementing advanced manure resource utilization practices. Through techniques such as fermentation, solid-liquid separation, and other treatment technologies, farms significantly reduce manure volume while transforming waste into valuable resources. The processed manure is repurposed into cow bedding materials, organic fertilizers, biomass fuel for biogas power generation, and even aquaculture feed.

Employment generation through the provision of financial supports to small and medium enterprises



The category is significantly relevant for addressing inadequate access to finance among micro, small and medium enterprises (MSMEs) in China. MSMEs account for more than 90% of all businesses in the country and play a crucial role in driving economic growth.¹⁰ Despite their importance, these enterprises often struggle to secure financing due to their limited credit history and uncertain business prospects.¹¹ Mengniu has confirmed its intention to target small and medium-sized enterprises (SMEs), pasture partners, farmers and herdsmen within its upstream supply chain network. This approach is likely to enhance supply chain stability by ensuring that key partners have the financial resources necessary for effective operations. While this initiative may contribute to employment growth within the company's supply chain, providing financial support through collaboration with financial institutions are considered less relevant to Mengniu's core business.

Projects under this category will moderately contribute to employment generation across Mengniu's upstream supply chain. By offering financing programs to SMEs, pasture partners, farmers and herdsmen, these initiatives aim to lower their financial access barriers. However, it is important to note that generally defined SMEs, particularly medium-sized enterprises, may not necessarily represent the most vulnerable groups. Mengniu has confirmed that financial supports will be provided on preferential terms, such as extended repayment periods, reduced interest rates, and increased credit lines. Mengniu plans to collaborate with financial institutions by leveraging its creditworthiness to enable upstream partners to access more favorable financing options. To ensure the financial health of borrowers, Mengniu will conduct regular risk assessments and monitor repayment capacity. Additionally, a digital platform will be used to verify real-time transaction data, ensuring the authenticity of trades with SMEs. While funds are primarily intended for daily operational expenditure and infrastructure upgrades, and fossil fuel-related activities are excluded from financial supports eligibility, there remains uncertainty about whether financial supports proceeds might indirectly support activities with negative externalities, such as non-sustainable agricultural practices, given that Mengniu's upstream partners operate within the dairy sector.

Additional contribution to sustainability considerations

Mengniu has a robust due diligence process to identify and manage E&S risks associated with the financed projects. The Company has established a Sustainable Development Executive Committee, which oversees the environmental and social risk assessment and management of potential eligible projects financed under the Framework, leveraging its existing sustainability and risk management framework. This is in addition to ensuring that eligible projects meet applicable national and international environmental and social standards and regulations. Mengniu's environmental and social risk policies define minimum standards for its business activities, and include relevant policies around forest protection, animal welfare, nutrition and health, sustainable palm oil, and responsible dairy sourcing and management.

The framework is coherent with the sustainability strategy of Mengniu. The company's sustainability efforts center on the "GREEN Sustainable Development Strategy", which includes 5 pillars encompassing environmental, social, and governance goals. Mengniu is part of global sustainability initiatives such as the United Nations Global Compact (UNGC), Pathways to Dairy Net Zero (PDNZ), and the Roundtable on Sustainable Palm Oil (RSPO). Mengniu has established a "dual-carbon" governance structure, and set a dual-carbon strategic plan of achieving a carbon peak by 2030, and carbon neutrality by 2050. However, while projects financed under this framework do not address enteric emissions, which constitute the largest source of methane emissions in the dairy sector, the company is working with partners in its value chain to support the low-carbon transition of partner ranches through improving energy efficiency, optimizing manure management, enhancing herd management, adjusting feed composition, and implementing ecological carbon sequestration projects.

Appendix 1 - Alignment with principles scorecard for Mengniu's sustainable finance framework

Factor	Sub-factor	Component	Component score	Sub-factor score	Factor score
Use of proceeds	Clarity of the eligible categories	Nature of expenditure	A	Best practices	Aligned
		Definition of content, eligibility and exclusion criteria for nearly all categories	A		
		Location	A		
		BP: Definition of content, eligibility and exclusion criteria for all categories	Yes		
	Clarity of the objectives	Relevance of objectives to project categories for nearly all categories	A	Best practices	
		Coherence of project category objectives with standards for nearly all categories	A		
		BP: Objectives are defined, relevant and coherent for all categories	Yes		
	Clarity of expected benefits	Identification and relevance of expected benefits for nearly all categories	A	Aligned	
		Measurability of expected benefits for nearly all categories	A		
		BP: Relevant benefits are identified for all categories	Yes		
		BP: Benefits are measurable for all categories	Yes		
		BP: Disclosure of refinancing prior to issuance and in post-allocation reporting	No		
		BP: Commitment to communicate refinancing look-back period prior to issuance	Yes		
Process for project evaluation and selection	Transparency and clarity of the process for defining and monitoring eligible projects	Clarity of the process	A	Best practices	Best practices
		Disclosure of the process	A		
		Transparency of the environmental and social risk mitigation process	A		
		BP: Monitoring of continued project compliance	Yes		
Management of proceeds	Allocation and tracking of proceeds	Tracking of proceeds	A	Best practices	Best practices
		Periodic adjustment of proceeds to match allocations	A		
		Disclosure of the intended types of temporary placements of unallocated proceeds	A		
		BP: Disclosure of the proceeds management process	Yes		
		BP: Allocation period is 24 months or less	Yes		
Reporting	Reporting transparency	Reporting frequency	A	Aligned	Aligned
		Reporting duration	A		
		Report disclosure	A		
		Reporting exhaustivity	A		
		BP: Allocation reporting at least until full allocation of proceeds, and impact reporting until full bond maturity or loan payback	No		
		BP: Clarity and relevance of the indicators on the sustainability benefits	Yes		
		BP: Disclosure of reporting methodology and calculation assumptions	Yes		
		BP: Independent external auditor, or other third party, to verify the tracking and allocation of funds	No		
		BP: Independent impact assessment on environmental and social benefits	No		
Overall alignment with principles score:					Aligned

Legend: BP - Best practice, A - Aligned, PA - Partially aligned, NA - Not aligned

Appendix 2 - Mapping eligible categories to the United Nations' Sustainable Development Goals

The 10 eligible categories included in Mengniu's framework are likely to contribute to seven of the United Nations' Sustainable Development Goals (SDGs), namely

UN SDG 17 Goals	Eligible Category	SDG Targets
GOAL 2: Zero Hunger	<i>Food Security and Sustainable Food Systems</i>	2.1: End hunger and ensure access by all people to safe, nutritious and sufficient food all year round
GOAL 6: Clean Water and Sanitation	<i>Sustainable Water and Wastewater Management</i>	6.3: Improve water quality by reducing pollution, eliminating dumping and minimizing hazardous chemicals and materials 6.4: Increase water-use efficiency across all sectors and ensure sustainable supply of freshwater to reduce water scarcity
GOAL 7: Affordable and Clean Energy	<i>Renewable Energy</i>	7.2: Increase substantially the share of renewable energy in the global energy mix
	<i>Energy Efficiency</i>	7.3: Double the global rate of improvement in energy efficiency
GOAL 8: Decent Work and Economic Growth	<i>Access to Essential Services – Vocational Training</i>	8.3: Promote policies that support productivity, job creation, entrepreneurship, innovation, and encourage the growth of SMEs
	<i>Employment Generation through the Provision of Financial Supports to Small and Medium Enterprises</i>	
GOAL 9: Industry, Innovation and Infrastructure	<i>Green Buildings</i>	9.1: Develop sustainable infrastructure to support economic development and human well-being, focusing on equitable access
GOAL 11: Sustainable Cities and Communities	<i>Clean Transportation</i>	11.2: Provide access to safe, affordable, accessible and sustainable transport systems for all
GOAL 12: Responsible Consumption and Production	<i>Environmentally Sustainable Management of Living Natural Resources and Land Use</i>	12.2: Achieve the sustainable management and efficient use of natural resources
	<i>Circular Economy Adapted Products, Production Technologies and Processes</i>	12.5: Substantially reduce waste generation through prevention, reduction, recycling and reuse

The United Nations' Sustainable Development Goals (SDGs) mapping in this SPO considers the eligible project categories and associated sustainability objectives/benefits documented in the issuer's financing framework, as well as resources and guidelines from public institutions, such as the ICMA SDG Mapping Guidance and the UN SDG targets and indicators.

Appendix 3 - Summary of eligible categories in Mengniu's framework

Eligible Categories	Description	Sustainability Objectives	Impact Reporting Metrics
Renewable Energy	<p>» Expenditures related to the construction, development, acquisition, maintenance, and operation of renewable energy projects including:</p> <ul style="list-style-type: none"> - Solar (PV and Concentrated Solar Power with a minimum 85% of power generation derived from solar sources) - Wind energy - Bioenergy facilities to generate the electricity, boiler heating and cooling energy by using biogas/biomass with direct GHG emissions below 100gCO₂/kWh - Renewable energy power purchase agreements (PPAs) or purchases of Renewable Energy Certificates (RECs) if sourcing from long-term PPAs are not available 	Climate change mitigation	<p>» Capacity of renewable energy plant(s) constructed or rehabilitated in MW</p> <p>» Annual renewable energy generation in MWh/GWh (electricity) and GJ/TJ (other energy)</p> <p>» Annual GHG emissions reduced/avoided in tonnes of CO₂ equivalent (where possible)</p>
Clean Transportation	<p>» Expenditures related to the acquisition, operation, maintenance and upgrades of zero tailpipe emission vehicles and dedicated infrastructure. Example projects include:</p> <ul style="list-style-type: none"> - Vehicles for passenger and heavy fleet freight transportation and charging infrastructure, such as fully electrified road transportation <p>For the avoidance of doubt, infrastructure dedicated to the transportation of fossil fuel will be excluded</p>	Climate change mitigation	<p>» Number of electric vehicles acquired</p> <p>» Number of charging stations installed</p> <p>» Annual GHG emissions reduced (tCO₂e)</p>
Energy Efficiency	<p>» Expenditures related to the construction, operation, and maintenance of energy-efficient facilities and infrastructure in the office building or production plant that improve energy efficiency by at least 20%. Example projects include:</p> <ul style="list-style-type: none"> - Energy efficient equipment such as air-cooling equipment in refrigeration systems, air compressor and energy saving motor systems - Modernization of lighting systems including LED lighting - HVAC infrastructure, energy management systems, smart meters, sensors, measurement tools, air conditioning energy saving upgrade, cold storage upgrade, off-grid power units (such as small-scale electricity generation from renewable resources), energy storage batteries , transformers <p>For the avoidance of doubt, improvement activities that result in the lock in of fossil fuel technologies will be excluded</p>	Climate change mitigation	<p>» Estimated avoided GHG emissions (tCO₂e)</p> <p>» Expected energy saved (in MWh)</p> <p>» Percentage annual energy efficiency gain relative to an established baseline</p>

Eligible Categories	Description	Sustainability Objectives	Impact Reporting Metrics
Circular Economy Adapted Products, Production Technologies and Processes	<p>» Expenditures related to resource-efficient packaging designed to be recycled and packaging made from recycled content. Example projects include:</p> <ul style="list-style-type: none"> - Facilities for enabling sustainable packaging, for example the equipment and processes that allow for the use of recycled boxes and packaging through the company's value chain - Recyclable packaging material paper certified by the Forest Stewardship Council (FSC) or the Sustainable Forestry Initiative (SFI) <p>» Expenditures related to bio-waste management by processing bio-waste (i.e. anaerobic digestion or composting etc.) resulting in the production and utilisation of biogas, biomethane, digestate, compost, organic fertilizer</p>	Transition to a circular economy	<p>» Share of certified packaging material (%)</p> <p>» Reused and recycled components (tons)</p> <p>» Share of recyclable packaging material (%)</p> <p>» Total packaging materials reduced (tons)</p> <p>» Waste prevented, minimized, reused or recycled (tons)</p> <p>» Estimated avoided GHG emissions (tCO₂e)</p> <p>» Improved bio-waste treatment practice in % of total volume</p>
Sustainable Water and Wastewater Management	<p>» Expenditures related to sustainable water and wastewater management, such as water reuse and recycling, efficiency, and conservation. Example projects include:</p> <ul style="list-style-type: none"> - Recycling facilities to promote reuse water in production process - Water reclamation system - Wastewater collection and treatment facilities - Physical (thickening, dewatering) and biological (digestion, composting) treatment of sludge coming from wastewater treatment or reuse of those sludges <p>For water supply related facilities and infrastructure, the net average energy consumption for abstraction and treatment will not exceed 0.5 kWh per cubic meter produced water supply. And/or the water leakage level of infrastructure leakage level (ILI) will not exceed 1.5.</p>	Sustainable use and protection of water and marine resources	<p>» Annual volume of water consumption reduced or saved (m3)</p> <p>» Annual volume of wastewater treated or avoided (m3)</p> <p>» Annual volume of water treated or recycled (m3)</p> <p>» Capacity of facilities being built (m3)</p>
Green Buildings	<p>» Expenditures related to the design, construction, retrofit, upgrade, or renovation of new or existing commercial, residential buildings or production plants that have received, or expect to receive based on its design, construction and operational plans, certification according to third-party verified green building standards, such as:</p> <ul style="list-style-type: none"> - China's Green Building Evaluation Label (Three star or above) - Leadership in Energy and Environmental Design ("LEED") V4.0 or V4.1 (Gold or Platinum) - Building Research Establishment Environmental Assessment Method ("BREEAM") (Excellent or Outstanding) - China Green Warehouse Evaluation Label (Three star) <p>For the avoidance of doubt, fossil fuel and dairy farm related infrastructure will be excluded</p>	Climate change mitigation	<p>» Level of certification by property</p> <p>» Estimated avoided GHG emissions (tCO₂e)</p> <p>» Annual energy savings (MWh pa)</p>

Eligible Categories	Description	Sustainability Objectives	Impact Reporting Metrics
Environmentally Sustainable Management of Living Natural Resources and Land Use	<p>» Expenditures related to acquisition, use of materials and products, and activities that contribute to the sustainable management of living natural resources and land use as well as the natural ecosystem protection or restoration. Example projects include:</p> <ul style="list-style-type: none"> - Procurement of certified sustainable sourcing products, including raw milk. Certification schemes include EU Organic certification , ACO / NASAA organic standards , and other equivalent internationally recognized certifications 	Protection and restoration of biodiversity and ecosystems	» Volume, spend or percentage of certified ingredients / products
Food Security and Sustainable Food Systems	<p>» Expenditures related to programs and activities to support equitable access to low cost, high quality and nutritious dairy and food products, as well as other opportunities, services, and resources. Example of projects include :</p> <ul style="list-style-type: none"> - Activities that aim to support vulnerable group people to advance their socio-economic position. For example, programs to provide free or subsidised milk help advance their socioeconomic position - Programs with a focus on providing nutritional support to the Target population <p>Target population Preschool children and teenagers from low-income rural or ethnic-minority communities, underserved populations, and migrant workers' children and elderly</p>	Equitable participation into the society	» Number of people reached with affordable and nutritious dairy products
Access to Essential Services – Vocational Training	<p>» Expenditures related to projects that seek to develop and support sustainable local dairy sectors. Example projects include :</p> <ul style="list-style-type: none"> - Education, knowledge and awareness building for local dairy farmers and herdsmen to develop sustainable long-lasting value chains with a view to upgrade production methods, improve productivity, reduce waste etc. Initiatives include technical support on nutrition practices and standard operating procedures trainings. <p>Target Population Local dairy farmers and herdsmen</p>	Access to essential services and improve the living skills	» Number of direct beneficiaries reached from relevant projects (#)
Employment Generation through the Provision of Financial Supports to Small and Medium Enterprises	<p>» Financing programs to support Small and Medium-Enterprises (SMEs), as defined by the local jurisdiction, in the sector to prevent / alleviate unemployment stemming from socioeconomic crisis and to generate employment. Example projects include:</p> <ul style="list-style-type: none"> - Supply chain financial services to upstream SMEs and to upstream pasture partners, farmers and herdsmen to support various financial needs <p>» Subsidies and financial supports to upstream SMEs subjected to pandemic or natural disaster damages</p> <p>Target population Micro and small enterprises , and pasture partners, farmers and herdsmen</p>	Promote inclusive finance and job creation	<p>» Number of SMEs/individuals benefitted</p> <p>» Number of financial supports to SMEs</p>

Endnotes

- ¹ Point-in-time assessment is applicable only on date of assignment or update.
- ² [IEA: China](#), accessed on 25 June 2025.
- ³ [State Administration for Market Regulation Holds Special News Conference on National Standard 'Requirements for Limiting Excessive Packaging of Goods: Food and Cosmetics'](#) (in Chinese), 2 September 2021.
- ⁴ [National Report on the Release of Information on the Prevention and Control of Environmental Pollution by Solid Waste \(2024\)](#) (in Chinese), December 2024.
- ⁵ [Guiding Opinions on Accelerating the Comprehensive Green Transformation of Agricultural Development and Promoting Rural Ecological Revitalization](#) (in Chinese), 26 December 2024.
- ⁶ [World Bank: Renewable Internal Freshwater Resources Per Capita \(cubic meters\) - China, World](#), accessed on 25 June 2025
- ⁷ [WRI: Sustainable Building](#), accessed on 25 June 2025
- ⁸ [Sustainable Development Report: SDG 2 Zero Hunger](#), accessed on 25 June 2025.
- ⁹ [Promoting the Comprehensive Revitalization of the Dairy Industry](#) (in Chinese), 2 August 2024.
- ¹⁰ [Overview of MSMEs in Asia-Pacific Regions](#), accessed on 25 June 2025.
- ¹¹ [Improving the Financing System for Micro, Small, and Medium-Sized Enterprises](#), accessed on 25 June 2025.

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