



# Yunnan Provincial Energy Investment Group Co., Ltd.



## Sustainable Finance Framework

March 2022



## Table of Contents

<b>1. Introduction</b> .....	<b>3</b>
1.1 Business Overview .....	3
1.2 Sustainability Strategy and Vision .....	3
1.3 Yunnan Energy Sustainable Finance Framework .....	4
<b>2. Yunnan Energy Green Financing Transactions Overview</b> .....	<b>5</b>
2.1 Use of Proceeds .....	5
2.1.1 Eligible Green Project Categories .....	5
2.1.2 Exclusions .....	6
2.2 Process for Project Evaluation and Selection.....	7
2.3 Management of Proceeds .....	7
2.3.1 Type of Funding Transaction .....	8
2.3.2 Allocation of Use of Proceeds .....	8
2.4 Reporting .....	8
2.4.1 Allocation Reporting.....	8
2.4.2 Impact Reporting .....	9
<b>3. Yunnan Energy Sustainability-Linked Transactions Overview</b> .....	<b>9</b>
3.1 Selection of Key Performance Indicators (KPIs).....	10
3.2 Calibration of the Sustainability Performance Targets (SPTs).....	11
3.3 Strategy to achieve the SPTs.....	13
3.4 Bond/Loan characteristics.....	13
3.5 Reporting .....	14
<b>4. External Review</b> .....	<b>14</b>



## 1. Introduction<sup>1</sup>

### 1.1 Business Overview

Yunnan Provincial Energy Investment Group Co., Ltd. (“Yunnan Energy”, “the Group”) obtained approval for its formation from the Yunnan Provincial Government on January 11, 2012 as the key provincial SOE supervised by Yunnan SASAC, the sole strategic platform to engage in the investment and development of the energy sector, the sole platform to integrate all energy resources and the sole energy investment platform of the Yunnan Provincial Government and the main platform driving the development of the provincial government’s clean energy strategy.

Meanwhile, the Group is also the pilot “state-owned capital investment companies”, with 3 “provincial-level platform” companies supported by the Yunnan Provincial Government.

With strong support from the government, Yunnan Energy has transformed from a pure energy investment group to a fully-integrated clean energy group, achieving rapid growth in both scale and efficiency by building on the core energy business and fully leveraging its own industry chain benefits, and has become a leading state-owned energy enterprise of Yunnan Province and a multinational group with superior competitiveness in energy sector.

The Group has invested in a diversified portfolio of hydropower, fossil fuel, wind power, natural gas, solar and other new energy projects that are of strategic importance to Yunnan Province. It has the only platform to monitor power sales and distribution, as well as to dispatch natural gas in Yunnan province, and is a pilot program of the Yunnan Provincial Government power department.

As of 31 December 2021, the Company has 374 consolidated subsidiaries, engaging in power production and sales, natural gas distribution network operation and sales, natural resources logistics and trading, information and big data business and integrated businesses.

### 1.2 Sustainability Strategy and Vision

Yunnan Energy focuses on the business of green energy, and jointly develops energy-related finance and energy generating capacities, and therefore helps the Yunnan province achieve carbon-neutralization. Specifically, the group is putting effort in expanding supply of wind and solar power.

As a responsible company, the Group abides by "Renewable Energy Law of the People's Republic of China" and other environmental protection laws and regulations.

Yunnan Energy formulates its vision of being a multinational group with competitive advantages in the national energy field.

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<sup>1</sup> Sources: YEIG website and Annual Report



Recently, the Group accelerated asset securitization in clean energy sector and became affiliates in two major listed hydropower generation companies in China (3.17% of China Yangtze Power and 28.3% of HuanengHydropower), robustly helps building the national energy base.

The Group also seized opportunities emerging from electricity reform, consolidates existing capacity, strives for new capacity, helps new projects (such as Lufeng, Huaping, etc.) to become national pilot projects, so as to achieve a comprehensive business portfolio consisting of power generation, distribution and sales, taking the important step in achieving independent control of power grid resources.

#### **Power Generation and Sales:**

- Diversified power sources, including wind power, solar power, hydropower, fossil fuel power, waste-to-energy power and gas power. As at the end of June 2021, the consolidated installed capacity of power plants controlled by the Group (which were in operation) and the attributable installed capacity of the invested power plants (which were in operation) totaled 17,217 MW.
- In June 2016, the Yunnan Provincial Government approved the establishment of Yunnan Provincial Power Sales and Distribution Co.,Ltd. This company acts as the designated strategic platform for the comprehensive pilot supply-side structural reform of Yunnan power sector. In the meantime, this company is building a cross-border electricity trading center.

#### **Natural Gas Operations:**

- Supported by the Yunnan Provincial Government, the Group’s natural gas operations have commenced since 2013.
- In August 2016, the Yunnan Provincial Government approved the establishment of Yunnan Provincial Natural Gas Co., Ltd., which will act on behalf of the Yunnan Provincial Government to implement its gas system reforms and the “Gas Fueled Yunnan” strategy.
- Currently, the Group has commenced construction and operated 8 natural gas branch pipeline projects. In addition, the Group also progressively expanded into the development and operation of natural gas infrastructure such as pipeline, gas centers, shale gas centers and offshore LNG.

### **1.3 Yunnan Energy Sustainable Finance Framework**

Yunnan Energy Sustainable Finance Framework (“the Framework”) incorporates a Green Financing Transactions Overview for green transactions with green use of proceeds (see part 2. below) and a Sustainability-Linked Transactions Overview for Sustainability-Linked Transactions (see part 3. below).

Yunnan Energy may also consider issuing double ESG transactions<sup>2</sup> with both a sustainability-linked feature and green use of proceeds.

The framework also covers External Review.

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<sup>2</sup> Double ESG: Sustainability-Linked instrument for which the use of proceeds will be allocated to eligible green projects as per the framework.



## 2. Yunnan Energy Green Financing Transactions Overview

To support our commitment towards sustainability, Green Financing Transactions (“GFTs”) will include bonds, loans and other forms of debt financing with structures tailored to contribute to sustainable development by application of the proceeds to Eligible Green Projects as defined in this Framework.

- With respect to bonds, bonds issued under this Framework will be aligned with the 2021 Green Bond Principles (“GBP”) by ICMA<sup>3</sup>, or as they may subsequently be updated.
- With respect to loans, loans issued under this Framework will be aligned with the 2021 Green Loan Principles including Guidance Notes<sup>4</sup> (“GLP”), or as they may subsequently be updated.
- Other GFTs may conform to other sustainable finance principles as may have been established at the time of such a financing transaction being undertaken.

GFTs do not place restriction on the tenor and currency; and can include other terms and conditions including covenants, to reflect the financing strategy and plans of Yunnan Energy as well as the outcome of the commercial discussions between the Issuer/Borrower and Manager/Arranger/Lender.

GFTs may be done in any jurisdiction and market reflecting Yunnan Energy’s current and future business needs.

For each GFT, Yunnan Energy management asserts that it will adopt the following core components of the GBP and GLP:

1. Use of proceeds;
2. Process for project evaluation and selection;
3. Management of proceeds; and
4. Reporting.

### 2.1 Use of Proceeds

The net proceeds of the Green Bonds and Loans will be used to fund or refinance, in whole or in part, new or existing Eligible Projects (“**Eligible Green Projects**”) that meet one or more of the below categories of eligibility (“Eligibility Criteria”) as recognized in the 2021 GBP:



#### 2.1.1 Eligible Green Project Categories

Eligible Green Projects may include the projects Yunnan Energy made during the 2 years prior to the issuance or signing date of the respective GFTs and during the life of the GFTs.

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<sup>3</sup> <https://www.icmagroup.org/sustainable-finance/the-principles-guidelines-and-handbooks>

<sup>4</sup> <https://www.aplma.com/en/gsl>

Eligible Green Project Category	Sub-Category	Eligibility Criteria for Yunnan Energy	UN SDGs
<b>Renewable Energy Production</b>    	Wind Power	<ul style="list-style-type: none"> <li>• Development, construction, installation and maintenance of Wind Facilities (such as Onshore and Offshore projects including floating wind turbines)</li> </ul>	<b>SDG 7: Affordable and clean energy</b> through enhancing wind power and solar power generation scale  <b>SDG 13: Climate change mitigation</b> through the avoidance and reduction of Greenhouse gas emissions (GHG)
	Solar Power	<ul style="list-style-type: none"> <li>• Development, construction, installation and maintenance of Solar Facilities (such as Photovoltaic or Thermodynamic plants)</li> </ul>	

### 2.1.2 Exclusions

The following industries are excluded from consideration for eligibility (“Exclusions”):

- Projects linked to Nuclear activities (such as Nuclear Power Plants and related infrastructures);
- Projects related to Acquisition, Development, Operation and maintenance of new or existing fossil fuel based electricity generation capacity or heating systems (including, but not limited to, coal, oil or natural gas-powered assets);
- Projects related to Acquisition, Development, Operation and maintenance of new or existing coal mines;
- Projects related to Industrial and non-conventional waste (chemicals, nuclear, toxic waste);
- Luxury sectors (precious metals wholesale or brokerage, precious minerals wholesale or brokerage, artworks and antiques wholesale or brokerage);
- Production or trade in any product or activity deemed illegal under host country laws or regulations or international conventions and agreements;
- Production or trade in weapons and munitions;
- production or trade in alcoholic beverages (excluding beer and wine);
- Production or trade in tobacco;
- Gambling, casinos and equivalent enterprises;
- Trade in wildlife or wildlife products regulated under CITES;
- Production or trade in radioactive materials;
- Production or trade in or use of unbonded asbestos fibers;
- Purchase of logging equipment for use in primary tropical moist forest;



- Production or trade in pharmaceuticals subject to international phase outs or bans;
- Production or trade in pesticides/herbicides subject to international phase outs or bans;
- Drift net fishing in the marine environment using nets in excess of 2.5 km. in length.

## 2.2 Process for Project Evaluation and Selection

The Eligible Green Projects are identified and selected via a process that involves participants from various functional areas, including the project teams.

Yunnan Energy has set up an ESG Committee (“ESGC”) under its wholly owned subsidiary in Hong Kong to oversee its ESG and Sustainability reporting. The ESGC will also resume the responsibility of GFTs. The ESGC will be composed of representatives from the below departments with the required level of expertise and seniority:

- Capital Operation Division
- Human Resources Division
- Compliance and Risk Management Division
- Board of Directors Office
- Project Management Division
- Operation Management Division

The ESGC will meet at least every 12 months to review and select eligible projects according to the criteria outlined in Sections 2.1.1 mentioned above. The shortlisted projects will be presented to the ESGC for approval and approved projects will be disclosed in the Group’s annual audit report.

The ESGC will ensure that the selected Eligible Projects comply with the section of Use of Proceeds in this framework, with the environmental guidelines under the GBP and GLP, as well as with Yunnan Energy’s Environmental, Social and Governance Policies which offers risk management tools to mitigate related ESG risks.

In addition, the ESGC will be responsible for managing any future updates of the Framework, including any expansion of requirements of use of proceeds.

Eligible Green Projects may include new projects, projects under construction or in Yunnan Energy’s portfolio, with a disbursement date no older than 2 years.

## 2.3 Management of Proceeds

The proceeds from each GFT issued will be managed by Yunnan Energy’s finance team and the proceeds of each GFT will be deposited in the general funding accounts. An amount equals the all proceeds from each GFT will be earmarked for allocation to Eligible Green Projects, in accordance with Yunnan Energy Framework.

Yunnan Energy will maintain a register to keep track of the use of proceeds for each GFT. The register will contain the following information including:



### **2.3.1 Type of Funding Transaction**

Key information includes issuer/borrower entity, transaction date, number of transactions, principal amount of proceeds, repayment or amortization profile, maturity date, interest or coupon, and the ISIN number in case of bond transaction.

### **2.3.2 Allocation<sup>5</sup> of Use of Proceeds**

- Name and description of Eligible Green Projects to which the proceeds of the GFTs have been allocated in accordance with the Framework
- Allocation of the proceeds of GFTs to Eligible Green Projects
- The balance of unallocated proceeds
- Information of temporary investment for unallocated proceeds

Yunnan Energy is committed to allocating all proceeds from the GFT to Eligible Green Project exclusively on a best effort basis within 1 year of the GFT issuance in accordance with the evaluation and selection process set out above.

Yunnan Energy will monitor the allocation to Eligible Green Project and track the proceeds through its internal accounting system.

Pending allocation, the proceeds from the GFTs issued may be managed according to Yunnan Energy's usual liquidity management practice, including in cash or cash equivalents.

During the life of the GFTs issued, if the designated Projects cease to fulfil the Eligibility Criteria, the net proceeds will be re-allocated to replacement Projects that comply with the Eligibility Criteria, as soon as reasonably practicable.

## **2.4 Reporting**

Yunnan Energy will provide information on the allocation and impact of the net proceeds of its GFTs in Yunnan Energy's Sustainability Report or on a separate report specific to the GFT. Such information will be provided on an annual basis throughout the life of the GFTs.

The information in the reporting will contain at least the following details:

### **2.4.1 Allocation Reporting**

Yunnan Energy will provide the following information for the net proceeds of all the GFTs during the period:

- The aggregate amount allocated to various Eligible Green Projects
- The remaining balance of funds which have not yet been allocated and type of temporary investment
- Share of financing vs. refinancing

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<sup>5</sup> The proceeds of a green bond can be managed per bond (bond-by-bond approach) or on an aggregated basis for multiple green bonds (portfolio approach).





- Examples of Eligible Green Projects (subject to confidentiality disclosures)

### 2.4.2 Impact Reporting

Where possible, Yunnan Energy will report on the environmental impacts associated with the Eligible Green Projects funded with the net proceeds of the GFTs.

Subject to the nature of Eligible Green Projects and availability of information, Yunnan Energy will include, but not limited to, the following Impact Indicators:

Eligible Green Categories	Impact Indicators <sup>6</sup>
Renewable energy	<ul style="list-style-type: none"> <li>• Renewable energy produced (MWh)</li> <li>• Renewable energy capacity (MW)</li> <li>• Annual energy savings (MWh pa)</li> <li>• Greenhouse Gas (GHG) Emission avoided (tonnes of CO<sub>2</sub>e)</li> </ul>

Transparency is of particular value in communicating the expected and/or achieved impact of projects. Yunnan Energy will follow the recommendation of the 2021 GBP and use qualitative performance indicators and, where feasible, quantitative performance measures and disclosure of the key underlying methodology and/or assumptions used in the quantitative determination.

## 3. Yunnan Energy Sustainability-Linked Transactions Overview

This Framework also covers Sustainability-Linked Bonds (“SLBs”) and Sustainability-Linked Loans (“SLLs”), together the Sustainability-Linked Transactions (“SLTs”), whose financial characteristics are linked to a sustainability performance target.

Yunnan Energy believes the issuance of SLTs will support its efforts to achieve its sustainability strategy and reinforce its commitment towards a low emissions future. Such instruments represent the next step in aligning Yunnan Energy’s business and financing with its commitments and values by creating a direct link between its sustainability and funding strategies.

This Framework will apply to any forthcoming SLT. The aim of this Framework is to provide transparency and disclosure of Yunnan Energy’s SLTs to its investors and stakeholders, following the industry best market practices and subject to future market developments and expectations.

The Framework defines a set of guiding principles for bonds/loans linked to the achievement of material, quantitative, pre-determined, ambitious, regularly monitored and externally verified sustainability

<sup>6</sup> Appropriate environmental and social impact indicators will be determined in reference to frameworks and resources published by ICMA, such as the Harmonized Framework for Impact Reporting June 2021. Visit <https://www.icmagroup.org/green-social-and-sustainability-bonds/impact-reporting/> for more.



objectives through a Key Performance Indicators (“KPI”) and a Sustainability Performance Target (“SPT”), with or without specific dedicated use-of-proceeds.

Yunnan Energy has designed this Framework in compliance with the Sustainability-Linked Bond Principles 2020<sup>7</sup> (“SLBP”) as published by the International Capital Market Association (“ICMA”), and the Sustainability-Linked Loan Principles 2021<sup>8</sup> (“SLLP”) as published by the Loan Market Association (“LMA”), the Asia Pacific Loan Market Association (APLMA) and the Loan and Syndication and Trading Association (LSTA), in order to be aligned with market best practices.

For all SLTs, Yunnan Energy asserts that it will adopt the following as set out in this Framework:

1. Selection of KPI
2. Calibration of the SPT
3. Bond/Loan characteristics
4. Reporting
5. Verification (covered in Part 4. of the framework “External Review”)

### **3.1 Selection of Key Performance Indicators (KPIs)**

Yunnan Energy has selected the following KPIs to reflect its key sustainability focus:

**KPI 1:** Wind Power Generating Capacity (%)

**KPI 2:** Solar Power Generating Capacity (%)

#### **KPIs’ coverage**

The KPIs will apply to our operation in People’s Republic of China. The KPIs cover all Wind and Solar generating units, owned and or controlled by the Yunnan Energy’s affiliates and its subsidiaries.

#### **KPI’s calculation methodology:**

The KPIs will be calculated using the rated output of power generating units and plants, usually denominated in Megawatt (MW); They are calculated as sum-product of percentage of equity stake in the project times its generation capacity.

#### **Rationale for KPIs**

Climate change has widespread consequences on the planet. We recognise the responsibilities corporations must bear in tackling climate change and the importance of rethinking the way we operate. The above mentioned KPIs are relevant to Yunnan Energy’s current sustainability strategy and policy to

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<sup>7</sup> International Capital Market Association SLB 2020: <https://www.icmagroup.org/assets/documents/Regulatory/Green-Bonds/June-2020/Sustainability-Linked-Bond-PrinciplesJune-2020-100620.pdf>

<sup>8</sup> Sustainability-Linked Loan Principles 2021: <https://www.lsta.org/content/sustainability-linked-loan-principles-sllp/>



align with China’s ambitions to increase renewable energy supply as part of China’s “30-60” climate strategy – Dual Carbon Targets<sup>9</sup>.

**Issuer’s plan to achieve the increase in renewable energy investment KPIs:**

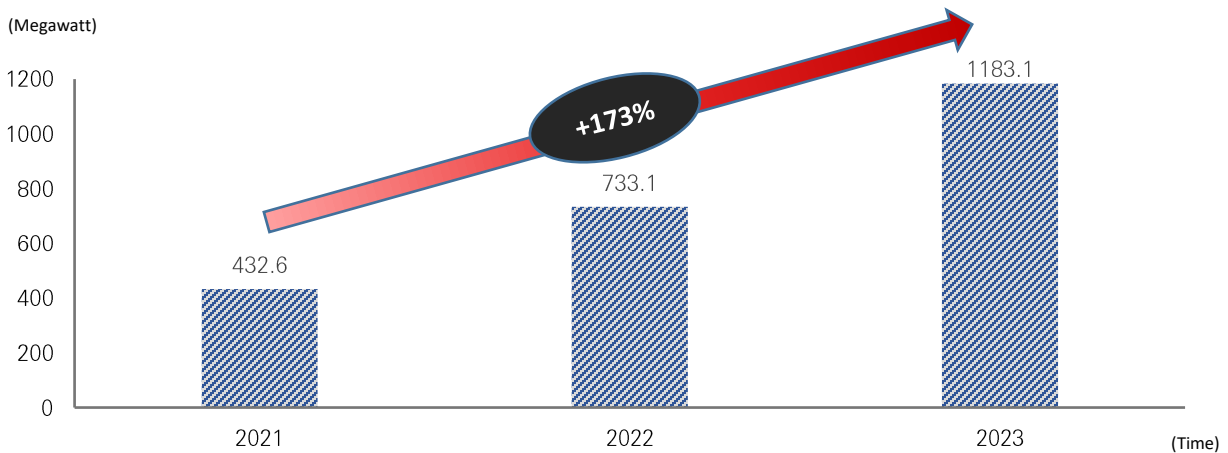
We are taking various initiatives to enhance our generation capacity in the field of Wind and Solar power. Yunnan Energy has formed strategic alliance with the Lijiang Municipal People’s Government on the front of Hydro-Wind-Photovoltaic integrated green energy projects. Yunnan Energy will expand the scale of electricity generating equipment and continue to optimise the renewable energy supply power grids. Furthermore, with the aim of aligning to national strategy on renewable energy development, along with the newly granted approvals, we are planning to commence Liangzi wind power project in Jianshuitang, Dayao County, as well as the Tongquan wind power project located in Qujing City (Tongquan wind project implemented by our wholly owned subsidiary Malong Yunneng Limited.). The total generation capacity of our upcoming wind power projects is aimed at 1570 MW, this will not only increase our renewable energy supply, but it also puts Yunnan province closer to hitting the regional “Dual Carbon Target”. Yunnan Energy will keep exploring opportunities in developing clean and renewable energy to further strengthen our comprehensive competitiveness in the market.

**3.2 Calibration of the Sustainability Performance Targets (SPTs)**

**Sustainability Performance Targets (SPTs)**

Yunnan Energy has selected the following SPTs:

**SPT 1: +173%** increase in Wind Power Generating Capacity by 2023 versus 2021



Although Yunnan Energy's strong presence in Yunnan's energy market (it takes up 17% of the whole province's generating capacity), its wind power generating capacity accounted for less than 5% of Yunnan's total in Year 2021 (as referred to the figure released by Yunnan Provincial Power Industry Association).

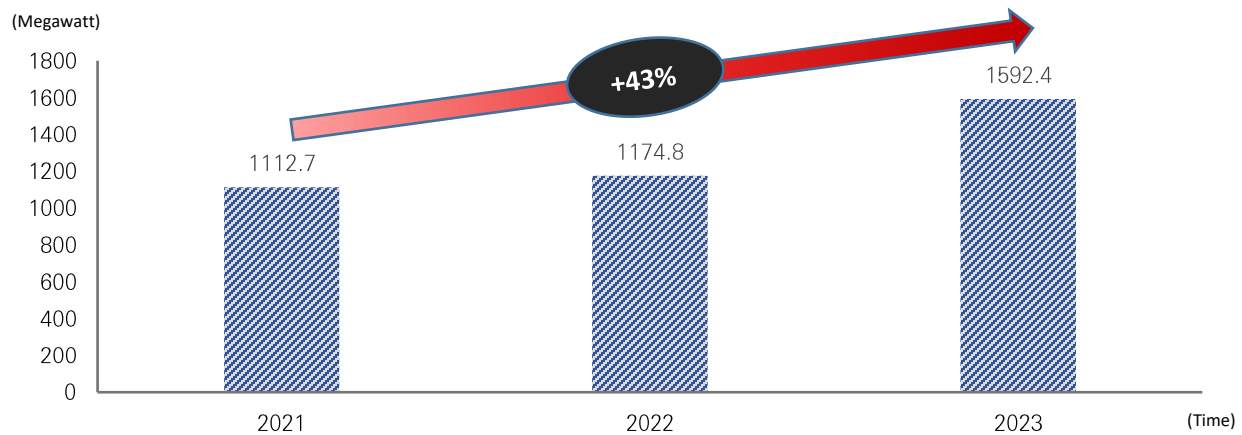
<sup>9</sup> Dual Carbon Target: China’s targets of carbon peaking by 2030 and carbon neutralisation by 2060.



In fact, Yunnan Energy has expanded its wind power generating capacity, from 370 MW in Year 2019 to 432.6 MW in Year 2021, at an annual increase rate of 8.1%. To continue the group's commitment to a steady growth in wind power generation and align with China's renewable energy development strategies as mentioned in the State Council's white paper, Yunnan Energy establishes its SPT in 2023, planning to attain wind power generating capacity of not less than 733.1 MW in Year 2022, and 1183.1 MW in Year 2023. Yunnan Energy will increase its generating capacity at an annual rate of 61.4% in the period of Year 2022 - Year 2023.

Wind Power Generating Capacity (Megawatt)		
2021	2022	2023
432.6	733.1	1183.1
-	+69% (vs 2021)	+173% (vs 2021)

**SPT 2: +43%** increase in Solar Power Generating Capacity by 2023 versus 2021



To echo China's renewable energy development and deployment plans (as mentioned in the white paper), Yunnan Energy is proactively constructing solar power generating facilities. For example, it is building a solar power generating facility in Shilin County, Kunming City, Yunnan Province. It is the first planned large-scale grid-connected solar power generation pilot demonstration project in the Yunnan Province. The first phase of the project was already put into operation in December 2010.

To maintain the growth momentum in its solar power generating capacity, Yunnan Energy establishes its SPT in 2023, planning to attain solar power generating capacity of not less than 1174.8 MW in Year 2022, and 1592.4 MW in Year 2023. Yunnan Energy will increase its generating capacity at an annual rate of 35.5% in the period of Year 2022 - Year 2023.

Solar Power Generating Capacity (Megawatt)		
2021	2022	2023
1112.7	1174.8	1592.4
-	+5.6% (vs 2021)	+43% (vs 2021)



**SPTs Observation Date:** 31<sup>st</sup> December 2023

### 3.3 Strategy to achieve the SPTs

The Group will focus on three major industries, namely green energy, modern logistics and digital economy, and develop energy finance and energy construction sectors in a coordinated manner. The Group will give full play to its role as a leading force and spearhead the Group's efforts to support Yunnan to become a world-class "green energy brand", build core enterprises for energy security, support the safe operation of Yunnan's energy sector, extend the energy industry chain, and promote the integrated development of green energy and green manufacturing. The Group's assets quality, capital strength and core competitiveness have been continuously enhanced, which provide strong support for Yunnan to play the world-class "green energy brand" and leapfrog economic and social development.

### 3.4 Bond/Loan characteristics

The transaction issue will support the ambitions of Yunnan Energy's Sustainability Strategy. The proceeds of any SLT will be used for general corporate purposes, unless otherwise stated and updated from time to time.

The proceeds of an SLT may also be used for Green Projects as listed in part 2.1.1 of the framework, should a double ESG route (sustainability-linked transaction with green use of proceeds) be chosen.

The bond/loan characteristics of the SLTs will be impacted depending on the achievement or failure of the SPTs indicated in the previous section of this framework. The observation dates will be detailed for each financing in the pre-issuance template, included in the SLT documentation. This will be specified in the relevant documentation of the specific transaction.

Failure of the SPTs will result in bond/loan characteristics adjustments in the following forms:

- a) Coupon/Margin adjustment
- b) Premium payment at maturity
- c) Purchase of Green Electricity Certificates and Carbon Offsets
- d) Payments to research institute focused on mitigating climate change
- e) Any others as applicable

Bond/Loan characteristics adjustment for each SLT will be specified in the relevant documentation of the specific transaction (e.g. Final Terms of the relevant SLT).

Yunnan Energy's performance against the SPTs will be reported in publicly-disclosed material (e.g. Annual Report or Sustainability Report) or a separate report specific to the SLT.

The scope of the KPIs or calibration of the SPTs may change if there is a material change<sup>10</sup> to Yunnan Energy's business. Any such change will be communicated within the annual reporting of the company.

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<sup>10</sup> The calculation of the SPTs may be impacted by the effects of certain material acquisitions and/or material changes in laws or regulations or relevant accounting rules applicable or relating to in-scope business units, in each case to be set forth, if applicable, in further detail in the terms and conditions of each respective SLBs.



### 3.5 Reporting

Disclosure will be made available in our Sustainability Report or a separate report specific to the SLT, published each year until maturity of the bond/loan. Annual Disclosure will include the following:

- Up-to-date information on the performance of the selected KPIs, including baselines where relevant;
- Any information enabling investors to monitor the level of ambition of the SPTs (e.g., any update in the issuer's sustainability strategy or on the related KPIs/ESG governance, and more generally any information relevant to the analysis of KPIs and SPTs).

When feasible and possible, the annual disclosure will also provide:

- A qualitative or quantitative explanation of the contribution of the main factors, including M&A activities, behind the evolution of performance/KPIs;
- Illustration of positive sustainability impacts of performance improvements; and
- Any re-assessments of the KPIs and/or restatement of the SPTs and/or proforma adjustments of baselines or KPIs scope.

Such reports will be published on Yunnan Energy's corporate website until there are no SLTs outstanding.

## 4. External Review

The Framework also covers External Review.

The Framework will be in force as long as there is live GFTs/SLTs. Yunnan Energy may update this Framework and commits that any new version will keep or improve the current level of transparency and reporting. Yunnan Energy commits to communicate changes with investors via Yunnan Energy's official website.

### Pre-issuance:

Yunnan Energy has engaged Hong Kong Quality Assurance Agency ("HKQAA") to provide a Second Party Opinion ("SPO") on its Sustainable Finance Framework. The SPO, together with the Framework will be available on the company's website:

### Post-issuance:

An independent third party will be engaged to review and verify the internal tracking and allocation of funds from the GFTs to Eligible Projects, the Eligible Projects' estimated/actual impact, as well as KPIs/SPTs of the SLTs. Shall any material changes in KPIs and SPTs arise, Yunnan Energy will seek external verification to assess the changes.