

Second Party Opinion

Midea Group Co. Ltd.'s Green Financing Framework

Feb. 15, 2022

Midea Group Co. Ltd. (Midea) is a global technologies group in the home appliance industry founded in 1968. The company is headquartered in Foshan, China, and engages in five business divisions, namely: smart home; electromechanical; heating, ventilation, and air conditioning (HVAC); building, robotics, and automation; and digital innovation. The company provides technology products and services for about 400 million users across more than 200 countries and regions.

In our view, Midea's Green Financing Framework, published in February 2022, is aligned with:

- ✓ Green Bond Principles, ICMA, 2021
- ✓ Green Loan Principles, LMA/LSTA/APLMA, 2021

Issuer's Sustainability Objectives

Midea's environmental protection strategy seeks to echo China's Central Economic Work Conference's national goals to see peak carbon emissions and achieve carbon neutrality by integrating green concept into its products' lifecycle (i.e., from design to recycling). For instance, the company aims to leverage the Internet of things (IoT) to enhance energy efficiency in its production processes and hence reduce electricity consumption per unit of product manufactured.

The company's philosophy to "Bring Great Innovations to Life" means creating better lives through technology development. Midea aspires to position itself as a driver for technological innovation through developing low-carbon and energy-saving products that contribute to a sustainable relationship with the environment.

Midea has developed a green financing framework to raise funds to support technological innovation and promote low-carbon economy in line with its environmental protection strategy.

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Second Party Opinion Summary

Use of proceeds

Alignment  Midea's green financing framework is aligned with this component of the Green Bond Principles (GBP) and Green Loan Principles (GLP).

Score Not aligned **Aligned** Strong Advanced

The company commits to allocating the net proceeds of financing instruments issued under the framework exclusively to eligible green projects, which relate to clear environmental objectives and to some targets of the United Nations' Sustainable Development Goals (SDGs).

Process for project evaluation and selection

Alignment  Midea's green financing framework is aligned with this component of the GBP and GLP.

Score Not aligned **Aligned** Strong Advanced

The company's framework outlines the process to ensure selected projects fit within the eligible project categories and to maintain associated environmental and social risks. The company's Green Finance Working Group (Working Group), comprising representatives from various functional areas, will evaluate and select eligible projects.

Management of proceeds

Alignment  Midea's green financing framework is aligned with this component of the GBP and GLP.

The company will maintain a ledger to track the allocation of net proceeds to eligible projects. The company commits to substituting projects ceasing to be eligible with alternative eligible projects. The company will hold unallocated net proceeds in short-term instruments in accordance with its internal liquidity management policy.

Reporting

Alignment  Midea's green financing framework is aligned with this component of the GBP and GLP.

Score Not aligned **Aligned** Strong Advanced

The company will disclose annually in its Corporate Responsibility Report or Green Bond/Loan Report the allocation of net proceeds across eligible projects, as well as their environmental impact.

Framework Assessment

Use of proceeds

The Principles make optional recommendations for stronger structuring practices, which inform our alignment opinion as aligned, strong, or advanced. For use of proceeds, we consider the commitments and clarity on how the proceeds are used.

 Midea's green financing framework is aligned with this component of the GBP and GLP.

Commitments score

Not aligned

Aligned

Strong

Advanced

We consider Midea's overall use of proceeds commitments to be aligned.

The company's framework is aligned with the Principles because Midea is committed to allocating the net proceeds of financing raised under its framework exclusively to eligible green projects. The framework lists seven eligible green project categories, namely eco-efficient product design and development, energy efficient and eco-efficient manufacturing and processes, pollution prevention and control, clean transportation, sustainable water and wastewater management, green buildings, and renewable energy. The company commits to not allocating proceeds to finance or refinance energy efficiency projects that may cause carbon lock-in or hamper low-carbon development.

The company describes the intended environmental objective of each eligible category, as well as associated SDGs and applicable SDG targets. For instance, Midea's designs in biodegradable product packaging will participate in pollution prevention and control. This contributes to reducing adverse environmental impact (SDG11 Target 11.6) and minimizing waste through prevention, reduction, recycling and reuse (SDG12 Target 12.5). However, we view the procurement of renewable energy through Renewable Energy Certificates (RECs) within the renewable energy category as less robust than other more conventional eligible projects.

Midea does not commit to disclosing the share of financing and refinancing in its use of proceeds allocation. The look-back period for refinanced projects will not exceed 36 months from the time of issuance.

Process for project evaluation and selection

The Principles make optional recommendations for stronger structuring practices, which inform our alignment opinion as aligned, strong, or advanced. For our process for project selection and evaluation, we consider the commitments and clarity on the process used to evaluate and select eligible projects to fund with the proceeds of the sustainable finance instrument.

 Midea's green financing framework is aligned with this component of the GBP and GLP.

Commitments score

Not aligned

Aligned

Strong

Advanced

We consider Midea's overall process for project selection and evaluation commitments to be aligned.

The framework is aligned with the Principles because it clearly communicates the process by which the company determines how projects fit within eligible categories. Midea's Working Group, which the company's Vice President chairs, drives the process. It comprises representatives from the Finance Department, Sustainability Department and business units responsible for the operations, acquisition or maintenance of the projects. The Finance Department is responsible for the preliminary screening and nomination of eligible projects for the Working Group's review and approval. Every nominated green project will require approval by the majority of Working Group members to be eligible for investment.

Midea has established internal policies to identify and manage perceived environmental and social risks associated with the eligible projects. The Working Group will review and approve

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project categories with consideration to their expected environmental and social risks based on feasibility and environmental impact assessment reports. The company will strictly observe relevant legal requirements and industry standards with respect to environmental management, occupational health and safety, and supply chain management.

The company will incorporate market-based certifications as part of project selection for eco-efficient product design and development, and green buildings, including but not limited to China Energy Label, EU Energy Label, Chinese Green Building Evaluation Label, Building Research Establishment Environmental Assessment Method (BREEAM), and US Leadership in Energy and Environmental Design (LEED). However, other eligible categories do not systematically include such reference to market-based taxonomies, standards, or certifications. Similarly, even though an energy efficiency improvement is expected for eco-efficient projects, the framework does not provide support on the materiality of the quantitative threshold.

Management of proceeds

The Principles require disclosure of the issuer's management of proceeds from sustainable finance over the life of the funding. The alignment opinion focuses on how clear in the documentation is the issuer's commitment to ensure that the funds raised will remain dedicated to eligible sustainability projects throughout the life of the sustainable finance funding.

 Midea's green financing framework is aligned with this component of the GBP and GLP.

The company's framework is aligned with the Principles because Midea is committed to tracking the use of proceeds for each transaction. The company will maintain a dedicated ledger to record and track the use of proceeds for each sustainable finance transaction.

If a designated project ceases to meet the eligible criteria under the framework, or if material controversies emerge in relation to a project, Midea commits to reallocating the net proceeds after divestment to an alternative project on a timely basis.

Midea intends to fully allocate the net proceeds within 36 months after launch or drawdown. Pending allocation or reallocation, Midea will manage the proceeds as per its internal liquidity management policy, where they will be held in short-term instruments, such as cash or equivalents.

Reporting

The Principles make optional recommendations for stronger disclosure practices, which inform our disclosure opinion as aligned, strong, or advanced. We consider plans for updates on the sustainability performance of the issuer for general purpose funding, or the sustainability performance of the financed projects over the lifetime of any dedicated funding, including any commitments to post-issuance reporting.

 Midea's green financing framework is aligned with this component of the GBP and GLP.

Disclosure score

Not aligned

Aligned

Strong

Advanced

We consider Midea's overall reporting practices to be aligned.

The company's framework is aligned with the Principles because Midea commits to reporting the allocation of proceeds, as well as the environmental impacts of the financed projects. The company will report these elements annually in its corporate responsibility report or in a stand-alone annual Green Bond/Loan Report, until the net proceeds' full allocation. Allocation reporting will include the amounts allocated to eligible green projects, the remaining balance of unallocated proceeds, as well as case studies of selected invested eligible green projects.

Environmental impact indicators will largely borrow from International Capital Market Association's (ICMA) Harmonized Framework for Impact Reporting. They include at least annual energy savings, amount of waste gas avoided, volume of sewage discharge reduced, amount of

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water savings, amount of renewable energy purchased, amount of carbon dioxide emission avoided, and type and number of eco-efficient labels and green building certifications obtained.

However, the company will not have an independent third-party verification or audit of its allocation reporting post-issuance and will publish only eligible projects' expected impact. Likewise, the company does not clearly commit to disclosing the key underlying methodology and assumptions used to calculate the quantitative performance measures.

Mapping To The U.N.'s Sustainable Development Goals

The Sustainable Development Goals (SDGs), which the United Nations (U.N.) set up in 2015, form an agenda for achieving sustainable development by 2030.

We use the ICMA's SDG mapping for this part of the report. We acknowledge that ICMA's mapping does not provide an exhaustive list of SDGs and that ICMA recommends each project category be reviewed individually to map it to the relevant SDGs.

Midea's Green Financing Framework intends to contribute to the following SDGs:

Use of proceeds

SDGs

Eco-efficient product design and development



***11. Sustainable cities and communities**



12. Responsible consumption and production

Energy efficient and eco-efficient manufacturing and processes



***9. Industry, innovation and infrastructure**



***11. Sustainable cities and communities**

Pollution prevention and control



***11. Sustainable cities and communities**



***12. Responsible consumption and production**

Clean transportation



11. Sustainable cities and communities

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Sustainable water and
wastewater management



***6. Clean water
and sanitation**

Green buildings



**11. Sustainable
cities and
communities**

Renewable energy



***7. Affordable and
clean energy**

*The eligible project categories link to these SDGs in the ICMA mapping.

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