

Second-Party Opinion

CFE Sustainable Financing Framework



Evaluation Summary

Sustainalytics is of the opinion that the CFE Sustainable Financing Framework is credible, impactful and aligned with the Sustainability Bond Guidelines 2021, Green Bond Principles 2021, Social Bond Principles 2023, Green Loan Principles 2023 and Social Loan Principles 2023. This assessment is based on the following:



USE OF PROCEEDS The eligible categories for the use of proceeds – Renewable Energy, Energy Efficiency, Clean Transportation, Green Buildings, Pollution Prevention and Control, Climate Change Adaptation and Resilience, Access to Free or Subsidized Essential Services (Digital Inclusion) and Access to Free or Subsidized Essential Services (Electricity) – are aligned with those recognized by the Green Bond Principles and Social Bond Principles. Sustainalytics considers that investments in the eligible categories will lead to positive environmental or social impacts and advance the UN Sustainable Development Goals, specifically SDGs 7, 9, 11, 12 and 13.



PROJECT EVALUATION AND SELECTION CFE’s internal process for evaluating and selecting projects is overseen by its Corporate Director’s Office for Strategic Planning team along with the Deputy Director’s Office for Investment Evaluation Projects, the Investments Commission and the Strategy and Investments Committee, with final allocation approval by CFE’s board of directors. CFE has environmental and social risk management processes that apply to all allocation decisions under the Framework. This is in line with market practice.



MANAGEMENT OF PROCEEDS CFE’s process for management of proceeds is tracked by the Company’s Corporate Director’s Office of Finance through an investment folder. Pending allocation, proceeds will be held in cash or cash equivalents, and used to repay debt in accordance with the Company’s Investment Policy. CFE intends to allocate all proceeds within 24 months of issuance and has established a lookback period of 24 months. This is in line with market practice.



REPORTING CFE commits to publish a report on allocation of proceeds on its website on an annual basis until full allocation. The report will include information on the allocation of net proceeds by individual project or category, the share of proceeds used for financing and refinancing, and the balance of unallocated proceeds. In addition, CFE intends to report on relevant impact metrics. Sustainalytics considers the allocation and impact reporting commitments as aligned with market practice.

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Issuer Location Mexico City, Mexico

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For inquiries, contact the Sustainable Corporate Solutions project team:

John-Paul Iamonaco (Toronto)
 Project Manager
 john-paul.iamonaco@sustainalytics.com
 (+1) 416 861 0403

Han Xing (Toronto)
 Project Support

Adam Segreti (Toronto)
 Project Support

Anna Leckman (Toronto)
 Client Relations
 susfinance.americas@sustainalytics.com
 (+1) 646 518 9623

¹ This document updates the Second-Party Opinion originally provided by Sustainalytics in January 2022.

Introduction

Comisión Federal de Electricidad (“CFE”, or the “Company”) is an electric utility company operating as a state-owned enterprise, wholly owned by Mexico’s Federal Government, headquartered in Mexico City. Founded in 1937, the Company is responsible for the generation, transmission, distribution and marketing of electricity in Mexico. As of October 2024, CFE has a generation capacity of 70,093 MW, 111,063 kilometres of transmission grid, 899,425 kilometres of distribution grid and 63,696 kilometres of fibre optic grid. CFE generates approximately 72% of the electricity in Mexico and provides power to more than 99% of the Mexican population.²

CFE has developed the CFE Sustainable Financing Framework dated November 2024 (the “Framework”) under which it intends to issue sustainability bonds and loans, including term loans, revolving credit and letters of credit.^{3,4} CFE intends to use the proceeds to finance or refinance, in whole or in part, existing and future projects intended to reduce the Company’s GHG emissions and promote the expansion of essential services. The Framework defines eligibility criteria in eight areas:

1. Renewable Energy
2. Energy Efficiency
3. Clean Transportation
4. Green Buildings
5. Pollution Prevention and Control
6. Climate Change Adaptation and Resilience
7. Access to Free or Subsidized Essential Services (Digital Inclusion)
8. Access to Free or Subsidized Essential Services (Electricity)

CFE engaged Sustainalytics to review the Framework and provide a Second-Party Opinion on the Framework’s environmental and social credentials and its alignment with the Sustainability Bond Guidelines 2021 (SBG), Green Bond Principles 2021 (GBP), Social Bond Principles 2023 (SBP),⁵ Green Loan Principles 2023 (GLP) and Social Loan Principles 2023 (SLP).⁶ The Framework has been published in a separate document.⁷ Additionally, CFE intends to report on the alignment of the proceeds from instruments raised under the Framework with Mexico’s Sustainable Taxonomy⁸ and will report on relevant impact metrics as informed by the ICMA Harmonised Framework for Impact Reporting 2024.⁹

Scope of work and limitations of Sustainalytics’ Second-Party Opinion

Sustainalytics’ Second-Party Opinion reflects Sustainalytics’ independent¹⁰ opinion on the alignment of the reviewed Framework with current market standards and the extent to which the eligible project categories are credible and impactful.

As part of the Second-Party Opinion, Sustainalytics assessed the following:

² CFE, “Key Operational and Financial Results - Third Quarter 2024”, (2024), at: https://www.cfe.mx/finanzas/financiamiento-economico/informacion/Quarterly%20Investor%20Presentations%20Doc/2024/311024_Investor%20Presentation_3Q24_FV.pdf

³ This Second-Party Opinion assesses only the instruments expressly cited in the Framework.

⁴ CFE has communicated to Sustainalytics that instruments issued under the Framework may include multi-tranche loan facilities. CFE intends to label only those tranches of such facilities whose proceeds will be allocated according to the eligibility criteria in the Framework.

⁵ The Sustainability Bond Guidelines, Green Bond Principles and Social Bond Principles are administered by the International Capital Market Association and are available at <https://www.icmagroup.org/sustainable-finance/the-principles-guidelines-and-handbooks/>

⁶ The Green Loan Principles and Social Loan Principles are administered by the Loan Market Association, Asia Pacific Loan Market Association and Loan Syndications and Trading Association and are available at: <https://www.lsta.org/content/green-loan-principles/#> and <https://www.lsta.org/content/social-loan-principles-slp/>

⁷ The CFE Sustainable Financing Framework is available on CFE’s website at: <https://www.cfe.mx/finanzas/financiamiento-economico/informacion/Documents/Sustainable%20Financing%20Framework.pdf>

⁸ Gobierno de México, “Taxonomía Sostenible de la Secretaría de Hacienda y Crédito Público”, (2023) at:

<https://www.gob.mx/shcp/documentos/taxonomia-sostenible-de-mexico?state=published>

⁹ ICMA, “Handbook Harmonised Framework for Impact Reporting”, (2024), at: <https://www.icmagroup.org/assets/documents/Sustainable-finance/2024-updates/Handbook-Harmonised-Framework-for-Impact-Reporting-June-2024.pdf>

¹⁰ When operating multiple lines of business that serve a variety of client types, objective research is a cornerstone of Sustainalytics and ensuring analyst independence is paramount to producing objective, actionable research. Sustainalytics has therefore put in place a robust conflict management framework that specifically addresses the need for analyst independence, consistency of process, structural separation of commercial and research (and engagement) teams, data protection and systems separation. Last but not the least, analyst compensation is not directly tied to specific commercial outcomes. One of Sustainalytics’ hallmarks is integrity, another is transparency.

- The Framework's alignment with the Sustainability Bond Guidelines 2021, Green Bond Principles 2021, Social Bond Principles 2023, as administered by ICMA, the Green Loan Principles 2023, and Social Loan Principles 2023, as administered by LMA, APLMA and LSTA;
- The credibility and anticipated positive impacts of the use of proceeds; and
- The alignment of the issuer's sustainability strategy and performance and sustainability risk management in relation to the use of proceeds.

For the use of proceeds assessment, Sustainalytics relied on its internal taxonomy, version 1.17, which is informed by market practice and Sustainalytics' expertise as an ESG research provider.

As part of this engagement, Sustainalytics held conversations with various members of CFE's management team to understand the sustainability impact of their business processes and planned use of proceeds, as well as management of proceeds and reporting aspects of the Framework. CFE representatives have confirmed (1) they understand it is the sole responsibility of CFE to ensure that the information provided is complete, accurate and up to date; (2) that they have provided Sustainalytics with all relevant information and (3) that any provided material information has been duly disclosed in a timely manner. Sustainalytics also reviewed relevant public documents and non-public information.

This document contains Sustainalytics' opinion of the Framework and should be read in conjunction with that Framework. Any update of the present Second-Party Opinion will be conducted according to the agreed engagement conditions between Sustainalytics and CFE.

Sustainalytics' Second-Party Opinion, while reflecting on the alignment of the Framework with market standards, is no guarantee of alignment nor warrants any alignment with future versions of relevant market standards. Furthermore, Sustainalytics' Second-Party Opinion addresses the anticipated impacts of eligible projects expected to be financed with bond and loan proceeds but does not measure the actual impact. The measurement and reporting of the impact achieved through projects financed under the Framework is the responsibility of the Framework owner.

In addition, the Second-Party Opinion opines on the potential allocation of proceeds but does not guarantee the realised allocation of the bond and loan proceeds towards eligible activities.

No information provided by Sustainalytics under the present Second-Party Opinion shall be considered as being a statement, representation, warrant or argument, either in favour or against the truthfulness, reliability or completeness of any facts or statements and related surrounding circumstances that CFE has made available to Sustainalytics for the purpose of this Second-Party Opinion.

Sustainalytics' Opinion

Section 1: Sustainalytics' Opinion on the CFE Sustainable Financing Framework

Sustainalytics considers the CFE Sustainable Financing Framework to be credible, impactful and aligned with the SBG and the four core components of the GBP, SBP, GLP and SLP. Sustainalytics highlights the following elements of the Framework:

- Use of Proceeds:
 - The eligible categories – Renewable Energy, Energy Efficiency, Clean Transportation, Green Buildings, Pollution Prevention and Control, Climate Change Adaptation and Resilience, Access to Free or Subsidized Essential Services (Digital Inclusion) and Access to Free or Subsidized Essential Services (Electricity) – are aligned with those recognized by the GBP, SBP, GLP and SLP.
 - Under the Renewable Energy category, CFE intends to invest in the construction, development, expansion, production, maintenance, refurbishment, repowering and acquisition of renewable energy projects that meet the following criteria:
 - Offshore and onshore wind projects.
 - Solar photovoltaic and concentrated solar power (CSP) projects.
 - CFE has confirmed that CSP plants will generate at least 85% of electricity from solar energy.
 - Geothermal energy projects with direct emissions lower than 100 gCO₂e/kWh.
 - Hydroelectric projects that meet one of the following criteria:
 - New run-of-river hydroelectricity facilities and other hydroelectric projects.

- CFE has communicated to Sustainalytics that other hydroelectric projects, such as the incorporation of electricity generation equipment into an existing dam or reservoir that was previously used for irrigation purposes only, will meet the criteria of the hydropower facilities in this category.
 - Refurbishment of existing hydroelectric facilities that results in an increase in generation efficiency, operational lifespan or renewable energy output while maintaining or improving operational safety.
 - CFE has confirmed to Sustainalytics that refurbishment activities will not increase the size of any dam or reservoir.
 - Acquisition of pumped storage assets.
 - CFE has confirmed to Sustainalytics that the pumped storage will be exclusively connected to renewable generation assets.
 - Hydropower facilities in operation before 2020 will have a power density greater than 5 W/m² or carbon emissions intensity lower than 100 gCO₂e/kWh.
 - Hydropower facilities commencing operation in or after 2020 will have a power density greater than 10 W/m² or carbon emissions intensity lower than 50 gCO₂e /kWh.
 - For all hydroelectric facilities, CFE will determine eligibility by assessing environmental and social risks as well as carbon emissions intensity. This assessment will be subject to review from a reputable third party to ensure no such risks are identified.
- Biomass, biogas and bioliquids projects for electricity generation in accordance with the following criteria:
 - CFE has confirmed to Sustainalytics that the acquisition of bioenergy facilities and businesses will be exclusively related to producing electricity.
 - Facilities will have carbon emissions intensity lower than 100 gCO₂/kWh and feedstock will be derived either from non-waste certified sustainable crops or from waste materials.
 - Non-waste feedstock will meet the following criteria: i) will be sourced from sustainable agriculture with credible certifications, such as Roundtable for Sustainable Biomaterials,¹¹ International Sustainability and Carbon Certification,¹² Bonsucro,¹³ and Roundtable for Responsible Soy¹⁴; ii) will not compete with food sources; and iii) will not come from areas with high biodiversity and carbon stock.
 - Waste used as feedstock will be limited to: i) forestry waste; ii) sustainable agricultural residues certified similarly to the aforementioned non-waste feedstock certifications; and iii) non-recyclable municipal solid waste, which CFE has confirmed will exclude plastics, rubbers and tire-derived fuels.
 - Sustainalytics notes that the Framework excludes electricity generation from blending renewable fuels with biogas or biofuels.
- Low-carbon green and blue hydrogen production projects, including projects aiming at promoting electrolysis efficiency with low-carbon energy sources, subject to the following criteria:
 - Low-carbon green hydrogen produced by electrolysis powered 100% by renewable energy; or by electricity with carbon intensity lower than 100 gCO₂e/kWh.
 - Sustainalytics notes that hydrogen production from water electrolysis has significant potential to reduce emissions, especially when compared to the conventional pathway of hydrogen production by steam reforming of natural gas or light ends. Sustainalytics encourages CFE to favour sourcing power with low carbon intensity for electrolysis and to report, where feasible, on such intensity.
 - Low-carbon blue hydrogen produced through steam reforming or autothermal reforming with carbon capture and storage with direct CO₂ emissions of up to

¹¹ Roundtable for Sustainable Biomaterials: <https://rsb.org/>

¹² International Sustainability and Carbon Certification: <https://www.iscc-system.org/>

¹³ Bonsucro: <https://bonsucro.com/what-is-certification/>

¹⁴ Roundtable for Responsible Soy: <https://responsiblesoy.org/?lang=en>

- 3 tCO₂e/t of hydrogen, which Sustainalytics notes represents an emissions reduction of more than 60% in relation to fossil fuel.
- Expenditures towards the purchase and/or extension of long-term (longer than five years) power purchase agreements (PPAs) to source wind and solar energy.
 - Expenditures towards the installation of electricity transmission lines to improve transmission and reduce curtailment of renewable energy from the above referred sources.
 - CFE has confirmed to Sustainalytics that the electricity transmission lines being financed under the Framework will either connect exclusively to renewable energy power plants (when the community being connected is two kilometres or further from the transmission infrastructure) or carry at least 90% renewable electricity (when the community being connected is closer than two kilometres from the transmission infrastructure).
 - As it relates to acquisitions under the Renewable Energy category, CFE may finance the acquisition of majority or minority stakes in facilities or businesses that derive a minimum of 90% of their revenue from activities meeting the eligibility criteria for the Renewable Energy category. For acquisitions, the financed amount will be equal to the net asset value of credible assets of the acquired company, excluding goodwill. Sustainalytics acknowledges that allocating proceeds to pure play companies through green financing transactions is a commonly accepted approach, which is likely to generate positive impacts. However, allocation toward project and activity-based lending generally results in more direct environmental benefits and enhanced compliance with eligibility criteria.
 - Sustainalytics considers the criteria in this category as aligned with market practice.
- Under the Energy Efficiency category, CFE may finance projects or activities that increase energy efficiency specifically in industrial applications by at least 30% including:
- Electric-powered machinery or energy-saving technologies, such as LED lighting.
 - Energy storage systems (such as battery storage specifically for electricity from renewable energy sources) and smart grid investments. CFE categorizes smart grid investments as being inclusive of mini grids, micro grids or isolated grids that generate, store and provide electricity to customers at a small scale, independent of the national transmission grid. CFE will make smart grid investments when they are powered by solar, wind or hydro that meet the eligibility criteria in the Renewable Energy category. Smart grid investments also include activities such as the replacement of copper with fibre optic grids to reduce technical losses, costs and improve safety.
 - Energy efficient heating, ventilation, air conditioning (HVAC), refrigeration and electrical equipment, excluding any equipment powered by fossil fuels.
 - Sustainalytics encourages CFE to consider low-GWP refrigerants for cooling systems to promote robust refrigerant leak control, detection and monitoring, while ensuring recovery, reclamation, recycling or destruction of refrigerants at end of life.
 - Investments aimed at optimizing energy consumption and reducing losses such as energy management systems for power optimization protocols and automated metering.
 - Energy consumption measurement and control systems including industrial thermometers.
 - Equipment such as sensors, advanced software and control rooms, automation of substations or feeders and voltage control capabilities intended to enhance the control and measurement of electrical system and to enable integration of renewable energy.
 - Construction and operation of facilities that store low-carbon hydrogen. Sustainalytics has confirmed that the stored low-carbon hydrogen will meet the eligibility criteria defined in the Renewable Energy category.
 - Conversion of existing underground gas storage facilities into dedicated low-carbon hydrogen storage. Sustainalytics has confirmed that the stored low-carbon hydrogen will meet the eligibility criteria in the Renewable Energy category.
 - Sustainalytics views positively the Framework's inclusion of a defined energy efficiency threshold for the installation of energy efficiency systems, equipment and technologies and encourages CFE to report on estimated or achieved energy efficiency gains where feasible. Sustainalytics considers investments under this category to be aligned with market practice.
- Under the Clean Transportation category, CFE may finance the acquisition, modernization and maintenance of zero-direct emissions and hybrid vehicles, as well as the installation, acquisition,

- modernization and maintenance of infrastructure to support electric vehicles such as charging stations. CFE intends to finance the following types of vehicles under this category:
- Fully electric passenger and freight vehicles, and fully electric buses.
 - Fully electrified rolling stock and vehicles for electrified public transport, such as electrified rail cars, trams, trolleybuses and cable cars.
 - Eligible hybrid passenger and freight vehicles must have tailpipe emissions thresholds under 50 gCO₂/km and 25 gCO₂/km, respectively.
 - CFE confirmed to Sustainalytics that it intends to use the World Harmonized Light-duty Vehicle Test Procedure (WLTP) or the New European Driving Cycle (NEDC) to determine compliance of each vehicle with the above thresholds. Sustainalytics considers WLTP as best practice because it replicates realistic driving conditions and yields more accurate results.^{15,16}
 - CFE confirmed that freight vehicles will be excluded from transporting fossil fuels and that financing of charging stations (electric or low-carbon hydrogen) will be associated with the charging stations themselves specifically and will exclude the financing of broader roadway, bridge and parking facility.
 - Sustainalytics considers the investments under this category as aligned with market practice.
- Under the Green Buildings category, CFE intends to finance or refinance the acquisition, construction or retrofitting of residential, commercial, industrial and logistic buildings that will meet at least one of the following criteria:
- Retrofit of buildings that result in a minimum of 30% emissions or energy performance improvement over the ASHRAE 90.1 2010 baseline or equivalent.
 - Buildings that fall within the top 15% of the national stock, based on primary energy demand or carbon emissions intensity.
 - Buildings that have or are expected to obtain one of the following green building certifications: LEED (Gold or above),¹⁷ BREEAM (Excellent or above),¹⁸ EDGE (Advanced or above),¹⁹ BOMA Best (Gold or above),²⁰ and HQE (Excellent or above).²¹
 - CFE has confirmed to Sustainalytics that expenditures in industrial and logistic buildings will be limited to the building envelope, excluding financing industrial production equipment, operations and technologies.
 - Sustainalytics considers investment under this category to be in line with market practice.
- Under the Pollution Prevention and Control category, CFE intends to finance or refinance projects according to the following criteria:
- Replacement and retrofits of natural gas transmission and distribution networks that enable the integration of low-carbon gasses, such as hydrogen and biogas, into Mexico's national energy systems.
 - CFE has confirmed to Sustainalytics that the transmission and distribution networks will be 100% dedicated to low-carbon gases. The Framework excludes gas network expansions.
 - Projects related to GHG emissions reduction and control, including: i) construction, development and maintenance of electrical and substation facilities, systems and equipment to reduce GHG emissions, including sulphur hexafluoride (SF₆); and ii) replacement of monitoring devices and equipment for GHG control.
 - CFE has confirmed to Sustainalytics that i) these systems and equipment do not directly rely on fossil fuel; and ii) the monitoring tools are intended exclusively to collect and analyze GHG emissions.
 - Acquisition, development, construction, operation and maintenance of land, facilities, systems and equipment for soil remediation and waste recycling.

¹⁵ WLTP uses real-driving data to replicate actual driving conditions, while NEDC determines values based on a theoretical driving profile, which can lead to material differences in terms of CO₂ emissions.

European Commission, "From NEDC to WLTP: effect on the type-approval CO₂ emissions of light-duty vehicles", (2017), at:

<https://publications.jrc.ec.europa.eu/repository/bitstream/JRC107662/kjna28724enn.pdf>

¹⁶ European Federation for Transport and Environment, "Mind the Gap 2016 – Report", at: <https://www.transportenvironment.org/discover/mind-gap-2016-report/>

¹⁷ LEED: <https://www.usgbc.org/leed>

¹⁸ BREEAM: <https://bregroup.com/products/breeam/>

¹⁹ EDGE: <https://edge.gbci.org/>

²⁰ BOMA Best: <https://bomabest.org/>

²¹ NF HQE Bâtiments Tertiaires en Exploitation: <https://citae.fr/services/environnement/certifications-environnementales/amo-hqe-exploitation/>

- CFE has confirmed to Sustainalytics that soil remediation will not be related to contamination or negative environmental externalities from the Company's own activities.
- Regarding the recycling of waste from electrical and electronic equipment, CFE has confirmed to Sustainalytics that it will use third-party waste management processes to mitigate associated environmental and social risks with e-waste. CFE has confirmed to Sustainalytics that it will not finance waste collection or material recovery from waste, including energy-from-waste and waste-to-energy facilities under the Framework.
- Under the Climate Change Adaptation and Resilience category, CFE intends to finance or refinance projects including: i) disaster recovery; ii) enhancing climate resiliency of generation facilities; iii) reconstruction, upgrades, improvement and retrofits of infrastructure for transmission and distribution networks; and iv) monitoring the impact of climate change and extreme weather-related events, such as severe windstorms, hurricanes, droughts, floods, wildfire and changing weather patterns.
 - CFE will undertake vulnerability assessment and develop climate change adaptation plans for expenditures in this category, as required.
 - Sustainalytics considers investments under this category to be aligned with market practice.
- Under the Access to Free or Subsidized Essential Services (Digital Inclusion) category, CFE intends to finance or refinance the construction, upgrade, acquisition, maintenance and operation of facilities and equipment for providing fixed wireless broadband services, such as access points for internet services, to low-income, vulnerable, underserved, rural populations and people impacted by natural disasters in areas without wired connectivity in Mexico, including in Mexico's most vulnerable regions and Priority Attention Zones.^{22,23,24,25,26}
 - CFE has confirmed to Sustainalytics that the fixed wireless broadband services to be financed will be targeted to communities with no mobile broadband (3G or above), or substantially inadequate connectivity where the broadband subscription is lower than 10 Mbit/s.²⁷
 - Sustainalytics considers the investments in this category to be social impactful.
- Under the Access to Free or Subsidized Essential Services (Electricity) category, CFE intends to finance or refinance construction, improvement, acquisition, maintenance and operation of facilities and equipment for providing electricity services to the target population²⁸ in areas where there is no access to electricity services or where access is substantially inadequate.²⁹
 - CFE has communicated to Sustainalytics that transmission and distribution (T&D) infrastructure will not be connected directly to fossil fuel energy. If the target area is closer than two kilometres from T&D infrastructure, the T&D infrastructure will be connected to the grid. If the target area is farther than two kilometres from T&D infrastructure, the T&D infrastructure will be connected to solar power generation facilities that meet the eligibility criteria in the Renewable Energy category.
 - Sustainalytics considers the investments under this category to be social impactful.
- The Framework excludes activities involving the exploitation of human rights and investments in fossil fuel-related projects.

²² Low-income persons following the definition of Mexico's National Council for the Evaluation of Social Development Policy for the measurement of poverty.

Mexican National Council for the Evaluation of Social Development Policy, "Medición de la Pobreza, Glosario", at: <https://www.coneval.org.mx/Medicion/Paginas/Glosario.aspx>

²³ The Framework defines vulnerable peoples as those affected by the impacts of natural disasters, such as floods, earthquakes and epidemics.

²⁴ The Framework defines underserved populations as those that lack good quality access to essential goods and services.

²⁵ Rural populations following the definition of Mexico's National Institute of Statistics and Geography.

Mexican National Institute of Statistics and Geography, "Población rural y urbana", at:

https://cuentame.inegi.org.mx/poblacion/rur_urb.aspx?tema=Phttps://cuentame.inegi.org.mx/poblacion/rur_urb.aspx?tema=P

²⁶ Most vulnerable regions and Priority Attention Zones as identified by Mexico's National Council for Evaluation of Social Development Policy and Mexico's Secretary of Well-Being.

Mexican National Council for the Evaluation of Social Development Policy, "Medición de la Pobreza, Glosario", at:

<https://www.coneval.org.mx/Medicion/Paginas/Glosario.aspx>

Mexican Secretary of Well-Being, "DECRETO por el que se formula la Declaratoria de las Zonas de Atención Prioritaria para el año 2021", at:

http://dof.gob.mx/2020/BIENESTAR/ZONAS_PRIORITARIAS_2021.pdf

²⁷ International Telecommunication Union, "New UN targets chart path to universal meaningful connectivity", (2022), at:

<https://www.itu.int/en/mediacentre/Pages/PR-2022-04-19-UN-targets-universal-meaningful-connectivity.aspx>

²⁸ Ibid.

²⁹ Areas where the access to electricity is not stable and where there are repeated power cuts, power fluctuations and unsafe transmission infrastructure.

- Project Evaluation and Selection:
 - Selected members of CFE’s Corporate Director’s Office for Strategic Planning will be responsible for the selection of projects. The selected projects will be reviewed by the Deputy Director’s Office for Investment Evaluation Projects, the Investments Commission, the Strategy and Investments Committee and ultimately, by CFE’s board of directors. The board of directors is also responsible for approving the allocation of proceeds to the eligible projects.
 - CFE’s Investments Commission will review the list of eligible projects against the Framework’s eligibility and exclusion criteria on an annual basis. In case a project no longer meets the eligibility criteria, CFE will reallocate the proceeds to other eligible projects.
 - CFE has processes to evaluate the environmental and social risks associated with the eligible projects, such as company policies that follow Mexican legal and regulatory requirements. These processes are applicable to all allocation decisions in the Framework. Sustainalytics considers these processes to be adequate. Refer to Section 2 for additional details.
 - Based on the allocation of responsibilities and the presence of risk management processes, Sustainalytics considers this process to be in line with market practice.
- Management of Proceeds:
 - Allocation of the net proceeds generated from sustainable financing instruments will be tracked by the Company’s Corporate Director’s Office of Finance through an investment folder that tracks expenses and documentation using unique project identifiers.
 - Pending allocation, the proceeds generated from the sustainable financing instruments may be held in cash, cash equivalents, other liquid instruments, in temporary investments or used to reduce outstanding indebtedness unrelated to carbon-intensive projects and according to the Company’s Investment Policy.
 - CFE intends to allocate all proceeds within 24 months of each issuance and has established a lookback period of 24 months.
 - Based on the presence of an internal tracking system and the disclosure of the temporary use of proceeds, Sustainalytics considers this process to be in line with market practice.
- Reporting:
 - CFE will publish a Sustainable Financing Instruments Report within its Annual Report on its website annually until all proceeds have been fully allocated and on a timely basis in case of material developments thereafter.
 - The report will include information on the allocation of net proceeds by individual project or by category, the share of proceeds used for financing versus refinancing and the balance of unallocated proceeds.
 - The report will also include impact metrics, where feasible, including GHG emissions reduced or avoided (in CO₂e), renewable energy generation (in MWh or GJ), capacity of renewable energy plants served by transmission systems (in MW), amount of energy savings (in MWh/GWh or GJ), green building certifications, waste diverted from landfill (in tonnes), transmission and distribution network upgrades (in km), the number of adaptation projects completed and the number of low-income and underserved beneficiaries and localities impacted as well as the number of digital access points created and electrification installations in such areas.
 - CFE has communicated to Sustainalytics that if it obtains revolving credit facilities under the Framework, it will report on allocation until loan maturity.
 - Based on the commitment to allocation and impact reporting, Sustainalytics considers this process to be in line with market practice.

Alignment with Sustainability Bond Guidelines 2021

Sustainalytics has determined that the CFE Sustainable Financing Framework aligns with the SBG and the four core components of the GBP, SBP, GLP and SLP.

Section 2: Sustainability Strategy of CFE

Contribution of the Framework to CFE’s sustainability strategy

CFE focuses on five key environmental and social areas: (i) promoting the generation of electrical energy from clean energy sources, (ii) improving energy efficiency through modernization and retrofitting equipment and technology, (iii) deploying environmentally friendly technology to improve productivity, (iv) reducing GHG

emissions, and (v) promoting social development to strengthen communities through the improvement of internet and electricity access.³⁰

- With a focus on generating electricity from renewable sources, Mexico's Secretary of Energy, in coordination with CFE and Mexico's Energy Regulatory Commission, established a goal of deriving 35% of electricity from clean energy sources as part of the General Law on Climate Change and the Energy Transition Law associated with Mexico's broader National Energy Strategy out to 2027.³¹ This will be accomplished through investments in increasing generation from renewable sources such as hydroelectricity and research for the development of other clean energy projects. In 2023, approximately 15% of the total energy that CFE generated was derived from clean sources, such as hydroelectric, nuclear, geothermal, solar and wind.³² As of Q3 FY2024, CFE achieved approximately 20% generation from these clean energy sources.³³ Furthermore, CFE aims to develop 20 projects by 2028 across hydroelectric, solar and green hydrogen that will add over one gigawatt of clean energy generation to CFE's its capacity by 2028.³⁴
- Regarding energy efficiency improvements and environmentally friendly technology, CFE focuses on retrofitting and modernizing equipment and technology. CFE has set a target of reducing technical and non-technical distribution losses by 14%, from 10.86% in 2023 to 9.36% by 2028.^{35,36} This will be achieved through 57 projects aimed at modernizing its grids through replacement of aging substations and power lines, implementing metering systems, strengthening commercial processes and electric infrastructure and strengthening connection between regions to solve congestion issues. CFE also aims to deploy smart grid technology to better monitor end user demand and reduce non-technical losses.^{37,38} Further, CFE aims to expand EV charging stations in strategic zones across Mexico to reduce the use of fossil fuels by the public.³⁹
- As a part of the Company's 2024-2028 Business Plan, CFE intends to reduce its CO₂ emissions intensity by more than 34%, from 494 gCO₂/kWh in 2020 to 324 gCO₂/kWh (as measured by the Mexican Secretariat of Environment and Natural Resources) by the end of 2028.⁴⁰ Mexico's General Law on Climate Change mandates the creation of an emissions trading system as a cost-effective strategy to reduce GHG emissions and meet the commitments in Mexico's National Development Plan. As a result, CFE, in collaboration with the Ministry for the Environment and Natural Resources, has developed the Preparation of a System of Emissions Trading in Mexico to adhere to this mandate.⁴¹ Furthermore, under this programme, CFE has built a learning network to develop projects to reduce GHG emissions from the operation of generation plants.⁴² These efforts will make progress in achieving Mexico's Nationally Determined Contribution updated during COP 27 of reducing GHG emissions by 35% by 2030 versus a 2013 baseline.⁴³
- In terms of social development, CFE aims to serve underprivileged and/or vulnerable communities across Mexico by providing free or subsidized internet access and free or subsidized electricity. Regarding internet access, the Company aims to have 140,000 access points to provide internet service to 122,000 localities by 2025. To achieve this, CFE will connect the transmission and distribution grid to its optic fibre net grid. As of 2022, CFE has achieved 63,011 free internet access points in 113,070 localities.⁴⁴ Further deployment under CFE's Telecom and Internet for All

³⁰ These five areas are informed by CFE, the Framework and CFE's 2022-26 and 2024-28 business plans.

³¹ CFE, "Reporte Annual 2023", at: <https://www.cfe.mx/finanzas/reportes-financieros/Reportes%20Anuales%20Documentos/Reporte%20Anual%202023.pdf>

³² Ibid.

³³ CFE, "Key Operational and Financial Results Third Quarter 2024", (2024) at: https://www.cfe.mx/finanzas/financiamiento-informacion/Quarterly%20Investor%20Presentations%20Doc/2024/311024_Investor%20Presentation_3Q24_FV.pdf

³⁴ CFE, "Plan de Negocios 2024-2028", (2024), at: <https://www.cfe.mx/finanzas/Documents/Plan%20de%20Negocios%202024-2028.pdf>

³⁵ CFE, "Reporte Annual 2023", at: <https://www.cfe.mx/finanzas/reportes-financieros/Reportes%20Anuales%20Documentos/Reporte%20Anual%202023.pdf>

³⁶ CFE Sustainable Financing Framework 2024

³⁷ Ibid.

³⁸ CFE, "Reporte Annual 2023", at: <https://www.cfe.mx/finanzas/reportes-financieros/Reportes%20Anuales%20Documentos/Reporte%20Anual%202023.pdf>

³⁹ CFE Sustainable Financing Framework 2024

⁴⁰ CFE, "Annual Green, Social and Sustainable Bond Report 2024", (2024) at: https://www.cfe.mx/finanzas/financiamiento-informacion/Documents/CFE%20Annual%20Green%2c%20Social%20and%20Sustainable%20Bond%20Report%202024_FV.pdf

⁴¹ Ministry for the Environment and Natural Resources, "Clean Energy Certificates and Emissions Trading In Mexico: Reciprocal Effects and Interactions", (2018), at: https://www.gob.mx/cms/uploads/attachment/file/415523/Clean_Energy_Certificates_and_Emissions_Trading.pdf

⁴² CFE Sustainable Financing Framework 2024

⁴³ Gobierno de México "Contribución Determinada a Nivel Nacional, Actualización 2022", (2022) at: https://unfccc.int/sites/default/files/NDC/2022-11/Mexico_NDC_UNFCCC_update2022_FINAL.pdf?download

⁴⁴ CFE, "Annual Green, Social and Sustainable Bond Report 2024", (2024) at: https://www.cfe.mx/finanzas/financiamiento-informacion/Documents/CFE%20Annual%20Green%2c%20Social%20and%20Sustainable%20Bond%20Report%202024_FV.pdf

programme prioritizes states and regions using five implementation phases and starts with the locations with the lowest internet penetration levels.⁴⁵ As of 30 June, 2024, CFE had 63,530 km of national fibre optic network serving 280 counties and 55 million people.⁴⁶ Regarding electricity, CFE aims to expand the lines of the national transmission network by a 1.5% compound annual average.⁴⁷

Sustainalytics is of the opinion that the CFE Sustainable Financing Framework is aligned with the Company's overall sustainability mandate and initiatives and will further the CFE's action on its key environmental and social priorities.

Approach to managing environmental and social risks associated with the projects

Sustainalytics recognizes that the proceeds from the instruments issued under the Framework will be directed towards eligible projects that are expected to generate positive environmental and social impacts. However, Sustainalytics is aware that such eligible projects could also lead to negative environmental and social outcomes. Some key environmental and social risks possibly associated with the eligible projects may include issues involving: biodiversity impacts from land use changes due to construction and development of large infrastructure; waste generated from construction; project-related GHG emissions; health and safety; and community relations. Sustainalytics is of the opinion that CFE is able to manage or mitigate potential risks through implementation of the following:

- CFE is required to comply with applicable environmental laws and regulations, including restrictions on water consumption and wastewater discharge, air and noise emissions, waste disposal and the use and management of waste and toxic materials. CFE is also required to comply with environmental laws, such as Mexico's General Law of Environmental Equilibrium and Protection.⁴⁸ CFE is also required to obtain permits for its operations and infrastructure maintenance, including environmental impact assessments.⁴⁹
- To mitigate and manage biodiversity risks, CFE is required to submit projects for review and authorization to Mexico's Secretariat of the Environment and Natural Resources. The review requires CFE to demonstrate that the environmental impacts and risks at its generation plants, gas pipelines, transmission lines and electrical substations do not exceed permissible limits under Mexican law. The Mexico's Secretariat of the Environment and Natural Resources reviews land use changes in forest areas, social impact assessments and pollutant dispersion studies relevant to its financed activities.
- Regarding risks related to waste generated from construction and GHG emissions arising from projects, CFE participates in Mexico's National Environmental Audit Program to reinforce compliance with regulations, promote effective environmental performance and improve competitiveness.⁵⁰ The audit covers compliance with administrative requirements and atmospheric emissions, wastewater discharges, hazardous waste management, soil and subsoil contamination and noise pollution regulations. It also covers risk management and mitigation, safety, emergency care, training, applicable international standards and criteria compliance, good engineering practices and the optimization of energy consumption. Auditors assess new projects, repairs, anti-pollution infrastructure, studies, plans, programmes and procedures.⁵¹ Finally, CFE is subject to regulatory verification audits without notice and administered by Mexico's Federal Attorney for Environmental Protection and the National Water Commission.⁵²
- To address risks involving human health and safety, CFE operates under its Code of Ethics and in accordance with NMX-SAST-45001-IMNC-2018, which mirrors ISO 45001:2018.^{53,54} This standard

⁴⁵ CFE, "CFE Sustainable Financing Framework 2024", (2024), at (2024), at: <https://www.cfe.mx/finanzas/financiamiento-informacion/Documents/Sustainable%20Financing%20Framework.pdf>

⁴⁶ Ibid.

⁴⁷ Ibid.

⁴⁸ Government of Mexico, "Ley General del Equilibrio Ecológico y la Protección al Ambiente," (2024), at:

<http://www.ordenjuridico.gob.mx/Documentos/Federal/html/wo83191.html>

⁴⁹ CFE Sustainable Financing Framework 2024

⁵⁰ Ibid.

⁵¹ Mexican Federal Attorney for Environmental Protection, "Programa Nacional de Auditoría Ambiental", (2024), at:

<https://www.gob.mx/profepa/acciones-y-programas/programa-nacional-de-auditoria-ambiental-56432>

⁵² CFE, "Reporte Anual 2023", at: <https://www.cfe.mx/finanzas/reportes-financieros/Reportes%20Anuales%20Documentos/Reporte%20Anual%202023.pdf>

⁵³ CFE, "Código de Ética", (2022), at: https://www.cfe.mx/transparencia_etica/etica/Documents/Codigo%20de%20Etica.pdf

⁵⁴ Government of Mexico, "NMX-SAST-45001-IMNC-2018", (2018) at: <https://platiica.economia.gob.mx/normalizacion/nmx-sast-45001-imnc-2018/>

applies to the protection of workers' health and well-being on-site and in the reduction of workplace hazards.⁵⁵ CFE's Code of Ethics applies to all employees of CFE.⁵⁶

- With regard to community relations, CFE's Accident Prevention Program, which is required by the Mexican Secretariat of the Environment and Natural Resources, mandates the completion of a risk assessment at generation plants and distribution infrastructure to prevent, mitigate, control and/or compensate against any harmful effects of CFE's installations and operations in local communities.^{57,58}

Based on these policies, standards and assessments, Sustainalytics is of the opinion that CFE has implemented adequate measures and is well positioned to manage and mitigate environmental and social risks commonly associated with the eligible categories.

Section 3: Impact of Use of Proceeds

All eight use of proceeds categories are aligned with those recognized by the GBP, SBP, GLP or SLP. Sustainalytics has focused below on where the impact is specifically relevant in the local context.

Importance of renewable energy investments in Mexico

Mexico's Energy Transition Law⁵⁹ of 2015 aimed to advance renewable energy projects to support the country's Nationally Determined Contribution under the Paris Agreement.⁶⁰ In October 2024, Mexico committed to increasing renewable energy production to make up 45% of the country's power generation by 2030.⁶¹ As supported by IRENA's estimates, achieving this target requires leveraging the potential for rapid expansion of wind and solar photovoltaic generation, and additional contributions from hydroelectricity.⁶²

Renewable electricity generation in Mexico is expected to grow by 140% from 48 TWh/year in 2010 to 116 TWh/year in 2030.⁶³ Despite this growth, the renewable energy share in power generation remains virtually unchanged from 18.5% in 2010 to 19.3% in 2030. The increase in renewable energy generation has been offset by the growing use of fossil-based energy to meet the rise in energy demand.⁶⁴ This stagnation of the energy mix's carbon intensity highlights the need for further investments in clean energy. As of 2024, Mexico generated 23% of its electricity from clean sources, with solar and wind contributing more than half of that.⁶⁵ However, natural gas accounted for 61% of total electricity generation in the country in 2023, also accounting for nearly 65% of all emissions from power generation and 22% all energy-related CO₂ emissions in Mexico in 2022.⁶⁶ Furthermore, power demand is growing at a rate of approximately 2.9% per year, driven by the increasing electricity consumption in rural and urban areas.⁶⁷

Sustainalytics considers that CFE's investments in renewable energy will contribute to expanding the generation and transmission of clean energy in Mexico, reducing its GHG emissions and more broadly contributing to the country's environmental targets.

⁵⁵ International Organization for Standardization, "Occupational Health and Safety – ISO 45001", at:

<https://www.iso.org/files/live/sites/isoorg/files/store/en/PUB100427.pdf>

⁵⁶ CFE, "Código de Ética", (2022), at: https://www.cfe.mx/transparencia_etica/etica/Documents/Codigo%20de%20Etica.pdf

⁵⁷ CFE, "Reporte Anual 2023", at: <https://www.cfe.mx/finanzas/reportes-financieros/Reportes%20Anuales%20Documentos/Reporte%20Anual%202023.pdf>

⁵⁸ CFE, "Guía para la Elaboración de Programas para la Prevención De Accidentes, para Su Aplicación en Instalaciones de CFE", (2019) at: <https://lapem.cfe.gob.mx/normas/pdfs/u/SPA00-01.pdf>

⁵⁹ The Law Reviews, "The Renewable Energy Law Review: Mexico", (2020) at: <https://thelawreviews.co.uk/title/the-renewable-energy-law-review/mexico>

⁶⁰ Government of Mexico, "Intended Nationally Determined Contribution", at:

https://www.gob.mx/cms/uploads/attachment/file/162973/2015_indc_ing.pdf

⁶¹ BNN Bloomberg, "Sheinbaum Aims for Renewables to Be 45% of Mexico Power by 2030", (Oct 1, 2024) at: [https://www.bnnbloomberg.ca/investing/commodities/2024/10/02/sheinbaum-aims-for-renewables-to-be-45-of-mexico-power-by-2030/#:~:text=\(Bloomberg\)%20%2D%20Mexico's%20President%20Claudia,for%20the%20state's%20energy%20companies](https://www.bnnbloomberg.ca/investing/commodities/2024/10/02/sheinbaum-aims-for-renewables-to-be-45-of-mexico-power-by-2030/#:~:text=(Bloomberg)%20%2D%20Mexico's%20President%20Claudia,for%20the%20state's%20energy%20companies)

⁶² IRENA, "Renewable Energy Prospects: Mexico" (2015), at: http://www.irena.org/-/media/Files/IRENA/Agency/Publication/2015/IRENA_REMap_Mexico_report_2015.pdf?la=en&hash=8A259915297B04B0D50A422EDF48AD87007B56B1

⁶³ Ibid.

⁶⁴ Climate Transparency, "Mexico", at: <https://www.climate-transparency.org/en/countries/americas/mexico>

⁶⁵ EMBER, "Mexico is yet to harness its high potential for cheap, clean solar and wind energy", (2024) at: <https://ember-energy.org/countries-and-regions/mexico/>

⁶⁶ IEA, "Countries: Mexico", at: <https://www.iea.org/countries/mexico>

⁶⁷ Ibid.

Contribution to SDGs

The Sustainable Development Goals (SDGs) were set in September 2015 by the United Nations General Assembly and form an agenda for achieving sustainable development by the year 2030. The bonds and loans issued under the CFE Sustainable Financing Framework advances the following SDGs and targets:

Use of Proceeds Category	SDG	SDG target
Renewable Energy	7. Affordable and Clean Energy	7.2 By 2030, increase substantially the share of renewable energy in the global energy mix
Energy Efficiency	7. Affordable and Clean Energy	7.3 By 2030, double the global rate of improvement in energy efficiency
Clean Transportation	11. Sustainable Cities and Communities	11.2 By 2030, provide access to safe, affordable, accessible and sustainable transport systems for all, improving road safety, notably by expanding public transport, with special attention to the needs of those in vulnerable situations, women, children, persons with disabilities and older persons
Green Buildings	11. Sustainable Cities and Communities	11.B By 2020, substantially increase the number of cities and human settlements adopting and implementing integrated policies and plans towards inclusion, resource efficiency, mitigation and adaptation to climate change, resilience to disasters
Pollution Prevention and Control	12: Responsible Consumption and Production	12.4: By 2020, achieve the environmentally sound management of chemicals and all wastes throughout their life cycle, in accordance with agreed international frameworks, and significantly reduce their release to air, water and soil in order to minimize their adverse impacts on human health and the environment
Climate Change Adaptation & Resilience	13: Climate Action	13.1: Strengthen resilience and adaptive capacity to climate-related hazards and natural disasters in all countries
Access to Free or Subsidized Essential Services (Digital Inclusion)	9. Industry, Innovation and Infrastructure	9.1 Develop quality, reliable, sustainable and resilient infrastructure, including regional and trans-border infrastructure, to support economic development and human well-being, with a focus on affordable and equitable access for all
Access to Free or Subsidized Essential Services (Electricity)	9. Industry, Innovation and Infrastructure	9.1 Develop quality, reliable, sustainable and resilient infrastructure, including regional and trans-border infrastructure, to support economic development and human well-being, with a focus on affordable and equitable access for all

Conclusion

CFE has developed the CFE Sustainable Financing Framework under which it may issue sustainability bonds and loans and use the proceeds to finance and/or refinance, in whole or in part, existing and future projects intended to reduce the company's greenhouse gas (GHG) emissions and promote the expansion of essential services. Sustainalytics considers that the eligible projects are expected to provide positive environmental and social impacts.

The CFE Sustainable Financing Framework outlines a process for tracking, allocation and management of proceeds, and makes commitments for reporting on allocation and impact. Sustainalytics considers that the CFE Sustainable Financing Framework is aligned with the overall sustainability strategy of CFE and that the

use of proceeds will contribute to advance the UN Sustainable Development Goals 7, 9, 11, 12 and 13. Additionally, Sustainalytics is of the opinion that CFE has adequate measures to identify, manage and mitigate environmental and social risks commonly associated with the eligible projects.

Based on the above, Sustainalytics is confident that CFE is well positioned to issue sustainability bonds and loans and that the CFE Sustainable Financing Framework is robust, transparent and in alignment with the Sustainability Bond Guidelines 2021 and the four core components of the Green Bond Principles 2021, Social Bond Principles 2023, Green Loan Principles 2023 and Social Loan Principles 2023.

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