

Second Party Opinion

Korea Water Resources Corp. Green Financing Framework

March 30, 2022

Korea Water Resources Corp. (K-water) is a government-owned public water company in South Korea. As the country's sole water company, it is essential to the development and management of water resources and water supply facilities in Korea. Established in 1967 under the Korea Water Resources Corporation Act, K-water's business includes the construction, operation, and management of wholesale water supply infrastructure such as dams and multi-regional waterworks. In addition, it engages in waterfront development projects in industrial complexes and special-purpose zones. The Korea Water Resources Corporation Act was amended and reestablished in 2020 to broaden renewable energy and include integrated water management within K-water's working charter.

In our view, K-water's Green Financing Framework, published in March 2022, is aligned with:

- ✓ Green Bond Principles, ICMA, 2021 (GBP)
- ✓ Green Loan Principles, LMA/LSTA/APLMA, 2021 (GLP)

Korea Water Resources Corp.'s Sustainability Objectives

K-water endeavors to balance profitability and providing the public with high quality and affordable water. The company's sustainability management promotes its core values of "inclusiveness, safety, trust, and challenge" to achieve the vision to become the "World-Leading General Water Platform Enterprise". Accordingly, K-water's projects focus on what the company terms water safety, water sharing and water supply, and align to at least one United Nations (U.N.) Sustainable Development Goal (SDG).

As per the framework, the projects satisfy the environmental objectives of climate change mitigation, climate change adaptation, pollution prevention and control, natural resource conservation, and biodiversity conservation.

K-water has developed a green financing framework to align its funding strategy with its sustainability commitments.

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Second Party Opinion Summary


Use of proceeds

Alignment  K-water's Green Financing Framework is aligned with this component of the GBP and GLP.

Score Not aligned Aligned **Strong** Advanced

K-water commits to utilize the proceeds under its green financing framework exclusively for described eligible projects that contribute to at least one environmental objective identified by the GBP.


Process for project evaluation and selection

Alignment  K-water's Green Financing Framework is aligned with this component of the GBP and GLP.

Score Not aligned **Aligned** Strong Advanced

A Green Finance Working Group (Working Group), comprising several teams, including Corporate Sustainability Management, will be responsible for the selection and evaluation of projects under this framework. K-water will identify and assess the environmental and social risks associated with eligible projects.

Management of proceeds

Alignment  K-water's Green Financing Framework is aligned with this component of the GBP and GLP.

The proceeds of the issuances under this framework will be tracked through a separate ledger and allocated to eligible projects within 24 months of drawdown. Any projects that are deemed no longer eligible will be replaced by eligible projects as soon as practicable. Any unutilized proceeds will be held as cash, cash equivalent, or green bonds.

Reporting

Alignment  K-water's Green Financing Framework is aligned with this component of the GBP and GLP.


Score Not aligned Aligned **Strong** Advanced

K-water commits to reporting on the allocation of the proceeds and the expected and actual impacts of the projects annually, until full allocation, while securing an external review for both allocation and impact reporting.

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.

 K-water's Green Financing Framework is aligned with this component of the GBP and GLP.

Commitments score

Not aligned

Aligned

Strong

Advanced


We consider K-water's overall use of proceeds commitments to be strong.

K-water commits to using the proceeds of issuances under the framework solely towards financing or refinancing eligible projects. Listed eligible projects include: (i) renewable energy projects; (ii) wastewater treatment plants or pumping stations; (iii) water supply infrastructure; and (iv) development of nature-based waterways for flood prevention and control. These include investments in small hydropower plants, improving the efficiency of wastewater treatment and water management infrastructure, and flood prevention. Each eligible project category aligns with the U.N. SDGs, such as SDG 7: Affordable and Clean Energy for eligible projects in renewable energy and contributes to at least one of the GBP's and GLP's environmental objectives. K-water links project categories to the environmental objectives of climate change mitigation, pollution prevention and control, natural resource conservation, climate change adaptation, and biodiversity conservation.

The lookback period for refinanced projects will not exceed 24 months from the time of issuance, and K-water's allocation reporting will include the share of financing and refinancing.

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.

 K-water's Green Financing Framework is aligned with this component of the GBP and GLP.

Commitments score

Not aligned

Aligned

Strong

Advanced


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

An ESG Management Team is responsible for the overall administration of the ESG strategy, including setting up ESG business plans and verifying ESG projects. Specifically, K-water will set up the Working Group that will be responsible for reviewing and validating new and existing eligible green projects. The Working Group will include representatives from the Investment Committee, Finance Department, Corporate Sustainability Management Team, and Investment and Funding Review Committee. The framework outlines the key steps to evaluate and select projects. These include ensuring no assets are subject to K-water's sector and activity exclusion list - fossil fuel projects, projects that involve hazardous chemicals and waste, or any sector prohibited under Korean laws. Internal teams that nominate green projects are responsible for the analysis and identification of environmental and social risks associated with the projects. The Finance Department will be the final decision marker for the allocation of proceeds.

The framework identifies minimum eligibility standards for most projects in all eligible categories but climate change adaptation, where the nature of projects (e.g. research and development on resilience technologies) makes quantitative thresholds more challenging to set.

Management of proceeds


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

 K-water's Green Financing Framework is aligned with this component of the GBP and GLP.

K-water's Finance Department will track the allocation of issuance proceeds through a dedicated ledger. The ledger will include information on the allocated projects and financing instruments. K-water commits to fully allocating the net proceeds within 24 months of issuance and reallocate proceeds of any asset no longer eligible under the framework on a timely basis. Proceeds pending allocation will be held in cash or cash equivalent green bonds, in line with the company's treasury management practices.

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 K-water 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.

 K-water's Green Financing Framework is aligned with this component of the GBP and GLP.

Disclosure score

Not aligned

Aligned

Strong

Advanced

We consider K-water's overall reporting practices to be strong.

K-water commits to reporting on the allocation of proceeds annually, through its public Sustainability Report or Green Bond Report, until full allocation. Allocation reporting will contain information on the percentage of proceeds allocated to eligible projects, the amount of unallocated proceeds, and the share of refinanced projects.

K-water will report on the expected and actual environmental impacts of projects financed. While the language in the framework could be stronger, the commitment to have an external review on impact reporting, an advanced practice, supports the credibility of the company's overall commitment on impact reporting. Key performance indicators include quantitative metrics for each of the eligible project categories such as installed renewable energy capacity, avoided water leakage, amount of wastewater treated, and flood control capacity. The commitment to disclose calculation methodologies and assumptions used for reporting and to have an external review for allocation reporting adds credibility to the framework and is a relatively strong practice.

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

The SDGs, which the U.N. set up in 2015, form an agenda for achieving sustainable development by 2030.

We use the International Capital Market Association's (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.

K-water's Green Financing Framework intends to contribute to the following SDGs:

Use of proceeds

SDGs

Renewable Energy



7. Affordable and clean energy*

Sustainable Water Management



6. Clean water and sanitation*



11. Sustainable cities and communities*

Sustainable Wastewater management



6. Clean water and sanitation*



11. Sustainable cities and communities*

Climate Change Adaptation



13. Climate action*

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

Second Party Opinion

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