

Sustainability Framework Alignment Opinion

## Incheon International Airport Corp. Sustainable Financing Framework

April 21, 2021

### Sustainable Financing Framework Overview

In our view, Incheon International Airport Corp.'s (IIAC) sustainable financing framework, published on April 21, 2021, is aligned with the four components of the Green Bond Principles (GBP) and the four components of the Social Bond Principles (SBP), collectively referred to the Sustainability Bond Guidelines (SBG).

IIAC is a Korean state-owned enterprise that operates the Incheon International Airport, the largest airport in South Korea, and the primary airport serving the Seoul area. IIAC's vision is to minimize the environmental footprint of its operations while ensuring as many people as possible benefit from the economic opportunities the airport creates. The company supplements these objectives with environmental and social commitments, including transforming its facilities to energy self-sufficiency, reducing aircraft's fine dust and exhaust gas, and creating jobs and promoting social integration. The company's strategic objectives are consistent with the government's "Korean New Deal" initiatives, which include investments of close to US\$150 billion and the creation of 1.9 million jobs by 2025.

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### Framework Alignment Overview



#### 1. Use of proceeds

IIAC's sustainable financing framework is aligned with this component of the GBP and SBP because the company commits to using bonds' net proceeds to fund eligible green and social projects that fit into the categories defined by the principles. The related GBP categories are renewable energy, energy efficiency, pollution prevention and control, terrestrial and aquatic biodiversity conservation, clean transportation, and green buildings. Likewise, IIAC's allocation of proceeds will cover the SBP categories of employment generation, affordable basic infrastructure, as well as socioeconomic advancement and empowerment.



#### 2. Process for project evaluation and selection

IIAC's sustainable financing framework is aligned with this component of the GBP and SBP because it outlines how the project teams will identify potential projects, before the company's Green, Social and Sustainability Bond Working Group (GSSBWG) ensures that the selected projects meet the framework's eligibility criteria. IIAC's finance department will then have final approval authority. The GSSBWG reviews the allocation of proceeds annually to determine if any changes or updates to the allocations would be necessary.



### **3. Management of proceeds**

IIAC's sustainable financing framework is aligned with this component of the GBP and SBP because the issuer commits to track the net proceeds of financing issued under the framework through a dedicated Green, Social and Sustainability (GSS) register that includes details on issuing terms of GSS and the amount allocated to eligible projects. The issuer will manage the pending and unallocated funds in accordance with its general liquidity management policies.



### **4. Reporting**

IIAC's sustainable financing framework is aligned with this component of the GBP and SBP because the issuer intends to report the allocation of proceeds aggregated at a portfolio level, and the balance of unallocated net proceeds and the environmental and social impacts at project level until the full disbursement of funding. The issuer intends to disclose this information on its website on an annual basis.

## Issuer Sustainability Objectives

IIAC appreciates its activities have an important impact on mobility, and hence urbanization and the environment. IIAC's environmental strategy has four legs, namely advancing eco-friendly management, improving energy efficiency, expanding low-carbon operation, and strengthening environmental resources management. One of the company's major goals is to transform its operations from net energy consumption to energy self-sufficiency, while sourcing all its power from renewable sources. Key steps include the installment of more solar, thermal, and fuel cell power generation systems in the airport (target of 78 megawatt [MW] by 2030), improving energy efficiency by upgrading power-consuming equipment such as lighting, establishing green mobility operation system through the development of hydrogen/electronic charging stations, and creating forest areas within and near the airport .

IIAC is committed to creating job opportunities, improving inclusion, and providing affordable basic infrastructure. It endeavors to promote mutual growth and job security within its industrial ecosystem and economic reach. To achieve these objectives, the company will track employment closely, ensure all job offers are highly visible, increase procurement from local companies, and support local small and midsize enterprises (SMEs) in general (training, financing, joint research and development [R&D] projects...). In addition, IIAC will pay specific attention to socially marginalized groups, so that they have access to economic opportunities within its sphere of influence.

The GSS bond framework presents the respective Sustainable Development Goals (SDGs) each eligible green and social project category supports. These include SDG 1 No poverty, SDG 7 Affordable and clean energy, SDG 8 Decent work and economic growth, SDG11 Sustainable cities and communities, SDG12 Responsible consumption and production, and SDG 15 Life on land.

## Framework Description

### 1. Use of proceeds



The GBP and SBP stipulate that a seeker of finance should commit the net proceeds of an issuance exclusively to eligible green and social projects, respectively. According to the GBP, eligible projects will seek to achieve at least one of five environmental objectives: (1) climate change mitigation; (2) climate change adaptation; (3) natural resource conservation; (4) biodiversity conservation; and (5) pollution prevention and control. According to the SBP, the following eligible project categories capture the most common social issues: (1) affordable basic infrastructure; (2) access to essential services; (3) affordable housing; (4) employment generation, and programs designed to prevent or alleviate unemployment; (5) food security and sustainable food systems; and (6) socioeconomic advancement and empowerment.

IIAC intends to allocate the net proceeds from the issuance of GSS bonds to financing or refinancing new or existing green and social projects, which are eligible under the company's framework.

All four green project categories in IIAC's sustainable financing framework meet at least one of the GBP's environmental objectives. Examples of projects include the development of renewable power generation facilities by using vacant places in the airport to install more solar, thermal, and fuel cell power generation systems, thereby contributing to climate change mitigation. Similarly, the development of a resource recycling system for waste and water meets the GBP's pollution prevention and control objectives, while preserving/restoring natural ecosystems within and near the airport addresses biodiversity conservation.

The framework also details how uses of funds will fit into the categories of the SBPs. For instance, promoting the re-employment of middle-aged employees or supporting enterprises that provide social services or job opportunities

for vulnerable populations contribute to employment generation. Likewise, providing education for underprivileged teenagers within the Incheon/Gyeonggi area, or consulting program for social welfare facilities and safety assessments within Incheon area support socioeconomic advancement and empowerment.

## 2. Process for project evaluation and selection



To align with the second component of the GBP and SBP, a seeker of finance must explain the process by which eligible projects are selected, the related eligibility criteria applied to select those projects (including exclusionary criteria, if applicable), and the overall sustainability objectives that underpin the selection process.

IIAC's sustainable financing framework includes a description of the process to evaluate and select eligible projects. The project team will identify potential projects for each GSS bond issued under the framework. The issuer's GSSBWG is responsible for evaluating selected projects to ensure they meet the framework's eligibility criteria. The GSSBWG includes the company's president, tenants, airlines, and a range of technical and sustainability staff, depending on whether the projects under study are green or social. IIAC's finance department will provide the final approval, factoring the competing projects' environmental and social impacts and the current state of unused proceeds from the issuance. After the initial projects' screening and investment, the GSSBWG will review the allocation of proceeds annually to determine if any changes or updates to the allocations are necessary.

## 3. Management of proceeds



The GBP and SBP require a seeker of finance to monitor the net proceeds of all outstanding green and social bond transactions, which include appropriately tracking the proceeds and adjusting the balance of net proceeds to match allocations to eligible green and social projects. The GBP and SBP also require a seeker of finance to disclose to investors the types of temporary placement they intend to use for unallocated proceeds.

IIAC's finance department will manage the proceeds of GSS bonds issued under this framework. IIAC will track the net proceeds through a separate GSS register that includes details on issuing terms of GSS and the amount allocated to eligible projects. IACC plans to allocate all proceeds from GSS bonds to eligible projects in accordance with the evaluation and process specified in the framework.

Detailed information on the terms of the GSS bond issuance and the use of proceeds will be recorded in the register, and IIAC will review the budget execution every quarter. The company will hold the proceeds to be allocated or unallocated in accordance with its general liquidity management policies, i.e. in cash or cash equivalents, investment-grade securities, or other marketable securities.

## 4. Reporting



The GBP and SBP stipulate that a seeker of finance should report on the use of proceeds annually until full allocation. Information presented in the annual report must include a list of the projects that receive financing, a description of each project, including the amount allocated to each project, and their expected environmental and social impacts.

IIAC has committed to report annually via its website the allocation of proceeds aggregated at a portfolio level and, where applicable, on the environmental and social impact of the eligible green and social projects until full allocation of the net proceeds. Allocation reporting will include the eligible project lists, the allocation amount, expected green or social impacts from eligible projects, and the balance of unallocated net proceeds. The issuer has selected a set of environmental and social impact metrics that it will use to quantify its performance within each eligible category where applicable. For example, pollution prevention and control metrics include reduced volume of aircraft's fine dust and greenhouse gas emissions, while ratios of renewable energy supply and environmentally friendly power purchase will be used for projects included in the renewable energy category. Metrics to measure the impact of projects in the socioeconomic advancement and empowerment category include the incremental employment and revenues of SMEs and the value of the airport products and services procured from local businesses. Examples of metrics used in the affordable basic infrastructure category include number of recipients of services for the mobility disadvantaged (mobility assistance and convenience facilities) and the service satisfaction rate, and the number of recipients (households) of support program for socially marginalized.

## Additional Features Of The Framework

This section of the report provides additional information about whether the framework incorporates recommended aspects of the GBP and SBP and goes beyond minimum requirements. This section does not impact on our alignment opinion with the stated principles.

The IIAC's sustainable financing framework follows the voluntary guidelines provided by the GBP and SBP. It provides a good level of transparency and disclosure. In some cases, the framework goes beyond the requirements of the GBP and the SBP. The key strengths of the framework include:

- The use of proceeds section precisely outlines the rationale for the eligible categories, helping to understand the potential environmental and social benefits associated with the selected project. In addition, the framework maps eligible project categories to relevant SDGs.
- IIAC documents its intention to adopt certain environmental standards, such as ISO50001, ISO14001, and ACI carbon certification level III, adding credibility to its sustainability undertakings.
- The company confirmed that it obtained the highest rating of G-SEED (Green Standard for Energy and Environmental Design) in 2018 and will renew the rating in 2023.

- IIAC confirmed that it will report the environmental (and social for sustainability) impacts of all projects being financed, and at the project level.

There are the following limitations to offset the above strengths:

- IIAC will not provide an estimate of the share of projects' financing vs. refinancing.
- IIAC does not intend to follow the guidelines outlined in the International Capital Market Association (ICMA) Harmonized Framework for Impact Reporting, nor to adhere to any reference taxonomy.
- The GBP and the SBP recommend that an issuer's process for project evaluation and selection be supplemented by the review of an auditor, or other third-party verifier. The framework does not meet these recommended criteria.
- The GBP and the SBP suggest that the issuer obtains assurance from its external auditor to verify the tracking method of the proceeds until repayment. The framework does not meet these recommended criteria.
- IIAC will not disclose the underlying methodology for calculating quantitative impact indicators in the framework described in its impact report.
- The framework does not explicitly mention IIAC's intention to comply with environmental and social regulations.

## Conclusion

Based on our assessment of the contents of IIAC's sustainable financing framework, we regard this framework as being aligned with the four components of the GBP and SBP, collectively referred to under the SBG, given that the seeker of finance has committed to:

- Allocate the full amount of the net proceeds of the bonds to eligible green and social projects, as defined by the seeker of finance;
- Use clear "green" and "social" criteria (as defined by the seeker of finance) to select projects for funding;
- Manage and track proceeds; and
- Commit to regular reporting of the environmental and social impact and use of proceeds.

## Mapping To The UN Sustainable Development Goals

The SDGs were set up by the UN in 2015 and form an agenda for achieving sustainable development by the year 2030. The IIAC's sustainable financing framework intends to contribute to the following SDGs:

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Use of proceeds

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*Renewable energy*

*Energy efficiency*

*Clean transportation*



**7. Affordable and clean energy**

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*Pollution prevention  
and control*



**12. Responsible  
consumption and  
production**

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Terrestrial and  
aquatic biodiversity  
conservation



**15. Life on land**

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*Employment  
Generation*



**8. Decent work and  
economic growth**

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*Socioeconomic  
advancement and  
empowerment*



**8. Decent work and  
economic growth**

**1. No poverty**

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*Affordable Basic  
infrastructure*



**11. Sustainable cities  
and communities**

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