



SECOND PARTY OPINION¹ ON THE SUSTAINABILITY OF KHNP'S GREEN BOND²

June 2018

SCOPE

Vigeo Eiris was commissioned to provide an independent opinion on the sustainability credentials and management of the Green Bond (the “bond”) proposed to be issued by Korea Hydro & Nuclear Power (KHNP or the “Issuer”), according to Vigeo Eiris’ Environmental, Social and Governance (“ESG”) assessment methodology, and on the alignment with the Green Bond Principles voluntary guidelines (the “GBP”).

The opinion is based on the review of the two following components:

- **Issuer:** evaluation of the sustainability profile of KHNP, including:
 - ▶ the Issuer’s ESG commitments and strategy;
 - ▶ the Issuer’s ESG controversies’ management and capacity to mitigate these risks and involvement in controversial activities³.
- **Issuance:** analysis of the coherence between the bond and KHNP’s environmental strategy and commitments, and of its alignment with the Green Bond Principles and market practices. Our due diligence assessment only covers the Eligible Project Categories presented in the hereby Second Party Opinion (see Use of Proceeds section).

Vigeo Eiris’ sources of information are gathered from our rating database, KHNP, press content providers and stakeholders, and complemented by interviews with involved departments and managers of the Issuer, held via telecommunication software. Vigeo Eiris has carried out its due diligence assessment from June 1st to June 20th, 2018.

We could access most appropriate documents and speak to certain relevant people across KHNP. We consider that the provided information enables us to establish our opinions with a moderate level of assurance on their completeness, precision and reliability.

VIGEO EIRIS’ OPINION

Vigeo Eiris confirms that the bond considered by KHNP is a “Green Bond” is aligned with the Green Bond Principles.

Vigeo Eiris reaches a reasonable⁴ level of assurance on the bond’s contribution to sustainability.

- **Issuer:** Vigeo Eiris’ level of assurance on KHNP’s capacity to mitigate ESG risks, based on an analysis of the company’s Corporate Social Responsibility (“CSR”) policies and commitments, ranges from reasonable to moderate (see Part I).
 - ▶ Vigeo Eiris’ level of assurance on KHNP’s capacity to mitigate ESG risks is reasonable on the environmental pillar and moderate on the social and governance pillars.
 - ▶ No controversy was identified for KHNP over the period under review.
Regarding the 15 controversial activities analysed by Vigeo Eiris, KHNP has a major involvement in nuclear power.

¹ This opinion is to be considered as the “Second Party Opinion” described by the Green Bond Principles (‘External Review’ section). www.icmagroup.org

² The “Green Bond” is to be considered as the potential forthcoming bond, which issuance is subject to market conditions.

³ The 15 controversial activities analysed by Vigeo Eiris are: Alcohol, Animal welfare, Chemicals of concern, Civilian firearms, Fossil Fuels industry, Coal, Tar sands and oil shale, Gambling, Genetic engineering, High interest rate lending, Military, Nuclear power, Pornography, Reproductive medicine, and Tobacco.

⁴ Definition of Vigeo Eiris’ scales of assessment (as detailed in the Methodology section of this document):
Level of Evaluation: Advanced, Good, Limited, Weak.
Level of Assurance: Reasonable, Moderate, Weak.

- **Issuance:** KHNP has formalized a Green Bond Framework which applies to the contemplated Green Bond issuance, and commits to make it publicly accessible on its website.

The bond is coherent with KHNP's main environmental priorities and contributes to achieve its sustainability commitments. In addition, the financing of Renewable Energy and Energy Efficiency Projects addresses the sector key environmental responsibilities (see Part II).

The bond aligns with the four core components of the Green Bond Principles:

- ▶ The net proceeds of the bond issuance will be used to finance and refinance Renewable Energy, Low Carbon Transport, Energy Efficiency and Green Building projects, which are expected to contribute to climate change mitigation, low-carbon energy transition, in line with two United Nations Sustainable Development Goals (the "SDGs").

The associated environmental objectives are defined, relevant and measurable but partially precise. The environmental benefits will be assessed and quantified by the Issuer.

- ▶ The process for project evaluation and selection is clearly defined. The process is good in terms of transparency and governance, and relies on overall relevant eligibility criteria (selection and exclusion).

The identification and management of environmental and social risks associated with the Eligible Projects is considered to be overall good for overseas projects and limited for domestic projects, since there is no evidence that it goes beyond legal requirements.

- ▶ The rules for the management of proceeds are clearly defined and ensure an overall transparent and documented allocation process

- ▶ The reporting process and commitments are good, covering the funds allocation and environmental benefits of selected projects (outputs and impacts). We have an overall reasonable level of assurance on the Issuer's capacity to report on the Green Bond's use of proceeds, outputs and impacts.

EXTERNAL REVIEW

KHNP's Green Bond issuance is supported by external reviews:

- The sustainability consultant review, i.e. the hereby Second Party Opinion performed by Vigeo Eiris, on the sustainability credentials of the Green Bond, based on pre-issuance commitments and covering all the key features of the Bond.

This Opinion is valid as of the date of issuance and limited to KHNP's Green Bond issued in June 2018.

Paris, June 21th, 2018



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Disclaimer

Transparency on the relation between Vigeo Eiris and the Issuer: Vigeo Eiris has not executed any audit or consultancy activity for KHNP until so far and no established relationship (financial or other) exists between Vigeo Eiris and KHNP.

This opinion aims to explain for investors why the Green Bond is considered as sustainable and responsible, based on the information which has been made available to Vigeo Eiris. Vigeo Eiris has neither interviewed stakeholders out of the Issuer's employees, nor performed any on-site audit nor other test to check the accuracy of the information provided by the Issuer. The correctness, comprehensiveness and trustworthiness of the information collected are a responsibility of the Issuer. Providing this opinion does not mean that Vigeo Eiris certifies the materiality, the excellence or the irreversibility of the projects financed by the Green Bond. KHNP is fully responsible for attesting the compliance with its commitments defined in its policies, for their implementation and their monitoring. The opinion delivered by Vigeo Eiris neither focuses on financial performance of the Green Bond, nor on the effective allocation of its proceeds. Vigeo Eiris is not liable for the induced consequences when third parties use this opinion either to make investments decisions or to make any kind of business transaction. The opinion delivered on stakeholder-related ESG controversies is not a conclusion on the creditworthiness of KHNP or its financial obligations. We do not express an opinion as a score when controversial activities, products and services are not prohibited by international standards or treaties. The controversial activities research provides screening on companies to identify involvement in business activities that are subject to philosophical or moral beliefs. The information does not suggest any approval or disapproval on their content from Vigeo Eiris.

Restriction on distribution and use of this Opinion: the opinion is provided by Vigeo Eiris to the Issuer and can only be used by the Issuer. The distribution and publication is at the discretion of the Issuer, submitted to Vigeo Eiris' approval.

DETAILED RESULTS

Part I. ISSUER

Level of assurance on KHNP's sustainability strategy

Vigeo Eiris' level of assurance on KHNP's capacity to mitigate ESG risks, based on a review of the company's CSR policies and commitments, ranges from reasonable on the environmental pillar, to moderate on the social and governance pillars.

Domain	Comments	Level of assurance
Environment	Vigeo Eiris' level of assurance on KHNP's performance on the Environment pillar is reasonable.	Reasonable
	KHNP has formalised its environmental policy through its "TRUST" core values, its Climate Change Response Roadmap and its 2031 Mid to Long-Term Management Strategy. Most relevant topics under review – namely pollution prevention and control, nuclear safety, development of renewable energy and GHG emissions – are addressed. Quantified targets have been set in terms of development of investment in renewable energies by 2031 and of environmental performance (covering GHG emissions, water consumption and environmental incidents, among other indicators)	Moderate
	The Sustainability Management Committee oversees the company's environmental strategy. In addition, KHNP's environmental management system is based on the ISO 14001 standard, although there is no evidence that the company obtained the ISO 14001 certification.	Weak
Social	Vigeo Eiris' level of assurance on KHNP's performance on the Social pillar is moderate, close to reasonable.	Reasonable
	KHNP's Human Rights Charter encompasses the company's commitment to responsible labour relations, career management, health and safety and fundamental human rights. In addition, the prevention of discrimination is addressed through the company's Code of Conduct and the Code of Conduct for KHNP suppliers covers the integration of social factors in the supply chain.	Moderate
	However, apart from health and safety and the promotion of local economic development, for which quantified targets have been set, the company's commitments to the other issues under review remain general and often refer only to applicable legislations. The promotion of access to energy is addressed in the Sustainability Report of KHNP's mother company Kepeco, although the group does not seem to have a formalised policy dedicated to this issue.	Weak
Governance	Vigeo Eiris' level of assurance on KHNP's performance on the Governance pillar is moderate.	Reasonable
	Regarding Corporate Governance, a good performance is achieved on the "Board of Directors" criterion: most Directors are non-executives, the Chairman is elected among non-executive Directors and there is a Board Committee in charge of CSR activities. However, the Board diversity appears to be low, notably in terms of gender. The company's audit and internal control system covers some key CSR risks, which have been mapped, and the company publishes a CSR reporting based on the GRI guidelines and which has been audited by an external third-party. The low level of transparency on the determination of top executives' remuneration is an area of improvement.	Moderate
	Regarding Business Ethics, the topics under review are heterogeneously addressed. On the one hand, the company displays an advanced commitment to the prevention of corruption, supported by quantified targets and overseen by the Audit Office. On the other hand, the prevention of anti-competitive practices is mentioned in the Sustainability Report, while the issue of responsible lobbying seems to be left unaddressed. Of note, KHNP is a public company so its activities in Korea are regulated by the Korean Ministry of Trade, Industry, and Energy.	Weak

Stakeholder-related ESG controversies

No controversy was identified for KHNP over the period under review.

Involvement in controversial activities

Regarding the 15 controversial activities analysed by Vigeo Eiris, and based on an estimation of the level and type of company involvement, KHNP's involvement in Nuclear power is major:

- Nuclear power: KHNP has an estimated turnover from nuclear power, which is at least 90% of total turnover. This turnover is derived from nuclear power generation and sale and nuclear parts and services.

KHNP is not involved in any of the remaining 14 controversial activities analysed by Vigeo Eiris.

Part II. ISSUANCE

Coherence of the issuance

The Bond is coherent with KHNP's environmental priorities and contributes to achieve its sustainability commitments and objectives related to climate change.

Vigeo Eiris has a reasonable level of assurance on KHNP's capacity to address relevant sector issues in terms of environmental responsibility with part of its investments, namely in Renewable Energy and Energy Efficiency projects.

The Electric Utilities sector has a major role to play with regard to climate change through the promotion of renewable energy sources and energy efficiency. By using a Green Bond to (re)finance Renewable Energy and Energy Efficiency Projects, KHNP addresses relevant sector issues in terms of environmental responsibility.

KHNP appears to acknowledge its key role in terms of developing renewable energy and minimizing its impacts on climate change:

- Environmental responsibility is addressed through the company's "TRUST" core values and the company has an environmental management system based on the ISO 14001
- KHNP is developing its capacity in renewable energy business to be aligned with "Renewable Portfolio Standard" (RPS) and with the government's policy of "20% of electricity generation through renewable energy by 2030"

By issuing a Green Bond to finance and refinance Renewable Energy, Energy Efficiency, Low Carbon Transport and Green Building Projects, KHNP coherently responds to its environmental strategy and commitments.

Use of proceeds

The environmental objectives of KHNP's Green Bond are to contribute to climate change mitigation and low carbon energy transition. These objectives are defined, relevant and measurable but partially precise. We have recommended setting quantified targets.

In order to achieve these objectives, the net proceeds of the bond issuance will be used to finance and refinance Eligible Projects, falling in four categories (Renewable Energy, Energy Efficiency, Low Carbon Transport and Green Building), which definitions are clear and relevant.

The environmental benefits from the Eligible Projects will be assessed and quantified by the Issuer.

The Use of Proceeds commitments are considered to be aligned with the Green Bond Principles.

The net proceeds of the Green Bond will be used to finance and refinance, in whole or in part, the construction of new projects and the renovation and/or upgrading of existing projects assets falling in four categories:

- Renewable Energy
- Low Carbon Transport
- Energy Efficiency
- Green Building

Eligible Projects are located in South Korea and overseas. Vigeo Eiris recommends disclosing the list of countries where Eligible Projects are expected to be located.

The Issuer intends to refinance existing projects with a look-back period of 7 years. Vigeo Eiris recommends limiting the look-back period to 36 months, in line with market good practices.

Vigeo Eiris has analysed the commitments made by the Issuer in terms of Use of Proceeds:

- The environmental objectives are defined, relevant and measurable, although partially precise. Vigeo Eiris recommends setting quantified targets.
- The Eligible Project Categories are overall clearly defined with relevant content.
- The expected environmental benefits will be assessed and quantified by the Issuer.

Eligible Project Categories	Definitions	Environmental objectives and expected benefits
Renewable Energy	<ul style="list-style-type: none"> - Development, investment, maintenance, and generation of energy from renewable sources, namely <ol style="list-style-type: none"> (1) Solar Photovoltaic, (2) Offshore and Onshore wind, (3) Hydropower projects: <ol style="list-style-type: none"> a. run of river plants of all size b. small hydropower (with installed capacity <20MW) (4) Fuel cell, (5) Biomass from pellets made of low grade wood fibre, sawdust and other wood industry by-product (6) Geothermal, (7) Ocean energy. - Projects can be in the domestic market and in global market 	<p>Climate change mitigation and low-carbon energy transition</p> <p><i>Renewable electricity generation</i></p> <p><i>GHG emissions avoidance</i></p>
Low Carbon Transport	<ul style="list-style-type: none"> Development, construction, acquisition, operation, and maintenance of low-carbon transportation system: <ol style="list-style-type: none"> (1) Electric and/or fuel cell vehicles, (2) Charging stations. 	<p>Climate change mitigation and low-carbon energy transition</p> <p><i>GHG emission avoidance</i></p>
Energy Efficiency	<ul style="list-style-type: none"> Modernization of existing hydropower generation facilities to increase its safety and generation efficiency. <ul style="list-style-type: none"> - Replacing large electric and mechanical components 	<p>Climate change mitigation and low-carbon energy transition</p> <p><i>Energy savings</i></p> <p><i>GHG emission avoidance</i></p>
Green Building	<ul style="list-style-type: none"> Construction and renovation of green buildings that qualified for recognized Green Building Standards: <ul style="list-style-type: none"> - LEED Gold / BREEAM Very Good - National equivalent with a minimum standard such as G-SEED (Green Standard for Energy and Environmental Design) that is based on Act on Development and Support of Green Building 	<p>Climate change mitigation and low-carbon energy transition</p> <p><i>Energy savings</i></p> <p><i>GHG emission avoidance</i></p>

Vigeo Eiris considers that the defined Eligible Project Categories mainly align with two United Nations Sustainable Development Goals, namely: **7. Affordable and clean energy**, and **13. Climate action**.



7 Affordable and Clean Energy

Contribution to achieving the UN SDG 7. Affordable and clean energy

The UN SDG 7 consists in ensuring universal access to affordable, reliable, sustainable and modern energy. More precisely, SDG 7 targets by 2030 include to substantially increase the share of renewable energy in the global energy mix and to promote investment in energy infrastructure and clean energy technology.

By using the Green Bond proceeds to (re)finance all Eligible Project Categories, KHNP is contributing to the UN SDG 7, with regards to the above-mentioned targets.



13 Climate Action

Contribution to achieving the UN SDG 13. Climate action

The UN SDG 13 consists in taking urgent action to combat climate change and its impacts, developing sustainable low-carbon pathways to the future, and accelerating the reduction of global greenhouse gas emissions.

By using the Green Bond proceeds to (re)finance all Eligible Project Categories, KHNP is contributing to the UN SDG 13, with regards to the above-mentioned goal.

Process for project evaluation and selection

Vigeo Eiris estimates that the process for project evaluation and selection is clearly defined. The process is good in terms of transparency and governance, and relies on overall relevant eligibility criteria. As a result, the process is considered aligned with the Green Bond Principles.

The evaluation and selection of Eligible Projects is based on relevant internal expertise with well-defined roles and responsibilities:

- The Green Bond Working Group (“GBWG”) is composed of senior representatives from several transversal and technical departments: the Corporate Strategy Department, the Public Relations and Investor Relations Department, the New Energy Project Department, the Overseas Hydropower Department, the Finance, Accounting & Tax Office and the Corporate Sustainability Management team.

The evaluation and selection of projects financed by the Issuer is reasonably structured:

- KHNP’s business units will screen potential Eligible Projects to ensure they fulfil KHNP’s usual environmental requirement and policy
- The GBWG oversees the assessment of the Eligible Projects with regards to the defined eligibility and exclusion criteria
- The Corporate Sustainability Management team has a veto right on the eligibility of projects
- The Board of Director will review the list of Eligible Projects
- The GBWG will approve the list of Eligible Projects
- The verification and traceability is ensured throughout the process:
 - The Finance and Accounting Department will oversee the book keeping and keep records which will be reviewed every 6 months by the GBWG
 - The GBWG will review annually the allocation of proceeds and decide on potential updates (replacement, deletion or addition) of the list of Eligible Projects
 - All meetings will be documented
 - Vigeo Eiris recommends that external auditors regularly verify the compliance of the list of eligible projects with the selection process and criteria.

The process relies on overall relevant eligibility criteria.

- Eligibility criteria are based on the definitions of the Eligible Projects categories.
 - We recommend defining a threshold in terms of maximum capacity of run of river dams.
- Exclusion criteria has been defined regarding activities involving nuclear, child labour, weapons, or constituting a violation of human rights.

The identification and management of environmental and social risks associated with the selected Eligible Projects is considered to be overall good for overseas projects and limited for domestic projects, since there is no evidence that it goes beyond legal requirements.

- Regarding Korean projects, the Korean law requires that an environmental impact assessment be conducted, covering notably the issue of biodiversity protection. As part of this assessment public hearings are organized, as well as public meetings to present the project if local communities demand it. Overall, there is few evidence that KHNP goes beyond the requirements of the local legislations, especially regarding social issues. Therefore, for domestic projects, the identification and management of environmental and social risk appear to be at compliance level only.
- For its overseas projects, KHNP commits to follow the IFC performance standards These guidelines contain recommendations for the due diligence and monitoring phases of projects on the following issues: environmental management, pollution prevention and control, biodiversity protection, fundamental human rights, community consultation and health and safety of workers and local communities. The identification and management of environmental and social risks thus appear to be appropriate for most overseas projects.
- For both overseas and Korean projects, KHNP will monitor controversies using grievance mechanisms implemented at project level which is of particular importance in this sector.
- Vigeo Eiris recommends strengthening the integration of environmental and social standards in the projects’ supply chain, by purchasing eco-designed equipment, conducting life-cycle analysis or auditing suppliers and sub-contractors on the working conditions of their employees.
- Vigeo Eiris also recommends resorting more systematically to external experts to conduct the environmental and social due diligence assessments and to monitor the environmental and social risks of Eligible Projects.

Management of proceeds

Vigeo Eiris considers that KHNP's rules for management of proceeds are defined and ensure an overall transparent and documented allocation process

The rules for the management of proceeds are considered aligned with the Green Bond Principles.

- The net proceeds of the bond will be deposited in the company's general funding account and allocated to Eligible Projects meeting the defined eligibility criteria. Vigeo Eiris recommends specifying the expected allocation duration.
- KHNP will use the "earmarking" method to track the proceeds through the establishment of a Green Bond Register, which will contain information necessary to ensure that the aggregate of issuance proceeds allocated to the Eligible Projects is recorded at all times. The Register will be reviewed and signed semi-annually by the Head of Finance.
- Pending allocation or reallocation, KHNP commits to hold unallocated proceeds in accordance with its normal liquidity management and to invest them either domestically or internationally in short-term liquidity instruments such as money market instruments or money market deposit account. KHNP commits that the unallocated proceeds will not be used to finance GHG intensive activities nor controversial activities.
- The Issuer commits to substitute any project for which a controversy considered as material or critical by the GBWG is identified by an alternative Eligible Project within a year.
- Vigeo Eiris recommends that an external auditor verifies the tracking of the bond's proceeds.

Monitoring & Reporting

The process for data collection, consolidation and reporting is clearly defined.

Vigeo Eiris considers that KHNP's overall reporting commitments are good, leading to a reasonable level of assurance on the Issuer's capacity to regularly report on the Green Bond use of proceeds and sustainability benefits.

The reporting commitments of the Issuer are in line with the Green Bond Principles, covering the overall fund allocation and environmental benefits of financed projects.

The conditions and process for monitoring are clearly defined. The process for data collection, consolidation and reporting will rely on internal expertise, including relevant people from across the company:

- Regarding use of proceeds indicators, the Finance and Accounting Department will keep accounting records in a Green Bond Register, which will be semi-annually reviewed and signed by the Head of Finance.
- Each business department will be in charge of reporting data to the GBWG, which will oversee the consolidation of the indicators.
- In case of co-financing, the Issuer commits to monitor and report only on the amount of use of proceeds and of environmental benefits related to KHNP's legal share of the project.
- The reporting will be performed on an annual basis through a Green Bond Progress Report disclosed publicly, on KHNP's Investor Relation website.
- The reporting will be made at project level when feasible. If not, it will be made at technology level, at category level or at bond level.
- Vigeo Eiris recommends that an external auditor verifies the reporting process and the metrics.

The selected reporting indicators related to the use of proceeds and environmental benefits are relevant for all defined Eligible Projects categories.

The Issuer commits to report on the Green Bond, during the tenor of the bond and afterwards in case of new developments, on:

- Use of proceeds

Reporting indicators at project level	Reporting indicators at bond level
<ul style="list-style-type: none">- List of Eligible Projects and brief description- Breakdown by Geography location and Green Eligible Category	<ul style="list-style-type: none">- Balance amount of allocated vs unallocated proceeds- Vigeo Eiris recommends disclosing the share of refinancing (%)

- Environmental benefits

Eligible Project Categories	Output reporting indicators at project level	Impact reporting indicators at project level
- Renewable Energy	- Renewable energy generation (MWh) - Renewable energy capacity (MW)	- CO ₂ (or other GHG) emissions avoided (tonnes of CO ₂ e)
- Low Carbon Transport	- Number of electric and/or fuel cell vehicles and charging stations built	- CO ₂ (or other GHG) emissions avoided (tonnes of CO ₂ e)
- Energy Efficiency	- Amount of energy saved (kWh)	- CO ₂ (or other GHG) emissions avoided (tonnes of CO ₂ e)
- Green Building	- Amount of energy saved (kWh)	- CO ₂ (or other GHG) emissions avoided (tonnes of CO ₂ e)

- Avoided GHG emissions will be calculated as projected avoided GHG emissions compared to fossil fuel counterfactual (in kgCO₂e) using recognised conversion factors. Vigeo Eiris recommends disclosing the conversion factors used.
- In order to report on the projects' benefits, the Issuer may select alternative relevant quantitative or qualitative indicators.
- In line with market best practices, Vigeo Eiris recommends disclosing indicators related to the environmental and social management of Eligible Projects.

METHODOLOGY

In Vigeo Eiris' view, Environmental, Social and Governance (ESG) factors are intertwined and complementary. As such they cannot be separated in the assessment of ESG management in any organization, activity or transaction. In this sense, Vigeo Eiris writes an opinion on the Issuer's Corporate Social Responsibility as an organization, and on the objectives, management and reporting of the projects to be (re)financed by this transaction.

Vigeo Eiris' methodology to define and to assess corporate's ESG performance is based on criteria aligned with public international standards, in compliance with the ISO 26000 guidelines, and organized in 6 domains: Environment, Human Resources, Human Rights, Community Involvement, Business Behaviour and Corporate Governance. The evaluation framework has been customized regarding material issues, based on Emerging Market Electric & Gas Utilities assessment framework, projects specificities and emerging issues.

Vigeo Eiris reviewed information provided by the Issuer, press content providers and stakeholders (partnership with Factiva Dow Jones: access to the content of 28,500 publications worldwide from reference financial newspapers to sector-focused magazines, local publications or Non-Government Organizations). Information gathered from these sources will be considered as long as they are public, documented and traceable. Vigeo Eiris has reviewed documents and websites of the Issuer (including KHNP's Green Bond Framework, Sustainability Report 2017, Code of Conduct, Code of Conduct for Suppliers, etc.) and interviewed members from several departments of the Issuer.

Our research and rating procedures are subject to internal quality control at three levels (analysts, heads of cluster sectors, and internal review by the audit department for second party opinions) complemented by a final review and validation by the Direction of Methods. A right of complaint and recourse is guaranteed to all companies under our review, including three levels: first, the team linked to the company, then the Direction of Methods, and finally Vigeo Eiris' Scientific Council. All collaborators are signatories of Vigeo Eiris' Code of Ethics.

Part I. ISSUER

NB: the level of assurance on the Issuer's sustainability strategy, i.e., commitments related to ESG issues have been reviewed based on information provided by the Issuer, public information and stakeholders' views and opinion collected from public documentation.

The correctness, comprehensiveness and trustworthiness of the information collected are a responsibility of KHNP.

Level of assurance on the Issuer's sustainability strategy

The Issuer's Corporate Social Responsibility (CSR) strategy has been reviewed by Vigeo Eiris, based on 19 relevant ESG drivers organized in the 6 sustainability domains, on the basis of its:

- **Leadership:** relevance of the commitments (content, visibility and ownership).

Implementation and results have not been assessed for the purpose of this Second Party Opinion.

- Scale for assessment of ESG performance: Advanced, Good, Limited, Weak.

Stakeholder-related ESG controversies and involvement in controversial activities

A controversy is a piece of information, a flow of information, or a contradictory opinion that is public, documented and traceable, allegation against an Issuer on corporate responsibility issues. Such allegations can relate to tangible facts, be an interpretation of these facts, or constitute an allegation on unproven facts.

Vigeo Eiris provides an opinion on companies' controversies risks mitigation based on the analysis of 3 factors:

- **Severity:** the more a controversy will relate to stakeholders' fundamental interests, will prove actual corporate responsibility in its occurrence, and will have adverse impacts for stakeholders and the company, the highest its severity. Severity assigned at corporate level will reflect the highest severity of all cases faced by the company (scale: Minor, Significant, High, Critical).
- **Responsiveness:** ability demonstrated by an Issuer to dialogue with its stakeholders in a risk management perspective and based on explanatory, preventative, remediating or corrective measures. At corporate level, this factor will reflect the overall responsiveness of the company for all cases faced (scale: Proactive, Remediate, Reactive, Non Communicative).
- **Frequency:** reflects for each ESG challenge the number of controversies faced. At corporate level, this factor reflects on the overall number of controversies faced and scope of ESG issues impacted (scale: Isolated, Occasional, Frequent, Persistent).

The impact of a controversy on a company's reputation reduces with time, depending on the severity of the event and the company's responsiveness to this event. Conventionally, Vigeo Eiris' controversy database covers any controversy with Minor or Significant severity during 24 months after the last event registered and during 48 months for High and Critical controversies.

In addition, 15 controversial activities have been analysed following 30 parameters to verify if the company is involved in any of them. The company's level of involvement (Major, Minor, No) in a controversial activity is based on:

- An estimation of the revenues derived from controversial products or services.
- The precise nature of the controversial products or services provided by the company.

Part II. ISSUANCE

The Green Bond issuance has been evaluated by Vigeo Eiris according to the Green Bond Principles and our methodology based on international standards and sector guidelines applying in terms of ESG management and assessment.

Use of proceeds

The use of proceeds guidelines are defined to ensure that the funds raised are used to finance and/or refinance an Eligible Projects and are traceable within the issuing organisation. Each project endorsed shall comply with at least one of the Eligible Projects category definition in order to be considered as an Eligible Project. Vigeo Eiris evaluates the relevance, visibility, and measurability of the associated environmental and/or social objectives. The sustainability purpose of the Green Bond related Eligible Projects has been precisely defined, with regard to the Issuer's commitments, and assessed based on the described and estimated benefits of Eligible Projects. The contribution of Eligible Projects to sustainable development is evaluated based on the United Nations Sustainable Development Goals.

Process for project evaluation and selection

The evaluation and selection process has been assessed by Vigeo Eiris regarding its transparency, governance and efficiency. The relevance and exhaustiveness of selection criteria and associated supporting elements integrated in the Green Bond documentation, and the coherence of the process are analysed based on material issues considered in Vigeo Eiris' methodology.

Management of proceeds

The rules for the management of proceeds and the allocation process have been evaluated by Vigeo Eiris regarding their transparency, coherence and efficiency.


Reporting

Reporting indicators, processes and methodologies are defined by the Issuer to enable annual reporting on fund allocation, environmental benefits (output and impact indicators) and on the responsible management of the Eligible Projects financed by the Green Bond proceeds, collected at project level and potentially aggregated at bond level. Vigeo Eiris has evaluated the relevance of the reporting framework according to three principles: transparency, exhaustiveness and effectiveness.

- Scale of assessment for processes and commitments: Weak, Limited, Good, Advanced.
- Scale of level of assurance on Issuer's capacity: Reasonable, Moderate, Weak.

VIGEO EIRIS' ASSESSMENT SCALES

Performance evaluation		Level of assurance	
Advanced	Advanced commitment; strong evidence of command over the issues dedicated to achieving the objective of social responsibility. Reasonable level of risk management and using innovative methods to anticipate emerging risks.	Reasonable	Able to convincingly conform to the prescribed principles and objectives of the evaluation framework
Good	Convincing commitment; significant and consistent evidence of command over the issues. Reasonable level of risk management.	Moderate	Compatibility or partial convergence with the prescribed principles and objectives of the evaluation framework
Limited	Commitment to the objective of social responsibility has been initiated or partially achieved; fragmentary evidence of command over the issues. Limited to weak level of risk management.	Weak	Lack or unawareness of, or incompatibility with the prescribed principles and objectives of the evaluation framework
Weak	Commitment to social responsibility is non-tangible; no evidence of command over the issues. Level of insurance of risk management is weak to very weak.		



Vigeo Eiris is an independent international provider of environmental, social and governance (ESG) research and services for investors and public & private organisations. We undertake risk assessments and evaluate the level of integration of sustainability factors within the strategy and operations of organisations.

Vigeo Eiris offers a wide range of services:

- ▶ **For investors:** decision making support covering all sustainable and ethical investment approaches (including ratings, databases, sector analyses, portfolio analyses, structured products, indices and more).
- ▶ **For companies & organisations:** supporting the integration of ESG criteria into business functions and strategic operations (including sustainable bonds, corporate ratings, CSR evaluations and more).

Vigeo Eiris is committed to delivering client products and services with high added value: a result of research and analysis that adheres to the strictest quality standards. Our methodology is reviewed by an independent scientific council and all our production processes, from information collection to service delivery, are documented and audited. Vigeo Eiris has chosen to certify all its processes to the latest ISO 9001 standard. Vigeo Eiris is an approved verifier for CBI (Climate Bond Initiative). Vigeo Eiris' research is referenced in several international scientific publications.

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