

# State Development & Investment Corp., Ltd. Green Finance Framework



April 2019

## 1. Background

### Business overview

Established in 1995, State Development & Investment Corp., Ltd. (“SDIC” or the “Group”) is a state-owned investment holding company with businesses in China and globally. As of 2017, SDIC’s international business covers 78 countries.

SDIC’s core business lies in the following four strategic business sectors: infrastructure-related industries, emerging industries, financial service & other services, and international business.

Business Sectors	Sub-sectors
Infrastructure-related industries	<ul style="list-style-type: none"><li>• Power Generation</li><li>• Communication</li><li>• Mining on Strategic and Rarely-Existed Recourses</li></ul>
Emerging industries	<ul style="list-style-type: none"><li>• Health Care</li><li>• Biomass Energy</li><li>• Municipal Environmental Protection</li><li>• Advanced Manufacturing</li><li>• Big Data and Internet</li></ul>
Financial service & other services	<ul style="list-style-type: none"><li>• Securities</li><li>• Banking</li><li>• Security Fund</li><li>• Trust</li><li>• Insurance</li><li>• Guarantee</li><li>• Futures</li><li>• Financial Company</li><li>• Financial Leasing</li><li>• Project Engineering</li><li>• Asset Management</li><li>• Consultancy</li><li>• Property Management</li></ul>
International business	<ul style="list-style-type: none"><li>• Overseas Direct Investment</li><li>• Internal Engineering Contract</li><li>• International Trade</li></ul>

### SDIC’s Green and Sustainability Vision

Adhering to the philosophy of “developing low-carbon economy, green economy and a circular economy”, SDIC strives to contribute to China’s ecological progress with its environmental protection efforts including the development of renewable energy and water management platforms, investments in conservation and emissions reduction as well as resource efficiency improvement projects as a resource-efficient and environmental friendly enterprise. In 2017, the Group’s sulfur dioxide and nitrogen oxide emission was reduced by 45% and 39% respectively on a year-on-year basis.

The Group also puts great emphasis on its responsibilities in global sustainable development issues such as economic development, education, poverty alleviation, society integrity, environmental protection and partnership, etc.

In recent years, SDIC has given full play to its unique role as state-owned investment company, taking global economic development trend and Belt and Road Initiative into consideration, with a view to providing high-quality service, pushing forward the local economic development and sharing the fruit of development with all the people in the world.

SDIC strives to serve the national strategy, push forward international cooperation and lay a sound foundation for a first-class investment company and contribute to global economic development, social justice, ecological protection and a better world.

## UN Sustainable Development Goals (SDGs)

On 25 September 2015, countries adopted a set of goals – SDGs - to end poverty, protect the planet and ensure prosperity for all as part of a new sustainable development agenda. Each goal has specific targets to be achieved over the next 15 years.



SDIC has reviewed the UN Sustainable Development Goals (SDGs) and its activities support many of the SDGs. In particular, the most material goals that the Group makes a positive contribution to are:

- SDG 1: No poverty
- SDG 2: Zero Hunger
- SDG 3: Good Health and Well-being
- SDG 4: Quality Education
- SDG 6: Clean Water and Sanitation
- SDG 7: Affordable and Clean Energy
- SDG 8: Decent Work and Economic Growth
- SDG 9: Industry, Innovation and Infrastructure
- SDG 12: Responsible Consumption and Production
- SDG 13: Climate Action
- SDG 14: Life below Water
- SDG 15: Life on Land
- SDG 17: Partnerships to achieve the Goal

## Framework concept

This bespoke SDIC Green Finance Framework (“GFF” or the ‘Framework’) has been developed to demonstrate how SDIC and its entities intend to enter into Green Financing Transactions (“GFT”) to fund projects that will deliver environmental benefits to support SDIC’s business strategy and vision.

Fundraising will include bonds and loans with structures tailored to contribute to sustainable development by application of the proceeds to Eligible Projects as defined in this Framework.

Green Financing Transactions (“GFT”) will include bonds, loans and other debt or financing structures tailored to contribute to sustainable development by application of the proceeds to Eligible Projects as defined in this Framework.

- With respect to **bonds**, bonds issued under this GFF will be in alignment with the Green Bond Principles (GBP)<sup>1</sup> or as they may be subsequently amended.
- With respect to **loans**, loans issued under this GFF will be in alignment with the Green Loan Principles (GLP)<sup>2</sup> or as they may be subsequently amended.
- **Other forms of financing** may conform to other sustainable or green finance principles as may have been established at the time of such financing transaction being undertaken.

GFTs may be done in any currency or tenor and with other terms and conditions including covenants, to reflect the financing strategy and plans of SDIC as well as the outcome of the commercial discussions between the Issuer/Borrower and Manager/Arranger/Lender.

GFTs may be done in any jurisdiction and market reflecting SDIC’s current and future business needs.

## 2. Green Finance Framework

### Assertions from the Management

For each GFT, SDIC management asserts that it will adopt the following core components of the GBP and GLP:

- I. Use of Proceeds;
- II. Project Evaluation and Selection;
- III. Management of Proceeds, and
- IV. Reporting.

The GFF also covers External Review.

The GFF will be in force as long as there is live GFTs. SDIC may update this GFF and commits that any new version will keep or improve the current level of transparency and reporting. SDIC commits to communicate changes with investors via SDIC’s official website (<http://www.sdic.com.cn>).

SDIC comprises of a number of operating subsidiaries in which Eligible Projects reside. Some subsidiaries have external shareholders. Besides, during the lifetime of the project transfer of ownership or changes in the capital structure of the subsidiaries can arise.

### A. Use of Proceeds

The proceeds of each GFT will be used exclusively for the financing or the re-financing of “Eligible Projects” that provide clear environmental and sustainability benefits explicitly recognized by GBP, which includes:

- Sustainable water and waste water management
- Renewable energy

The Eligible Projects means projects that comprise financing which fall within the categories below, which are or have been originated by the various business units of SDIC.

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<sup>1</sup> <https://www.icmagroup.org/green-social-and-sustainability-bonds/green-bond-principles-gbp/>

<sup>2</sup> [https://www.lma.eu.com/application/files/9115/4452/5458/741\\_LM\\_Green\\_Loan\\_Principles\\_Booklet\\_V8.pdf](https://www.lma.eu.com/application/files/9115/4452/5458/741_LM_Green_Loan_Principles_Booklet_V8.pdf)

Eligible Projects for SDIC	Alignment with GBP and GLP	Eligible Criteria	Project Examples
Sustainable water and wastewater management	<ul style="list-style-type: none"> <li>Sustainable water and wastewater management</li> </ul>	<ul style="list-style-type: none"> <li>Construction and maintenance of water remediation, wastewater treatment and recycling facilities;</li> <li>Construction and maintenance of sustainable clean water and/or drinking water infrastructure to improve efficiency, including construction and maintenance more efficient of urban water networks;</li> <li>Water saving through reuse of waste water from industries and agriculture and animal husbandry: financing include the purchase water treatment and distribution.</li> </ul>	<ul style="list-style-type: none"> <li>China Water Environment Group Submerged water reclamation system and integrated water environment management</li> </ul>
Renewable energy	<ul style="list-style-type: none"> <li>Renewable energy</li> </ul>	<ul style="list-style-type: none"> <li>Design, construction, installation, operation and connection of renewable energy systems, including solar (photovoltaic), wind (on and off-shore) and hydropower as well as the development of integrated wind, solar and hydro power technologies;</li> </ul>	<ul style="list-style-type: none"> <li>Beatrice Offshore Wind Power Project in the United Kingdom;</li> <li>Afton Wind Power Project in the United Kingdom</li> </ul>

SDIC considers that all of the above Eligible Project are in line with People’s Bank of China (PBoC)’s Green Bond Catalogue 《中国人民银行绿色债券支持项目》.

Exclusion criteria – activities which involves:

- Sectors which are prohibited by laws and regulation in China, such as child labour, gambling industry, adult entertainment and corporations which are in association with illegal activities
- Luxury sectors such as precious metals, precious artworks & antiques, golf course services
- Production of tobacco and tobacco products
- Hydro power with installed capacity >20MW
- Mining, quarrying and fossil fuel-related assets
- Nuclear fuels
- Weapon and ammunition
- Army vehicles leasing and operation
- Activities which are in relation to hazardous chemicals and radioactive substance

## B. Project Evaluation and Selection

During SDIC’s normal cause of business, SDIC exercise high level of diligence in screening projects to ensure compliance with high environmental and social standards. A special department called Technology and Environmental Protection Department (“TEPD”) has been set up to oversee the governance of environmental and social standards. Key responsibilities of TEPD are:

- Establish detailed work plan to make sure all subsidiaries and investee companies follow related environmental and social regulations imposed by respective regulators
- Monitor the implementation and performance of SDIC's environmental and social policy
- Provide training to internal teams to ensure they are equipped with necessary skills and knowledge to perform SDIC's environmental and social policy
- Ensure timely communication with related regulators to ensure environmental and social issues are resolved

Respective Project Team will identify potential Eligible Projects based on the Eligible Criteria outlined in the GFF's Use of Proceeds section.

SDIC will establish a Green Finance Working Group ("GFWG") with responsibility for governing and implementing the GFF. The GFWG intends to include the below departments

- Strategy Development Departments 战略发展部
- Finance Department 财务部
- Operation and Safety Department 运营与安全生产监督部, in particular Technology and Environmental Protection Department 科技环保处
- Rongshi International Holding Company Limited 融实国际控股有限公司

Potential Eligible Projects will be submitted to GFWG for review. The GFWG will evaluate their compliance with the eligibility criteria outlined in the GFF's Use of Proceeds section, in order to select a limited number of projects, and to reject projects subject to the exclusion criteria. The following aspects are also part of the consideration:

- Description of the project and the engineering approach setting out the environmental benefits to be obtained versus alternative approaches;
- Preliminary or final certificates received in respect of compliance with relevant standards.

If such project is considered as an Eligible Project by the GFWG in accordance with GFF, it may be earmarked as the use of proceeds.

The GFWG will meet yearly to review the allocation of the GFT proceeds and to facilitate ongoing reporting.

With the objective of avoiding double counting and assuring transparency, SDIC commits to monitor that the proceeds of each GFT will only finance SDIC's legal share of the project. In terms of reporting, only the pro-rated share (as a percentage of the issuer's share of the total financing of the project) of the total results would be included in the impact reporting.

In case of divestments or if an Eligible Project no longer meets the Eligible Criteria, the funds will be reallocated to other Eligible Projects.

Additionally, if any material and critical controversies emerge in relation to a specific project, SDIC commits to substitute that project with an alternative Eligible Project.

### **C. Management of Proceeds**

SDIC commits to allocation proceeds of each GFT to Eligible Projects on a timely basis. The proceeds of each GFT will be deposited in the general funding accounts and to be earmarked to Eligible Green Projects.

SDIC has robust internal procedures and will maintain a register to keep track of the use of proceeds for each GFT. The register will contain the following information including:

- (1) Type of Funding Transaction:** key information including, issuer/borrower entity, transaction date, tranche(s) information, principal amount of proceeds, repayment or amortisation profile, maturity date, and interest or coupon (and in the case of bonds, the ISIN number).

**(2) Allocation of Use of Proceeds:** Information including:

- Name and description of Eligible Projects to which the proceeds of the GFT have been allocated in accordance with this Framework;
- Amount of GFT proceeds allocated to each project;
- The remaining balance of unallocated proceeds yet to be allocated;
- Other relevant information such as information of temporary investment for unallocated proceeds.

Any balance of issuance proceeds which are not yet allocated to Eligible Projects will be held in accordance with SDIC's normal liquidity management policy. SDIC commits not to invest any unallocated proceeds to projects in the Exclusion criteria set in the Use of Proceeds section.

SDIC aims to maintain a substantial buffer of Eligible Projects which ensure that if an Eligible Project in a Green bond is sold or become ineligible, there will be a correct replacement.

**D. Reporting**

SDIC plans to publish a Green Finance Report on an annual basis until the maturity date of GFT. The annual Green Finance Report shall be posted to SDIC's official website (<http://www.sdic.com.cn>) and will contain information on allocation and impacts:

**(1) Allocation Reporting**

SDIC will provide the following information for the net proceeds of the all GFTs during the period:

**A. Funding Transaction Detail:** key information including, issuer/borrower entity, transaction date, type of transaction, tranche(s) information, principal amount of proceeds, repayment or amortisation profile, maturity date, and interest or coupon (and in the case of bonds, the ISIN number).

**B. Allocation of Use of Proceeds:**

- Name and description of Eligible Projects to which the proceeds of the GFT have been allocated in accordance with this Framework;
- Amount of GFT proceeds allocated to each project.

**C. Unallocated Proceeds:**

- The remaining balance of unallocated proceeds yet to be allocated.

**(2) Impact Reporting**

Where possible, SDIC will report on the environmental and social (where relevant) impacts resulting from Eligible Projects.

Subject to the nature of Eligible Projects and availability of information, SDIC aims to include, but not limited to, the following Impact Indicators:

SDIC will also make disclosure through other channels where feasible, such as annual reports and corporate social responsibility reports, which will also be published on <http://www.sdic.com.cn>.

<b>Eligible Green Asset Categories</b>	<b>Impact Indicators</b>
Sustainable water and wastewater management	<ul style="list-style-type: none"><li>• Annual volume (or population equivalence) of sewage / wastewater collected, conveyed, treated, reused and avoided (in tonnes)</li><li>• CO2 and other GHG avoided, in CO2- equivalent (CO2e) where appropriate (in tonnes)</li></ul>

	<ul style="list-style-type: none"> <li>• Population (number of people) with access to improved sanitation facilities</li> </ul>
Renewable energy	<ul style="list-style-type: none"> <li>• Installed capacity (GW) and renewable energy generated (GWh)</li> <li>• Carbon dioxide (CO<sub>2</sub>) and other greenhouse gas (GHG) avoided, in CO<sub>2</sub>e where appropriate (in tonnes)</li> <li>• Area covered (in square kilometers)</li> </ul>

### **External Review**

SDIC has engaged an external review of this GFF from Sustainalytics to provide a Second Party Opinion. Sustainalytics reviewed the GFF for its sustainable and green qualities as well as its alignment with GBP and GLP. The objective of the Second Party Opinion is to provide investors with an independent assessment.

The Second Party Opinion, as well as the Green Finance Framework hereof, will be published and will make available on <http://www.sdic.com.cn>.