



# R&I Green Bond Assessment

## Kyushu Railway Company Green Bond: GA1 (Formal)

Aplir 09, 2021

ESG Division  
Chief Analyst: Takeshi Usami

Rating and Investment Information, Inc. (R&I) has assigned an R&I Green Bond Assessment for the financial instrument of Kyushu Railway Company (JR Kyushu). R&I announced a preliminary assessment for this instrument on March 15, 2021.

### ■ Overview of R&I Green Bond Assessment

Financial Instrument	Kyushu Railway Company 8th unsecured corporate bonds (with inter-bond pari passu clause) (green bond)
Issue Amount (JPY)	JPY 20,000
Issue Date	Aplir 15,2021
Maturity Date	Aplir 15,2031
Use of proceeds	Clean transportation/Green buildings
Assessment	GA1 (Formal)

### Assessment by item

Item	Assessment
Use of proceeds	
Process for project evaluation and selection	
Management of proceeds	
Reporting	
Environmental activities of the issuer	

\* Each item is assessed on a 5-point scale, from (highest) to (lowest).

### Overall assessment

The proceeds from the green bond will be fully allocated to energy-saving train cars and railway-related facilities for clean transportation, as well as green buildings. These initiatives will contribute to the reduction of CO2 emissions by consuming energy more efficiently to 'address environmental issues (climate change and resource conservation)' which is one of the materiality points advocated by JR Kyushu. R&I has judged that sufficient consideration is given to negative impacts on the environment and society and that they would contribute to considerable CO2 reduction as a whole. The criteria for selecting projects are clearly defined. Eligible projects selected are considered to be in line with the basic principle and policies of the global environmental conservation activities as determined by JR Kyushu. Finance Department uses an internal accounting system to manage the allocation of the proceeds for each project. Unappropriated funds will be invested in cash or cash equivalents until fully appropriated. The methods of managing the proceeds are stipulated appropriately. The status of allocation of the proceeds and impacts will be disclosed by individual project. In addition that indicators that can be quantified will be quantitatively reported, qualitative information

### Rating and Investment Information, Inc.

Copyright (C) 2020 Rating and Investment Information, Inc. All rights reserved.

(Contact) Customer Service Department, Sales and Marketing Division: Terrace Square, 3-22, Kandanishiki-cho, Chiyoda-ku, Tokyo 101-0054, Japan TEL 03-6273-7471  
R&I Green Bond Assessment is R&I's opinion regarding the extent to which the proceeds from the issuance of green bonds are used to invest in projects with environmental benefits and is not statements of fact. R&I Green Bond Assessment does not certify the environmental benefits and other qualities of the eligible projects. Hence, R&I will not be held responsible for the effectiveness of the projects, including their environmental benefits. R&I Green Bond Assessment is not the Credit Rating Business, but one of the Ancillary Businesses (businesses excluding Credit Rating Service but are ancillary to Credit Rating Activities) as set forth in Article 299, paragraph (1), item (xxviii) of the Cabinet Office Ordinance on Financial Instruments Business, etc. With respect to such business, relevant laws and regulations require measures to be implemented so that activities pertaining to such business would not unreasonably affect the Credit Rating Activities, as well as measures to prevent such business from being misperceived as the Credit Rating Business. Further, R&I does not give advice regarding investment decisions or financial matters, or endorse the merits of any investment. R&I does not undertake any independent verification of the accuracy or other aspects of the related information when issuing R&I Green Bond Assessment and makes no related representations or warranties. R&I is not liable in any way for any damage arising in relation to R&I Green Bond Assessment (including amendment or withdrawal thereof). As a general rule, R&I issues R&I Green Bond Assessment for a fee paid by the applicant. For details, please refer to <https://www.ri.co.jp/en/docs/policy/site.html>.

©Rating and Investment Information, Inc.

is designed to provide the details of the eligible projects.

Based on the above, R&I has judged that it is very likely that the proceeds of the green bond will be invested in projects that contribute to solving environmental problems, and thus grants GA1 (Formal assessment).

The R&I Green Bond Assessment Methodology can be found on the following website.

<https://www.r-i.co.jp/en/rating/products/esg/index.html>

## I . Outline of the Issuer

- JR Kyushu is a passenger railway company that operates throughout the Kyushu area. Its lines cover 2,273 km with 568 stations and are operated by 1,665 train cars. In addition to the railway business, the Group as a whole focuses on areas where synergy effects with the railway business are high, such as condominiums, construction, shipping, hotels, and station buildings.
- It sets out a vision of ‘what it aims to be’ as a ‘corporate group that invigorates Kyushu, Japan, and Greater Asia with safety and service as its foundation.’ In addition that the Kyushu region, its business base, is expected to see a population decline at a faster pace than the rest of the country, the occurrence of natural disasters such as the Kumamoto earthquakes in 2016 and heavy rains in northern Kyushu in 2017 has highlighted the issue of increasing frequency and severity of natural disasters against the backdrop of ongoing global warming. In light of such circumstances it established the “2030 Long-Term Vision” in March 2019 to take actions for ensuring sustainability of its businesses through the development of sustainable mobility services.
- As a company that is in charge of social infrastructure and public transportation, it recognizes that ensuring the continuation of its businesses represents efforts toward ESG on its own. Further, it considers that running businesses through the three principles of ‘Integrity,’ ‘Growth and Evolution,’ and ‘Local Community Invigoration’ cherished by JR Kyushu is ESG management in itself.
- With regards to ESG management, it established a department in charge of ESG in April 2019 and launched the ‘ESG Strategy Committee’ in November of the same year to promote it. It is pushing forward various initiatives for each of Environment (E), Society (S), and Governance (G). Not to speak of measures for ‘safety’ as a railway operator, it takes various actions including the measures to prevent the spread of COVID-19 infections.

## II. Assessment by Individual Item

### 1. Use of proceeds

#### (1) Eligible Projects

- Target projects and their project categories in the transaction are summarized as below. Target projects are the introduction of rolling stock and railway-related facilities for the railway business as well as green buildings. Eligible projects and the fund allocation plans will be reported after finalized.

Project category	Eligible projects/criteria	Candidates for eligible projects
Clean transportation	Train cars Investment in new construction, remodeling and renewal of electric powered train cars  Investment in new construction, remodeling and renewal of hybrid train cars	821 series AC suburban-type rolling stock Renewal of the 811 series New manufacturing of Shinkansen cars  YC1 series diesel-electric rolling stock equipped with a storage battery
	Railway-related facilities Investment in relation to renovation and renewal of railway-related facilities as measures against increasing severity of natural disasters (including heavy rains and typhoons) in Kyushu due to the effect of climate change Investment in relation to maintenance, renovation and renewal of railway-related facilities	Disaster prevention works for the Kyushu Shinkansen Replacement of aging operation system equipment Installation of the platform doors (Shimoyamato to Chikuzen-Maebaru) Installation of ATS-DK ground facilities (automatic train stop) Use of TPC sleepers to replace wooden railway sleepers
Green buildings	Investment in relation to the construction of real estate in the vicinity of stations and own facilities that are expected to acquire environmental building certifications (Gold or Platinum in LEED-BD+C (Building Design and Construction) or LEED-O+M (Operations and Maintenance) certifications; A or S Rank in the CASBEE Certification for Buildings (New Construction, Existing Buildings, and Renovation) or CASBEE for Real Estate; 4- or 5-stars under BELS; 4- or 5-stars under the DBJ Green Building Certification system)	Renovation of the Employee Training Center

#### Eligible Criteria

In addition to the above criteria, existing eligible projects should be those that have been initiated within two years of the issuance of the green bond or have demonstrated environmental performance.

- The use of the proceeds is described in the statutory disclosure documents as the outline of the framework, and is also disclosed to investors in advance along with external assessments.

## (2) Environmental Benefits

### Clean transportation

- In the “JR Kyushu Low-Carbon Society Action Plan,” JR Kyushu holds the numerical targets of (1) increasing the rate of introduction of energy-saving train cars to 83%, and (2) reducing unit energy consumption to 2.5% below the level in FY2011, to be achieved in the railway division by FY2030.
- For electric trains, the Company has been continuously introducing lightweight car bodies made of stainless steel and aluminum that use energy efficiently, VVVF inverters that contribute to reducing electricity consumption compared with conventional train cars, energy-saving train cars equipped with regeneration brakes whose characteristics result in enhanced property, and so on. The renewed 811 series rolling stock, which is listed as a candidate for the allocation of funds, consumes 49% of electric power compared to the 415 series which were the mainstay cars during the era of the former Japanese National Railways. The 821 series rolling stock to be introduced to renew the existing 415 series has electricity consumption to be reduced by 32% compared with the 415 series. VVVF inverters to be installed in the 811 and 821 series use the next-generation silicon carbide (SiC). Semiconductors for power conversion are called ‘power semiconductors’ and semiconductors using SiC have attracted attention as those contributing to the realization of high performance and high efficiency. VVVF inverters using this next-generation silicon carbide has the following features compared with conventional inverters using Si-based semiconductors: (1) reduction in electricity consumption, (2) reduction in size and weight, and (3) improvement in reliability. In addition, they allow high-speed switching (turning on/off current flow), thereby improving the regenerative brake property and energy efficiency. LED lighting has energy-saving effect by replacing conventional fluorescent lamps. All Kyushu Shinkansen cars are energy-saving train cars.
- As for diesel railcars, the introduction of the YC1 series diesel-electric rolling stock equipped with a storage battery, which is of hybrid type, is under consideration as a candidate. Those train cars reduce fuel consumption by about 20% compared with conventional ones by effectively utilizing energy, such as storing regenerative power created during braking in a storage battery and using it during acceleration, and by replacing the engine drive with an engine-powered motor drive.
- For railway-related facilities, projects that are essential for the operation of railways, which have less environmental impact, are included in the scope. The Kyushu region was damaged by a weather disaster of heavy rains in July 2020, in addition to having suffered from significant damages by the 2016 Kumamoto earthquakes. Given frequent weather disasters such as typhoons and heavy rains, measures against increasing severity of natural disasters due to the effect of climate change are required. With regards to disaster prevention works for the Kyushu Shinkansen, measures for sloping surface will be implemented as rainfall disaster countermeasures to step up its efforts to adapt to climate change.
- Replacement of aging operational system equipment and further installation of ATS-DK ground facilities and platform doors are essential to safe and secure railway operation and support railway operation with superior energy efficiency and less environmental burdens.
- In addition, railway sleepers will be replaced with TPC sleepers. When replacing wooden sleepers, TPC sleepers (made of concrete) and synthetic sleepers (composed of glass fiber and urethane foam) with longer useful life will be used. Since the useful life of TPC sleepers is expected to be about 3.5 times longer than that of wooden sleepers, a significant reduction in the number of replacements and resulting reduction in waste as well as a reduction in replacement work itself are expected as environmental benefits.
- Based on the above, since the funds will be used to operate railways, which are a means of transportation with less environmental burdens, and thus contribute to the efforts of JR Kyushu concerning global environmental conservation, it is considered to fall under clean transportation.

## Green buildings

- An eligible project candidate is the Employee Training Center that satisfies 5-stars under BELS among the eligible criteria. The outline is as follows.

### <Description of the Property>

Building name	Employee Training Center
Location	8-1 Shinharamachi, Moji Ward, Kitakyushu City, Fukuoka
Site area	Approx. 41,400 m <sup>2</sup>
Total floor area	Approx. 10,400 m <sup>2</sup>
Floors	(Training quarters) 2 floors above the ground, (living quarters) 4 floors above ground
Designed by	Yasui and JR Kyushu Consultants Company Design JV
Constructed by	Penta-Ocean Construction Co., Ltd.
Construction started on	March, 2020
Completed in	2023
Major environmental considerations	Introduces passive technologies such as devices with energy-saving performance, control of outside air volume, and natural ventilation, as well as active technologies such as systems utilizing underground heat, to achieve ZEB Ready
Major environmental certifications, etc.	5-star ranking under the Building-Housing Energy-efficiency Labeling System (BELS)
Energy-saving performance	Reduces annual primary energy consumption by 57% (ZEB Ready)

- The roadmap for the development of energy-related technologies presented in the 4th Basic Plan for Energy (formulated at a Cabinet meeting in April 2014) holds out the goal of achieving ZEB (Net Zero Energy Building) for new buildings on average by 2030. It is important to achieve and make ZEB widely available in large-scale non-residential buildings with a total floor area of 10,000 m<sup>2</sup> or more in particular<sup>1</sup>, however there have been few cases with certifications of ZEB Ready or higher partly due to many technical challenges. This project can be said as a leading edge and meaningful initiative as a case of aiming at ZEB Ready in a non-residential building with a total floor area of about 10,400 m<sup>2</sup>.

### (3) Consideration for Negative Environmental and Social Impacts

- It is confirmed that measures to reduce environmental and social risks are in place for eligible project candidates, showing that sufficient consideration is given. Confirmation items are as follows:
  - Complying with environmental laws and regulations required by the national government or local governments where projects are implemented, and carrying out environmental impact surveys as necessary
  - Providing sufficient explanation to local residents in executing a project
  - Ensuring transportation safety based on the JR Kyushu safety management system
  - Procurement of materials, prevention of environmental pollution, and consideration paid for the labor environment and human rights in accordance with the JR Kyushu Group's basic principle and policies for global environmental conservation activities, as well as its basic policy for procurement
- Specifically, measures are taken to reduce waste through design and construction methods that reduce waste as well as reuse in civil engineering work, and to reduce noise and vibration along railway lines due

<sup>1</sup> Please see the "ZEB Roadmap Follow-up Committee Report (Agency for Natural Resources and Energy, the Ministry of Economy, Trade and Industry, of March 2019)." New non-residential buildings with a total floor area of 10,000 m<sup>2</sup> or more have large impact, accounting for 36% of the total energy consumption.

to train operation. In order to reduce construction waste, the construction of reinforcing walls to prevent rockfall on the Nippo Main Line and Hitahikosan Line is being carried out by adopting the 'geo-rock wall method' which uses locally generated soil for the construction without using concrete, and the 'smooth board method' that utilizes the existing bridge railing is adopted at the Saga Viaduct.

**Assessment (Use of Proceeds):** 

The proceeds from the green bond will be fully allocated to energy-saving train cars and railway-related facilities for clean transportation, as well as green buildings. These initiatives will contribute to the reduction of CO2 emissions by consuming energy more efficiently to 'address environmental issues (climate change and resource conservation)' which is one of the materiality points advocated by JR Kyushu. R&I has judged that sufficient consideration is given to negative impacts on the environment and society and that they would contribute to considerable CO2 reduction as a whole.

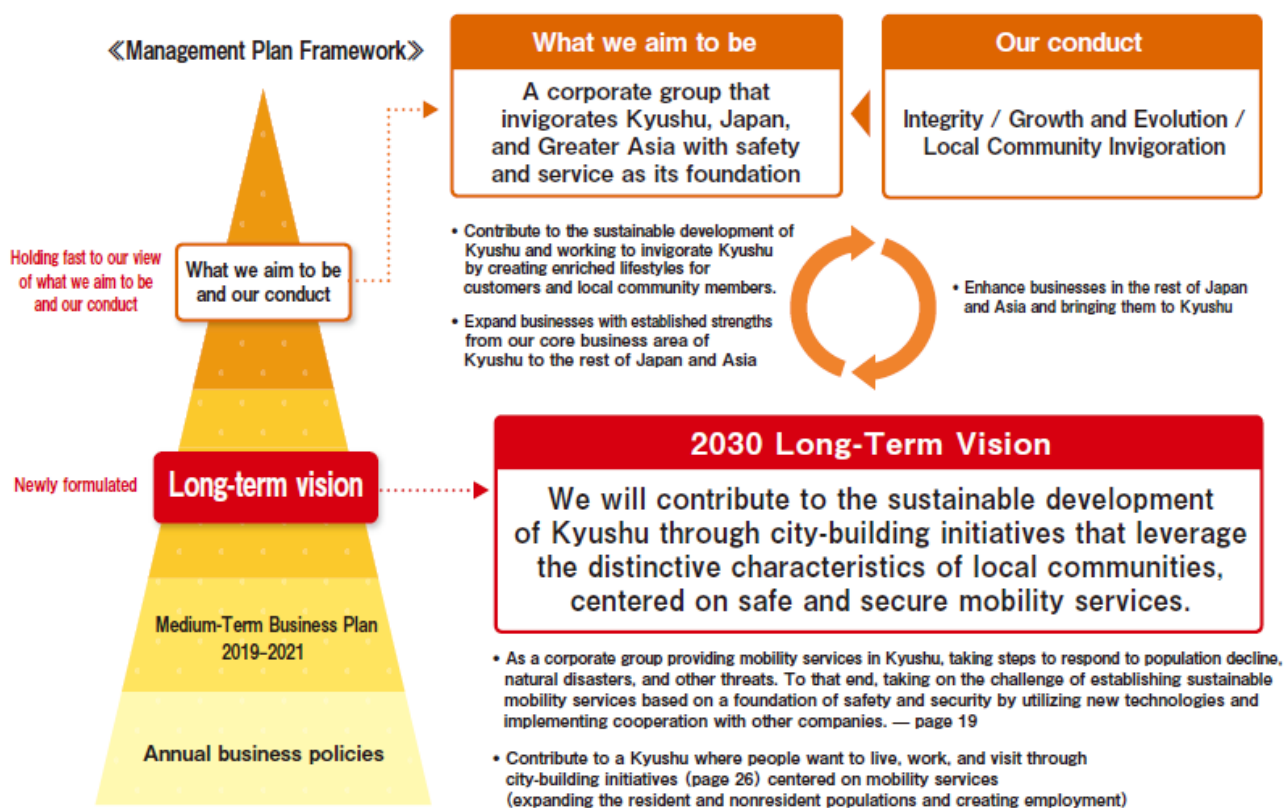
## 2. Process for Project Evaluation and Selection

### (1) Incorporation into Comprehensive Objectives, Strategies and so on

- In addition to the three pillars in its code of conduct that the JR Kyushu Group has been looking at as a touchstone, that is, Integrity, Growth and Evolution, and Local Community Invigoration, it strives to be a ‘corporate group that invigorates Kyushu, Japan, and Greater Asia with safety and service as its foundation’ as what it aims to be. Based on these, it formulated the 2030 Long-Term Vision, which vows to contribute to the sustainable development of Kyushu.

## Management Plan Framework and 2030 Long-Term Vision

We created the 2030 Long-Term Vision to achieve “What the JR Kyushu Group aims to be” in a management environment undergoing dramatic change.



[Source: JR Kyushu Medium-Term Business Plan 2019–2021]

- The vision formulated identifies the ESG promotion structure and materiality points as what is consistent with the ESG initiatives. ‘Responding to environmental issues (climate change and resource conservation)’ is identified as one of the materiality points.
- The Company formulated the basic principle and policies for global environmental conservation activities, which spell out its intention to promote efficient use of energy and strive to reduce CO2 emissions that cause global warming. The railway business, which is its cornerstone business, is positioned as a means of transportation with high energy consumption efficiency and less environmental burdens, and efforts are being made to further enhance such characteristics. It formulated the “JR Kyushu Low-Carbon Society Action Plan” as a set of numerical targets.



#### JR Kyushu Low-Carbon Society Action Plan

In the railway division, we intend to achieve the following targets by FY 2030:

- (1) Increase the rate of introduction of energy-saving train cars to 83%
- (2) Reduce unit energy consumption to 2.5% below the level in FY 2011

In accordance with such factors as future changes in the transportation system, we will revise these targets as necessary.

[Source: JR Kyushu Group's Initiatives for Global Environment]

- Each of the eligible projects is positioned in the context of the basic principle and policies for global environmental conservation activities and contributes to the Low-Carbon Society Action Plan.

## (2) Criteria for Project Evaluation and Selection

- To select eligible projects, the criteria that correspond to the categories of 'clean transportation' and 'green buildings' under the Green Bond Principles have been established. For green buildings, certifications to be referenced are identified.
- Exclusion criteria are not provided, however it confirms that measures to reduce environmental and social risks are in place when selecting eligible project candidates.

## (3) Process for Project Evaluation and Selection

- Finance Department identifies candidates based on the compliance with the eligibility criteria, and the Executive Officer and General Manager of Finance Department makes a decision as the organization from the viewpoint of consistency with the basic principle and policies of global environmental conservation activities. The project evaluation and selection processes are described in the green bond framework.

## Assessment (Process for Project Evaluation and Selection):

The criteria for selecting projects are clearly defined. Eligible projects selected are considered to be in line with the basic principle and policies of the global environmental conservation activities as determined by JR Kyushu. Measures to reduce environmental and social risks are included in the process. The evaluation and selection processes are clearly and reasonably defined and judged to be excellent.

### 3. Management of Proceeds

- Finance Department makes the allocation of and manages the proceeds to eligible projects. The proceeds will be tracked and managed on a quarterly basis using an internal accounting system until redemption in accordance with established administrative procedures, so that the proceeds will be fully allocated to one of the eligible projects. The allocation status will be managed by project.
- The allocation is expected to be completed in about two years from the issuance and any unallocated funds will be invested in cash or cash equivalents.
- The methods of managing the proceeds are explained to investors through the disclosure of the outline of the framework.

#### Assessment (Management of Proceeds):

Finance Department uses an internal accounting system to manage the allocation of the proceeds for each project. Unappropriated funds will be invested in cash or cash equivalents until fully appropriated. R&I has judged that the methods of managing the proceeds are stipulated appropriately and superior.

## 4. Reporting

### (1) Overview of Disclosure

- Reporting will be made as follows:

	Items	Timing	Disclosure
Allocation of proceeds	Outline of the eligible projects Amounts allocated and unallocated by eligible project Expected timing of allocation if there is any unallocated amount Ratio of new financing and refinancing	Annually until fully allocated	To be disclosed on the websites to the extent practicable
Environmental Benefits	<u>Clean transportation</u> Train cars Outline of the eligible projects Number of new train cars introduced per year Annual CO2 emissions reduction effect from the introduction of train cars of new type  <u>Railway-related facilities</u> Outline of the eligible projects Details of damages following a disaster Status of disaster prevention works Details of works to be carried out in relation to maintenance, renovation and renewal of railway systems Status of installation of platform doors (the number of stations where installation has been completed/total number of stations) Status of other railway-related infrastructure for which the work of maintenance, renovation, and renewal has been carried out, if any  <u>Green buildings</u> Outline of the eligible projects Status of acquisition of certifications (expected acquisition dates and the levels of certifications acquired) Annual CO2 emission reduction effect and energy-saving effect of environmentally friendly buildings Status of revitalization of regions centered on Kyushu through new buildings and community development	Annually, as long as there is an outstanding issue amount	To be disclosed on the websites to the extent practicable

- Disclosures should be made promptly when a significant change is made to the proceeds allocation status or when a significant change occurs in the allocation status after proceeds are allocated

## **(2) Indicators to Show Environmental Benefits and Calculation Method, etc.**

- Reporting of the status of allocation of the proceeds and impacts will be disclosed by project category.
- Indicators that can be quantified, including CO2 emission reduction effect, will be shown quantitatively.

### **Assessment (Reporting):**

Reporting of the status of allocation of the proceeds and impacts will be disclosed by project category. Since not only that indicators that can be quantified will be quantitatively reported but also qualitative information provides the details of the eligible projects, R&I has judged that it is superior in terms of frequency and content, etc.

## 5. Environmental Activities of the Issuer

- The Ecology Committee, established in 1999, forms the core of the Company's environmental management system. The Committee, chaired by the President, is positioned as a body to deliberate and decide on necessary matters including the basic policies and has four special sub-committees for planning of implementation programs, target setting, results reporting, and activity promotion for various environmental issues. In addition, ISO 14001 certifications have been obtained at the Kokura Rolling Stock Center and the Group companies.
- The Company formulated the 'JR Kyushu Low-Carbon Society Action Plan' as a set of voluntary targets to combat global warming. In addition to the use of the funds from the green bond, the concrete efforts include the introduction of the first 'power interchanging device' on Shinkansen in the Shin-Miyama feeder sorting station, where regenerative power created when the train decelerates is used effectively to run over the transmission range of different substations, and power generation by mega solar power plants using unused land.
- The Company is working to reduce the volume of waste in construction and use environmentally friendly materials through the promotion of the three Rs (Reduce, Reuse, Recycle) to build a recycling-based society. It appropriately manages chemical substances as stipulated by various laws and regulations.
- Environmental activities are appropriately disclosed to the public through the Integrated Report, ESG Data Book, and "JR Kyushu Group's Initiatives for Global Environment," etc. On February 17, 2021, it announced its agreement to the 'Task Force on Climate-related Financial Disclosures (TCFD)' proposal and participation in the 'TCFD Consortium,' and disclosed climate-related information based on the TCFD on the same day. With regards to scenario analysis for the railway business, it discloses analyses based on 2°C and 4°C scenarios as developed by the 'Intergovernmental Panel on Climate Change (IPCC),' 'International Energy Agency (IEA)' and others. In addition, the ESG Promotion Office of JR Kyushu is planned to participate in the TCFD Symposium of the Ministry of the Environment as a result of its TCFD initiative.

### Assessment (Environmental Activities of the Issuer):

In order to address environmental issues, JR Kyushu has established an environmental management system centered on the Ecology Committee, and is tackling the issues as the entire JR Kyushu Group. Its environmental activities reduce CO2 emissions through the efforts to increase the energy consumption efficiency of the railway business. In addition, it not only promotes efforts to build a recycling-based society but also manages in accordance with various laws and regulations. Such efforts are appropriately disclosed to the public through the Integrated Report, disclosure based on TCFD, and so on. R&I has judged that JR Kyushu's efforts for environmental activities are superior.

### Ⅲ. Overall Assessment

- Prior to R&I Green Bond Assessment, R&I confirmed that the green bond framework in the transaction complies with the “Green Bond Principles 2018” and the “Ministry of the Environment’s Green Bond Guidelines 2020.”
- The green bond to be evaluated will be issued in accordance with the above green bond framework established by the issuer.
- The proceeds from the green bond will be fully allocated to energy-saving train cars and railway-related facilities for clean transportation, as well as green buildings. These initiatives will contribute to the reduction of CO2 emissions by consuming energy more efficiently to ‘address environmental issues (climate change and resource conservation)’ which is one of the materiality points advocated by JR Kyushu. R&I has judged that sufficient consideration is given to negative impacts on the environment and society and that they would contribute to considerable CO2 reduction as a whole. The criteria for selecting projects are clearly defined. Eligible projects selected are considered to be in line with the basic principle and policies of the global environmental conservation activities as determined by JR Kyushu. Finance Department uses an internal accounting system to manage the allocation of the proceeds for each project. Unappropriated funds will be invested in cash or cash equivalents until fully appropriated. The methods of managing the proceeds are stipulated appropriately. The status of allocation of the proceeds and impacts will be disclosed by individual project. In addition that indicators that can be quantified will be quantitatively reported, qualitative information is designed to provide the details of the eligible projects.

Based on the above, R&I has judged that it is very likely that the proceeds of the green bond will be invested in projects that contribute to solving environmental problems, and thus grants GA1 (Formal assessment).

[Disclaimer]

R&I Green Bond Assessment is R&I's opinion regarding the extent to which the proceeds from the issuance of green bonds are used to invest in projects with environmental benefits. In R&I Green Bond Assessment, R&I may also provide a second opinion on a green bond framework. R&I Green Bond Assessment does not certify the environmental benefits and other qualities of the eligible projects. Hence, R&I will not be held responsible for the effectiveness of the projects, including their environmental benefits. R&I Green Bond Assessment is not the Credit Rating Business, but one of the Ancillary Businesses (businesses excluding Credit Rating Service but are ancillary to Credit Rating Activities) as set forth in Article 299, paragraph (1), item (xxviii) of the Cabinet Office Ordinance on Financial Instruments Business, etc. With respect to such business, relevant laws and regulations require measures to be implemented so that activities pertaining to such business would not unreasonably affect the Credit Rating Activities, as well as measures to prevent such business from being misperceived as the Credit Rating Business.

R&I Green Bond Assessment is not, in any sense, statements of current, future, or historical fact and should not be interpreted as such, and R&I Green Bond Assessment is not a recommendation to purchase, sell, or hold any particular securities and does not constitute any form of advice regarding investment decisions or financial matters. R&I Green Bond Assessment does not address the suitability of an investment for any particular investor. R&I issues R&I Green Bond Assessment based on the assumption that each investor will investigate and evaluate the securities which they plan to purchase, sell, or hold for themselves. All investment decisions shall be made at the responsibility of the individual investor.

The information used when R&I issues R&I Green Bond Assessment is information that R&I has determined, at its own discretion, to be reliable. However, R&I does not undertake any independent verification of the accuracy or other aspects of that information. R&I makes no representation or warranty, express or implied, as to the accuracy, timeliness, adequacy, completeness, merchantability, fitness for any particular purpose, or any other matter with respect to any such information.

R&I may suspend or withdraw R&I Green Bond Assessment at its discretion due to insufficient data or information, or other circumstances.

R&I is not responsible or liable in any way to any party, for all or any damage, loss, or expenses arising out of or in relation to errors, omissions, inappropriateness of, or insufficiencies in the information used when issuing R&I Green Bond Assessment, R&I Green Bond Assessment or other opinions, or arising out of or in relation to the use of such information or R&I Green Bond Assessment, or amendment, suspension, or withdrawal of R&I Green Bond Assessment (regardless of the nature of the damage, including direct, indirect, ordinary, special, consequential, compensatory, or incidental damage, lost profits, non-monetary damage, and any other damage, and including expenses for attorneys and other specialists), whether in contract, tort, for unreasonable profit or otherwise, irrespective of negligence or fault of R&I.



## Green Bond / Green Bond Programme

### Independent External Review Form

#### Section 1. Basic Information

Issuer name: Kyushu Railway Company

Green Bond ISIN or Issuer Green Bond Framework Name, if applicable:

Kyushu Railway Company 8th unsecured corporate bonds (with interbond pari passu clause) (green bond)

Independent External Review provider's name: Rating and Investment Information, Inc. (R&I)

Completion date of this form: April 09, 2021

Publication date of review publication: April 09, 2021

#### Section 2. Review overview

##### SCOPE OF REVIEW

*The following may be used or adapted, where appropriate, to summarise the scope of the review.*

The review assessed the following elements and confirmed their alignment with the GBPs:

- |  |  |
|--|--|
| <input checked="" type="checkbox"/> Use of Proceeds        | <input checked="" type="checkbox"/> Process for Project Evaluation and Selection |
| <input checked="" type="checkbox"/> Management of Proceeds | <input checked="" type="checkbox"/> Reporting                                    |

##### ROLE(S) OF INDEPENDENT EXTERNAL REVIEW PROVIDER

- |  |  |
|--|--|
| <input type="checkbox"/> Second Party Opinion    | <input type="checkbox"/> Certification             |
| <input type="checkbox"/> Verification            | <input checked="" type="checkbox"/> Scoring/Rating |
| <input type="checkbox"/> Other (please specify): |  |

*Note: In case of multiple reviews / different providers, please provide separate forms for each review.*

**Latest update: June 2018**



## EXECUTIVE SUMMARY OF REVIEW and/or LINK TO FULL REVIEW (if applicable)

<Scoring/Rating: R&I Green Bond Assessment>

R&I has judged, in accordance with R&I Green Bond Assessment Methodology, that green bond proceeds are used to invest in projects with environmental benefits to a significant degree, and assigned GA1 (formal) to the green bond.

For details, please refer to the report above.

### Section 3. Detailed review

Reviewers are encouraged to provide the information below to the extent possible and use the comment section to explain the scope of their review.

#### 1. USE OF PROCEEDS

Overall comment on section (if applicable):

For details, please refer to "II Assessment by Individual Item, 1. Use of Proceeds" in the report above.

#### Use of proceeds categories as per GBP:

- |  |  |
|--|--|
| <input type="checkbox"/> Renewable energy  | <input type="checkbox"/> Energy efficiency   |
| <input type="checkbox"/> Pollution prevention and control  | <input type="checkbox"/> Environmentally sustainable management of living natural resources and land use |
| <input type="checkbox"/> Terrestrial and aquatic biodiversity conservation   | <input checked="" type="checkbox"/> Clean transportation   |
| <input type="checkbox"/> Sustainable water and wastewater management   | <input type="checkbox"/> Climate change adaptation   |
| <input type="checkbox"/> Eco-efficient and/or circular economy adapted products, production technologies and processes                             | <input checked="" type="checkbox"/> Green buildings (Environmentally Responsible Building)               |
| <input type="checkbox"/> Unknown at issuance but currently expected to conform with GBP categories, or other eligible areas not yet stated in GBPs | <input type="checkbox"/> Other (please specify):   |

If applicable please specify the environmental taxonomy, if other than GBPs:

## 2. PROCESS FOR PROJECT EVALUATION AND SELECTION

### Overall comment on section *(if applicable)*:

For details, please refer to “II Assessment by Individual Item, 2. Process for Project Evaluation and Selection” in the report above.

### Evaluation and selection

- |  |   |
|--|---|
| <input checked="" type="checkbox"/> Credentials on the issuer’s environmental sustainability objectives            | <input checked="" type="checkbox"/> Documented process to determine that projects fit within defined categories               |
| <input checked="" type="checkbox"/> Defined and transparent criteria for projects eligible for Green Bond proceeds | <input checked="" type="checkbox"/> Documented process to identify and manage potential ESG risks associated with the project |
| <input checked="" type="checkbox"/> Summary criteria for project evaluation and selection publicly available       | <input type="checkbox"/> Other <i>(please specify)</i> :  |

### Information on Responsibilities and Accountability

- |  |  |
|--|--|
| <input checked="" type="checkbox"/> Evaluation / Selection criteria subject to external advice or verification | <input type="checkbox"/> In-house assessment |
| <input type="checkbox"/> Other <i>(please specify)</i> :   |  |

## 3. MANAGEMENT OF PROCEEDS

### Overall comment on section *(if applicable)*:

For details, please refer to “II Assessment by Individual Item, 3. Management of Proceeds” in the report above.

### Tracking of proceeds:

- |   |
|---|
| <input checked="" type="checkbox"/> Green Bond proceeds segregated or tracked by the issuer in an appropriate manner          |
| <input checked="" type="checkbox"/> Disclosure of intended types of temporary investment instruments for unallocated proceeds |
| <input type="checkbox"/> Other <i>(please specify)</i> :  |

### Additional disclosure:

- |  |   |
|--|---|
| <input type="checkbox"/> Allocations to future investments only                  | <input checked="" type="checkbox"/> Allocations to both existing and future investments |
| <input type="checkbox"/> Allocation to individual disbursements                  | <input type="checkbox"/> Allocation to a portfolio of disbursements                     |
| <input type="checkbox"/> Disclosure of portfolio balance of unallocated proceeds | <input type="checkbox"/> Other <i>(please specify)</i> :                                |

## 4. REPORTING

### Overall comment on section *(if applicable)*:

For details, please refer to “II Assessment by Individual Item, 4. Reporting” in the report above.

### Use of proceeds reporting:

- |  |  |
|--|--|
| <input type="checkbox"/> Project-by-project            | <input checked="" type="checkbox"/> On a project portfolio basis |
| <input type="checkbox"/> Linkage to individual bond(s) | <input type="checkbox"/> Other <i>(please specify)</i> :         |

#### Information reported:

- |  |  |
|--|--|
| <input checked="" type="checkbox"/> Allocated amounts  | <input type="checkbox"/> Green Bond financed share of total investment |
| <input checked="" type="checkbox"/> Other <i>(please specify)</i> : Overview of eligible projects, unallocated amount, expected timing of allocation in case there remain unallocated proceeds, and ratio of finance for new investments and refinance |  |

#### Frequency:

- |  |                                      |
|--|--------------------------------------|
| <input checked="" type="checkbox"/> Annual               | <input type="checkbox"/> Semi-annual |
| <input type="checkbox"/> Other <i>(please specify)</i> : |                                      |

### Impact reporting:

- |  |  |
|--|--|
| <input type="checkbox"/> Project-by-project            | <input checked="" type="checkbox"/> On a project portfolio basis |
| <input type="checkbox"/> Linkage to individual bond(s) | <input type="checkbox"/> Other <i>(please specify)</i> :         |

#### Frequency:

- |  |                                      |
|--|--------------------------------------|
| <input checked="" type="checkbox"/> Annual               | <input type="checkbox"/> Semi-annual |
| <input type="checkbox"/> Other <i>(please specify)</i> : |                                      |

#### Information reported (expected or ex-post):

- |   |  |
|---|--|
| <input checked="" type="checkbox"/> GHG Emissions / Savings | <input checked="" type="checkbox"/> Energy Savings   |
| <input type="checkbox"/> Decrease in water use              | <input checked="" type="checkbox"/> Other ESG indicators <i>(please specify)</i> : the number of train cars newly introduced in a year (For more information, see the Green Bond Assessment) |

### Means of Disclosure

- |   |  |
|---|--|
| <input type="checkbox"/> Information published in financial report  | <input type="checkbox"/> Information published in sustainability report              |
| <input type="checkbox"/> Information published in ad hoc documents  | <input checked="" type="checkbox"/> Other <i>(please specify)</i> : Issuer’s website |
| <input type="checkbox"/> Reporting reviewed <i>(if yes, please specify which parts of the reporting are subject to external review)</i> : |  |

Where appropriate, please specify name and date of publication in the useful links section.

**USEFUL LINKS** (e.g. to review provider methodology or credentials, to issuer's documentation, etc.)

1. The evaluation methodology and services  
<https://www.r-i.co.jp/en/rating/products/esg/index.html>
2. Evaluation performance
  - (1) Green Finance  
<https://www.r-i.co.jp/en/rating/esg/greenfinance/index.html>
  - (2) Sustainability Finance  
<https://www.r-i.co.jp/en/rating/esg/sustainabilityfinance/index.html>
  - (3) Social Finance  
<https://www.r-i.co.jp/en/rating/esg/socialfinance/index.html>

**SPECIFY OTHER EXTERNAL REVIEWS AVAILABLE, IF APPROPRIATE**

**Type(s) of Review provided:**

- |  |   |
|--|---|
| <input checked="" type="checkbox"/> Second Party Opinion | <input type="checkbox"/> Certification  |
| <input type="checkbox"/> Verification                    | <input type="checkbox"/> Scoring/Rating |
| <input type="checkbox"/> Other (please specify):         |   |

**Review provider(s):** Sustainalytics

**Date of publication:** February 24,2021

## ABOUT ROLE(S) OF INDEPENDENT REVIEW PROVIDERS AS DEFINED BY THE GBP

1. **Second Party Opinion:** An institution with environmental expertise, that is independent from the issuer may issue a Second Party Opinion. The institution should be independent from the issuer's adviser for its Green Bond framework, or appropriate procedures, such as information barriers, will have been implemented within the institution to ensure the independence of the Second Party Opinion. It normally entails an assessment of the alignment with the Green Bond Principles. In particular, it can include an assessment of the issuer's overarching objectives, strategy, policy and/or processes relating to environmental sustainability, and an evaluation of the environmental features of the type of projects intended for the Use of Proceeds.
2. **Verification:** An issuer can obtain independent verification against a designated set of criteria, typically pertaining to business processes and/or environmental criteria. Verification may focus on alignment with internal or external standards or claims made by the issuer. Also, evaluation of the environmentally sustainable features of underlying assets may be termed verification and may reference external criteria. Assurance or attestation regarding an issuer's internal tracking method for use of proceeds, allocation of funds from Green Bond proceeds, statement of environmental impact or alignment of reporting with the GBP, may also be termed verification.
3. **Certification:** An issuer can have its Green Bond or associated Green Bond framework or Use of Proceeds certified against a recognised external green standard or label. A standard or label defines specific criteria, and alignment with such criteria is normally tested by qualified, accredited third parties, which may verify consistency with the certification criteria.
4. **Green Bond Scoring/Rating:** An issuer can have its Green Bond, associated Green Bond framework or a key feature such as Use of Proceeds evaluated or assessed by qualified third parties, such as specialised research providers or rating agencies, according to an established scoring/rating methodology. The output may include a focus on environmental performance data, the process relative to the GBP, or another benchmark, such as a 2-degree climate change scenario. Such scoring/rating is distinct from credit ratings, which may nonetheless reflect material environmental risks.