



R&I Green Bond Assessment

Kyushu Railway Company Green Bond: GA1 (Formal)

December 5, 2023

ESG Division
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Rating and Investment Information, Inc. (R&I) has assigned an R&I Green Bond Assessment to the financial instruments of Kyushu Railway Company (JR Kyushu).

■ Overview of R&I Green Bond Assessment

Issuer	Kyushu Railway Company
Financial Instrument	16th Issuance of unsecured bonds (with specific inter-bond pari passu clause) (Green Bond)
Issue Amount	JPY 10 billion
Issue Date	December 11, 2023
Maturity Date	December 9, 2033
Use of Proceeds	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).

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Overall Assessment

The proceeds from the green bonds will be fully allocated to green buildings. The projects are aligned with "realization of a decarbonized society," one of the material issues of JR Kyushu. The projects give sufficient consideration to negative environmental and social impacts, and R&I has determined that they are expected to produce a clear benefit of CO2 reduction. The criteria for project selection are clearly defined. The eligible projects are considered to be in line with JR Kyushu's basic principle and policies for environmental conservation activities. The Finance Department will manage the allocation of proceeds on a project-by-project basis using an internal accounting system. Until the proceeds are allocated in full, unallocated funds will be held in cash or cash equivalents. The method of managing the proceeds is defined appropriately. Allocation reporting and impact reporting will be disclosed for each project. Quantifiable indicators will be reported quantitatively, and qualitative information will provide details of eligible projects.

Based on the above, R&I has concluded that the green bond proceeds will be used to invest in projects with environmental benefits to a significant degree, and assigned GA1 (Formal).

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 region. It runs the Kyushu Shinkansen, conventional lines and distinctive tourist trains. In addition to the railway business, it is engaged in diverse businesses, particularly in areas that create a significant synergy with the railway business, such as real estate, construction, retail and hotels.
- JR Kyushu sets out a vision of what it aims to be: A corporate group that invigorates Kyushu, Japan, and Greater Asia with safety and service as its foundation. The Kyushu region is expected to see a further population decline. Increasingly frequent and severe natural disasters amid global warming are another issue to tackle, given a number of disasters that have hit the region in recent years, such as the Kumamoto earthquakes in 2016 and the flooding and landslides caused by heavy rains in 2017 and 2020. In light of such circumstances, JR Kyushu established the 2030 Long-Term Vision in 2019 to "contribute to the sustainable development of Kyushu through city-building/community development initiatives that leverage the distinctive characteristics of local communities, centering on safe and reliable mobility services." The JR Kyushu Group Medium-Term Business Plan 2022-2024 announced in March 2022 presents the direction to achieve the 2030 Long-Term Vision based on the policies of "implementing city-building initiatives for the realization of well-being, with consideration for changes in values" and "expanding areas we work in that contribute to the sustainable development of Kyushu."
- In 2019, JR Kyushu established the ESG Strategy Committee. To continue to be a corporate group that contributes to local communities through its business, it is implementing and reinforcing corporate ESG. In the JR Kyushu Group Medium-Term Business Plan 2022-2024, the company revised its material issues. It also set non-financial KPIs for each of the Environment (E), Society (S) and Governance (G) components and discussed linking director remuneration to some of these KPIs, which shows its stronger commitment.

	Material issues ~Points that the JR Kyushu Group focuses on at all times~	Major initiatives in the medium-term business plan	Major objectives/indicators	
E	Realization of a de-carbonized society	Initiatives for the realization of a de-carbonized society (slide 12)	<ul style="list-style-type: none"> CO₂ emissions Disclosure of environment-related information Green building 	<ul style="list-style-type: none"> JR Kyushu non-consolidated emissions in FY2031/3 50% reduction compared to FY2014/3 Groupwide Scope 1 and 2 emissions Tracking emissions Starting to calculate 1 or more cases Acquisition of green building certification
S	Safety and service, the foundation for all of our businesses	Ensuring the utmost safety at all times Implementing initiatives to enhance our corporate culture founded on service	<ul style="list-style-type: none"> Safety Service 	<ul style="list-style-type: none"> Accidents in the railway business that result in fatalities among customers*1 0 cases Occupational accidents that result in fatalities among employees, etc. 0 cases Score of service ranking*2 90 or more points
	Sustainable city-building	Creating a model for building cities that promote well-being Developing businesses in new areas in which we can contribute (slide 17,18,19,20,25)	<ul style="list-style-type: none"> Resident population in regions around development areas Creating employment through new development projects 	<ul style="list-style-type: none"> Monitoring indicators Monitoring indicators
	Development of human resources, the source of value creation*3	Advancing personnel strategy (slide 21,24)	<ul style="list-style-type: none"> Employee engagement Diversity (promoting women's participation and advancement in the workplace) Comfortable environments that are easy and satisfying to work in Health management Re-skilling support 	<ul style="list-style-type: none"> Results of employee attitude survey Continued YoY improvement Exchanges of opinions between executives and employees 40 times per year or more Ratio of female employees among new employees 30% or more Ratio of female managers (End of FY2031/3) 10% or more Ratio of male employees who take childcare leave 50% or more Ratio of special health guidance given to relevant employees 80% or more Development of employees skilled in digital technologies 500 people or more Participation in external distance learning 500 people or more per year
G	Sound corporate management	Enhancing communication with stakeholders	<ul style="list-style-type: none"> Institutional investors Individual investors Customers Local communities 	<ul style="list-style-type: none"> Continuing to hold financial results presentations, etc.; sharing of investors' opinions at meetings of the Board of Directors Large meetings (JR Day events) offering opportunity to talk with outside directors 1 or more events per year Offering opportunities for exchange, such as presentations, tours, etc. 5 or more times per year Discussions with customers 10 or more times per year Building sustainable relationships with local communities

*1. Accidents for which the Group is responsible *2. Survey of actual conditions for station/conductor service, conducted by an outside party (A perfect score is 100 points) *3. Objectives/indicators related to the development of human resources are for JR Kyushu

[Source: JR Kyushu Group Medium-Term Business Plan 2022-2024]

II. Assessment by Individual Item

1. Use of proceeds

(1) Eligible Projects

- Target projects are shown below. They correspond to the project category of "Green buildings."

Project Category	Eligible Project / Criteria	Target Project
Green buildings	Investments in relation to construction of buildings near stations and JR Kyushu's facilities scheduled to obtain the following green building certifications. LEED-BD+C (Building Design and Construction) or LEED-O+M (Building Operations and Maintenance): Gold or Premium; CASBEE for Buildings (New Construction, Existing Buildings, and Renovation) or CASBEE for Real Estate: A or S Rank; BELS: 4 or 5 Stars; and DBJ Green Building Certification: 4 or 5 Stars	JR Nagasaki Station Building

<Eligibility Criteria>

For existing investments in eligible projects, the use of proceeds is restricted to projects that were initiated, or whose environmental performance was affirmed, within two years prior to issuance of the green bond.

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

(2) Environmental Benefits

Green buildings

- JR Nagasaki Station Building to be financed by the green bonds has obtained A Rank in CASBEE for Buildings (New Construction). Descriptions of the property are shown below.

<Description of the Property>

Building name	JR Nagasaki Station Building (expanded part of the building)
Location	Part of 1-1 and 1-57, Onoue-machi, Nagasaki City, Nagasaki
Site area	Approx. 18,000 m ²
Total floor area	Approx. 102,000 m ²
Floors	13 floors above the ground (office: 5-6F; store: 1-4F and part of 5F; hotel: 7-13F)
Designed by	Obayashi Corporation First-Class Architect Office
Constructed by	New Nagasaki Station Building (tentative name) construction JV (consisting of Obayashi and Kyutetsu Corporation)
Start of construction	December 2021
Completion	October 2023
Major environmental considerations	Improve energy efficiency through the introduction of BEMS, high-efficiency transformers and elevator VVVF control, reduce heat- and water-related impacts through the adoption of pair glass, wall and roof greening, and the use of well water, reduce air conditioning- and ventilation-related impacts through the

	individual control of office air conditioning and outer wall natural ventilation systems, and reduce lighting-related impacts through the individual control of office lighting and the optimization of basic LED illuminance
Major environmental certifications, etc.	A Rank in CASBEE for Buildings (New Construction) obtained

(3) Consideration for Negative Environmental and Social Impacts

- It has been confirmed that the following measures to reduce environmental and social risks are in place for eligible projects, showing that sufficient consideration is given.
 - Compliance with environmental laws and regulations required by the national government or the local government where a project is to be implemented, and implementation of environmental impact studies as necessary
 - Providing adequate explanations to local residents when conducting a project
 - Ensuring the safety of transportation based on the JR Kyushu safety management system
 - Procurement of materials, prevention of environmental pollution, and consideration of the working environment and human rights in accordance with the JR Kyushu Group's basic principle and policies for environmental conservation activities, basic procurement policy, and other policies

Assessment (Use of Proceeds):

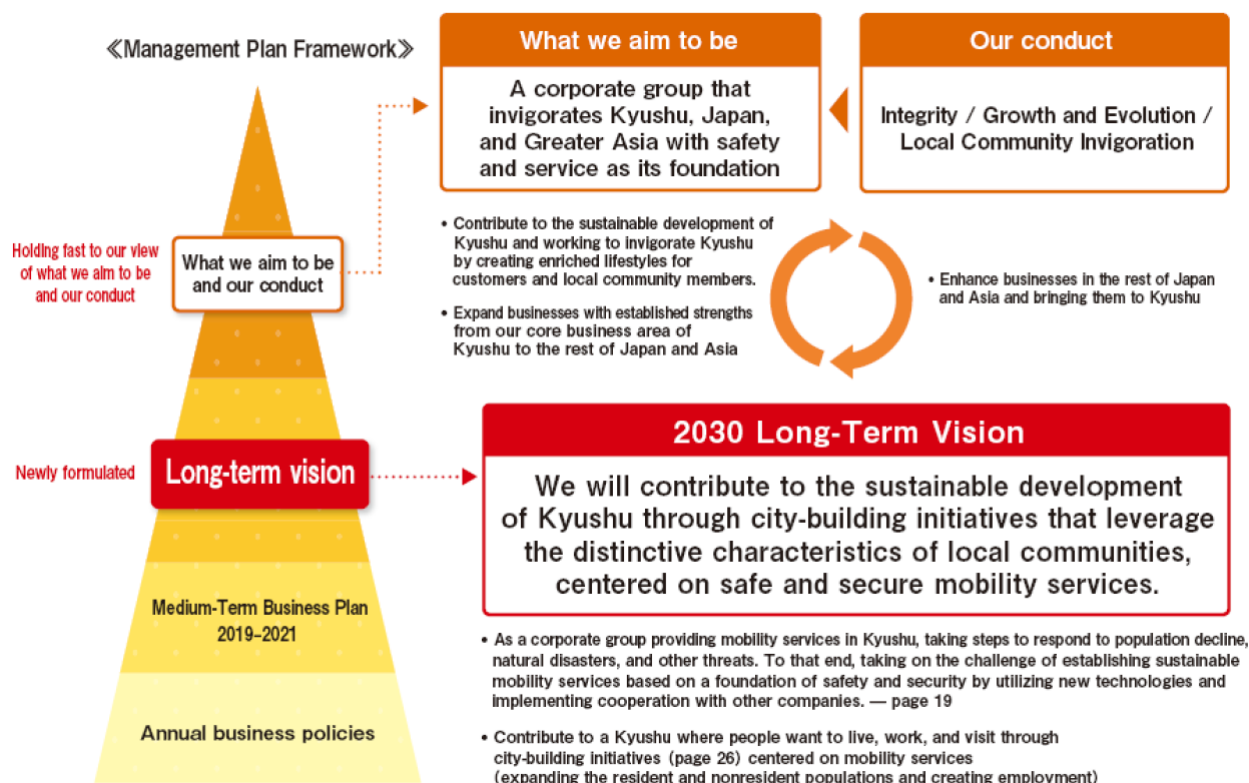
The proceeds from the green bonds will be fully allocated to green buildings. The projects are aligned with "realization of a decarbonized society," one of the material issues of JR Kyushu, and contribute to greater energy consumption efficiency and lower CO2 emissions. The projects give sufficient consideration to negative environmental and social impacts, and R&I has determined that they are expected to produce a clear benefit of CO2 reduction.

2. Process for Project Evaluation and Selection

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

- With a focus on three pillars that form its code of conduct—Integrity, Growth and Evolution, and Local Community Invigoration—the JR Kyushu Group strives to achieve its vision of what it aims to be: A corporate group that invigorates Kyushu, Japan, and Greater Asia with safety and service as its foundation. Based on these, it formulated the Long-Term Vision for 2030 to contribute to the sustainable development of Kyushu.

‘Long-Term Vision for 2030’



[Source: JR Kyushu Green Bond Framework]

- In April 2022, JR Kyushu revised its basic principle and policies for environmental conservation activities established in 1999, to step up efforts to tackle climate change and other environmental issues throughout the group. To realize a decarbonized society, it will take further measures against climate change, such as efficient energy use through the introduction of energy-saving train cars and the utilization of renewable energy, and strive to maintain biodiversity, build a circular society and prevent environmental pollution.
- Each of the target projects is positioned in the context of the basic principle and policies for environmental conservation activities and contributes to the company's 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.
- Although exclusion criteria are not provided, JR Kyushu confirms that measures to reduce environmental and social risks are in place when selecting eligible project candidates.

(3) Process for Project Evaluation and Selection

- The Finance Department will identify candidate projects based on the eligibility criteria, and the General Manager of the Finance and Accounting Department will give final approval based on the alignment with the basic principle and policies for environmental conservation activities. The project evaluation and selection process is described in the Green Bond Framework.

Assessment (Process for Project Evaluation and Selection):

The criteria for project selection are clearly defined. The eligible projects are considered to be in line with JR Kyushu's basic principle and policies for environmental conservation activities. Measures to reduce environmental and social risks are included in the process. The evaluation and selection process is clearly and reasonably defined, and R&I has determined that the process is superior.

3. Management of Proceeds

- The Finance Department will allocate the proceeds to eligible projects. The department will track and manage the proceeds on a quarterly basis using an internal accounting system until maturity in accordance with established administrative procedures, to ensure that the proceeds will be fully allocated to one or more of the eligible projects. The allocation of proceeds will be managed on a project-by-project basis.
- JR Kyushu intends to complete the allocation within two years after issuance, and unallocated proceeds will be held in cash or cash equivalents.
- The method of managing the proceeds is explained to investors through the disclosure of the outline of the framework.

Assessment (Management of Proceeds):

The Finance Department will manage the allocation of proceeds on a project-by-project basis using an internal accounting system. Unappropriated proceeds will be held in cash or cash equivalents until allocated in full. The method of managing the proceeds is defined appropriately, and R&I has determined that the method is excellent.

4. Reporting

(1) Overview of Disclosure

- Reporting will be made as follows:

	Items	Timing	Disclosure
Allocation of Proceeds	Overview of eligible projects Allocated amounts to eligible projects on a project-by-project basis and unallocated amount Expected timing of allocation in case there remain unallocated proceeds The ratio of finance for new investments and refinance	Annually until the proceeds are allocated in full	Disclosed on JR Kyushu's website to the extent practicably feasible
Environmental Benefits	<u>Green buildings</u> Overview of eligible projects Status of acquisition of certification (expected timing of acquisition / level of acquired certification) Annual reduction in CO2 and energy consumption through green building Progress of revitalization of regions, mainly in Kyushu, through new buildings and urban development	Annually as long as there are bonds outstanding	Disclosed on JR Kyushu's website to the extent practicably feasible

- Information will be disclosed in a timely manner in the event of any major changes in allocation after the proceeds are allocated.

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

- Allocation reporting and impact reporting will be disclosed for each project category.
- Quantifiable indicators, including a reduction in CO2, will be reported quantitatively.

Assessment (Reporting):

Allocation reporting and impact reporting will be disclosed for each project category. Quantifiable indicators will be reported quantitatively, and qualitative information will provide details of eligible projects. R&I has therefore determined that the reporting is excellent in terms of frequency, content, etc.

5. Environmental Activities of the Issuer

- The ESG Strategy Committee forms the core of JR Kyushu's environmental management system. The committee, chaired by the President, deliberates and decides on necessary matters including basic policies and has special environmental sub-committees to create implementation plans, set targets, report results and promote activities for various environmental issues. In addition, ISO 14001 certifications have been obtained at the Kokura Rolling Stock Center and group companies.
- To prevent global warming, JR Kyushu targets a 50% CO2 emissions reduction on a stand-alone basis by 2030 compared to FY2013 and net-zero CO2 emissions from the JR Kyushu Group by 2050. Besides the projects to be financed by the green bond proceeds, it has introduced the first "power interchanging device" on Shinkansen in the Shin-Miyama feeder sorting station, where regenerative power created when a train decelerates is used to run a train in the transmission range of different substations. The company also generates electricity at mega solar power plants by effectively utilizing unused land.
- JR Kyushu is working to reduce waste during construction and use environmentally friendly materials by promoting the three Rs (Reduce, Reuse, Recycle) toward a circular society. It manages chemical substances appropriately as stipulated in relevant laws and regulations.
- JR Kyushu discloses its environmental activities to the public appropriately through Integrated Reports, ESG Data Books, JR Kyushu Environmental Actions, etc. In February 2021, the company announced its support for the Task Force on Climate-related Financial Disclosures (TCFD) recommendations and participation in the TCFD Consortium, and disclosed climate-related information based on the TCFD. For the railway business, it analyzed 1.5°C, 2°C and 4°C scenarios developed by the Intergovernmental Panel on Climate Change (IPCC) and International Energy Agency (IEA), and quantitatively disclosed some of the expected financial impacts.

Assessment (Environmental Activities of the Issuer):

JR Kyushu is tackling environmental issues throughout the group based on an environmental management system led by the ESG Strategy Committee. Its environmental activities reduce CO2 emissions through greater energy consumption efficiency in the railway business. In addition, it is working to build a circular society while ensuring compliance with relevant laws and regulations. Such initiatives are appropriately communicated to the public through Integrated Reports and TCFD-based disclosures. R&I has determined that JR Kyushu's environmental activities are excellent.

III. Overall Assessment

- Prior to the R&I Green Bond Assessment, R&I has confirmed that the Green Bond Framework complies with the Green Bond Principles 2018 and the Ministry of the Environment's Green Bond Guidelines 2020.
- The green bonds that have been assessed this time will be issued based on the above-mentioned Green Bond Framework established by the issuer.
- The proceeds from the green bonds will be fully allocated to green buildings. The projects are aligned with "realization of a decarbonized society," one of the material issues of JR Kyushu, and contribute to greater energy consumption efficiency and lower CO2 emissions. The projects give sufficient consideration to negative environmental and social impacts, and R&I has determined that they are expected to produce a clear benefit of CO2 reduction. The criteria for project selection are clearly defined. The eligible projects are considered to be in line with JR Kyushu's basic principle and policies for environmental conservation activities. The Finance Department will manage the allocation of proceeds on a project-by-project basis using an internal accounting system. Until the proceeds are allocated in full, unallocated funds will be held in cash or cash equivalents. The method of managing the proceeds is defined appropriately. Allocation reporting and impact reporting will be disclosed for each project. Quantifiable indicators will be reported quantitatively, and qualitative information will provide details of eligible projects.

Based on the above, R&I has concluded that the green bond proceeds will be used to invest in projects with environmental benefits to a significant degree, and assigned GA1 (Formal).

[Disclaimer]

Second Opinion 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.

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[Expertise and Third-Party Characteristics]

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The R&I assessment method and results are disclosed on the R&I website (at <https://www.r-i.co.jp/en/rating/esg/index.html>).

In December 2022, R&I expressed its support for the intent of and its endorsement of the "Code of Conduct for ESG Evaluation and Data Providers" (ESG Code of Conduct) published by the Financial Services Agency. Disclosures on R&I's compliance with the six Principles of the ESG Code of Conduct and the Guidelines for their implementation are available on the R&I website at <https://www.r-i.co.jp/en/rating/products/esg/index.html> (Disclosures on Compliance with the ESG Code of Conduct).

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