

# Second-Party Opinion

## Kyushu Railway Company

### Green Bond Framework



#### Evaluation Summary

Sustainalytics is of the opinion that the Kyushu Railway Company (hereinafter referred to as “JR Kyushu” or the “Company”) Green Bond Framework (The “Framework”) is credible and impactful and aligns to the four core components of the Green Bond Principles 2018 (GBP). This assessment is based on the following:



**USE OF PROCEEDS** The eligible categories for the use of proceeds Clean Transportation and Green Buildings, are aligned with those recognized by the GBP. Sustainalytics considers that the eligible categories will lead to positive environmental impacts and advance the UN Sustainable Development Goals, specifically SDGs 9 and 11.



**PROJECT EVALUATION / SELECTION** The Finance Department of JR Kyushu evaluates and selects candidate projects based on eligibility criteria for use of proceeds, and the Company’s executive officer and general manager of the Finance and Accounting Department will make the final decision. Sustainalytics considers this process of JR Kyushu to be aligned with market practice.



**MANAGEMENT OF PROCEEDS** The Finance Department of JR Kyushu will track and manage the allocation of the proceeds for each eligible project quarterly using an internal accounting system. Until the proceeds of the green bond are fully allocated to the eligible projects, the unallocated proceeds will be held in cash or cash equivalents. JR Kyushu’s proceeds management process is aligned with market practice.



**REPORTING** JR Kyushu intends to report on allocation and environmental impacts of the proceeds annually on the Company’s website. Allocation reporting will disclose the overview of eligible projects, amount of allocated and unallocated proceeds, expected timing of allocation and ratio of new finance and refinance. Impact reporting will include annual reduction in CO<sub>2</sub> emissions by introducing new-model train cars, progress of implementation of disaster prevention work, progress of green building certification acquisition and other relevant qualitative and quantitative impact metrics. Sustainalytics views the allocation and impact reporting of JR Kyushu as aligned with market practice.

<b>Evaluation Date</b>	February 24, 2021
<b>Issuer Location</b>	Fukuoka, Japan

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#### Alignment with Japan’s Green Bond Guidelines 2020

Sustainalytics is of the opinion that the Framework is in line with Japan’s Green Bond Guidelines 2020 developed by the Ministry of the Environment of Japan. The guidelines communicate what an issuer is expected to do to issue a credible green bond. Sustainalytics assessed the alignment between the Framework and the ‘should’ items outlined in the Japan’s Green Bond Guidelines 2020.

## Introduction

JR Kyushu Railway Company (“JR Kyushu” or the “Company”) is a railway operator based in Kyushu area, Japan. In addition to railway business, the Company and JR Kyushu Group operate, among others, the bus and marine transportation services, real estate business, hotel business, construction business and retail business. Headquartered in Fukuoka Prefecture, the Company has 8,172 employees as of April 1, 2020.

JR Kyushu has developed the Kyushu Railway Company Green Bond Framework (the “Framework”) under which it intends to issue green bonds and use the proceeds to finance and/or refinance projects that generates environmental benefits. The Framework defines eligibility criteria in the following two areas:

1. Clean Transportation
2. Green Buildings

JR Kyushu engaged Sustainalytics to review the Kyushu Railway Company Green Bond Framework, dated February 2021, and provide a Second-Party Opinion on the Framework’s environmental credentials and its alignment with the GBP<sup>1</sup> and Japan’s Green Bond Guidelines 2020.<sup>2</sup> A summary overview of the Framework has been provided in Appendix 1.

### Scope of work and limitations of Sustainalytics’ Second-Party Opinion

Sustainalytics’ Second-Party Opinion reflects Sustainalytics’ independent<sup>3</sup> opinion on the alignment of the reviewed Framework with the current market standards and the extent to which the eligible project categories are credible and impactful.

As part of the Second-Party Opinion, Sustainalytics assessed the following:

- The Framework’s alignment with the GBP and Japan’s Green Bond Guidelines 2020;
- The credibility and anticipated positive impacts of the use of proceeds; and
- The alignment of the issuer’s sustainability strategy and performance and sustainability risk management in relation to the use of proceeds.

For the use of proceeds assessment, Sustainalytics relied on its internal taxonomy, version 1.6.1, which is informed by market practice and Sustainalytics’ expertise as an ESG research provider.

As part of this engagement, Sustainalytics held conversations with various members of JR Kyushu’s Finance team to understand the sustainability impact of their business processes and planned use of proceeds, as well as management of proceeds and reporting aspects of the Framework. JR Kyushu representatives have confirmed (1) they understand it is the sole responsibility of JR Kyushu to ensure that the information provided is complete, accurate or up to date; (2) that they have provided Sustainalytics with all relevant information and (3) that any provided material information has been duly disclosed in a timely manner. Sustainalytics also reviewed relevant public documents and non-public information.

This document contains Sustainalytics’ opinion of the Framework and should be read in conjunction with that Framework.

Any update of the present Second-Party Opinion will be conducted according to the agreed engagement conditions between Sustainalytics and JR Kyushu.

Sustainalytics’ Second-Party Opinion, while reflecting on the alignment of the Framework with market standards, is no guarantee of alignment nor warrants any alignment with future versions of relevant market standards. Furthermore, Sustainalytics’ Second-Party Opinion addresses the anticipated impacts of eligible projects expected to be financed with bond proceeds but does not measure the actual impact. The measurement and reporting of the impact achieved through projects financed under the Framework is the responsibility of the Framework owner.

<sup>1</sup> The Green Bond Principles are administered by the International Capital Market Association and are available at <https://www.icmagroup.org/green-social-and-sustainability-bonds/green-bond-principles-gbp/>.

<sup>2</sup> Ministry of the Environment, Japan, “Green Bond Guidelines, 2020”, at: [http://www.env.go.jp/policy/guidelines\\_set\\_version\\_with%20cover.pdf](http://www.env.go.jp/policy/guidelines_set_version_with%20cover.pdf)

<sup>3</sup> When operating multiple lines of business that serve a variety of client types, objective research is a cornerstone of Sustainalytics and ensuring analyst independence is paramount to producing objective, actionable research. Sustainalytics has therefore put in place a robust conflict management framework that specifically addresses the need for analyst independence, consistency of process, structural separation of commercial and research (and engagement) teams, data protection and systems separation. Last but not the least, analyst compensation is not directly tied to specific commercial outcomes. One of Sustainalytics’ hallmarks is integrity, another is transparency.

In addition, the Second-Party Opinion opines on the potential allocation of proceeds but does not guarantee the realised allocation of the bond proceeds towards eligible activities.

No information provided by Sustainalytics under the present Second-Party Opinion shall be considered as being a statement, representation, warrant or argument, either in favour or against, the truthfulness, reliability or completeness of any facts or statements and related surrounding circumstances that JR Kyushu has made available to Sustainalytics for the purpose of this Second-Party Opinion.

## Sustainalytics' Opinion

### Section 1: Sustainalytics' Opinion on the Kyushu Railway Company Green Bond Framework

Sustainalytics is of the opinion that the Kyushu Railway Company Green Bond Framework is credible and impactful, and aligns to the four core components of the GBP. Sustainalytics highlights the following elements of JR Kyushu's Green Bond Framework:

- Use of Proceeds:
  - The two eligible categories for the use of proceeds of the green bonds, Clean transportation and Green buildings, are recognized by the GBP as project categories with clear environmental impact. Sustainalytics views that JR Kyushu will contribute to the measures to reduce global warming that aims to address through the "JR Kyushu Low Carbon Society Implementation Plan" and to promote Japan's transition to low-carbon society. Please see Section 3 for Sustainalytics' assessment on environmental impact of the use of proceeds.
  - Under the Clean Transportation category, JR Kyushu intends to invest in manufacturing, remodeling and renewal of electric and hybrid train cars and in maintenance, repair and renewal of railway-related facilities, including measures to cope with intensifying natural disasters (torrential rains and typhoons, among others). With regard to hybrid train cars, JR Kyushu is committed to Sustainalytics to allocate the proceeds to the projects where the CO<sub>2</sub> emissions per passenger kilometer is 75g or less. Sustainalytics views JR Kyushu's commitment on the CO<sub>2</sub> emission threshold for hybrid train cars as well as eligibility criteria in relation to investments in train cars powered by electricity and railway-related facilities to assure positive environment impacts.
  - The Green Building category is defined in the Framework. In the category, JR Kyushu intends to invest in constructing properties near stations operated by the Company and its own facilities. The properties to be financed through green bonds, have or will have, one of the top two levels of the green building certification from a third-party certification agency (LEED -BD+C ( Building Design and Construction ) or LEED-O+M ( Building Operations and Maintenance ) , CASBEE for Buildings (New Construction, Existing Buildings, and Renovation) or CASBEE for Real Estate, BELS or DBJ Green Building Certification). Sustainalytics views that allocation of the proceeds to properties with one of the top two levels of certification will have clear environmental impacts and is aligned with market practice.
  - JR Kyushu will allocate the proceeds of the green bonds to financing and refinancing expenditures for eligible projects. Concerning refinancing, the Framework has defined that JR Kyushu may allocate the proceeds to projects related to Clean Transportation that have been initiated within two years before issuance of the green bond, or for projects whose environmental performance has been verified by obtaining green building certification during the same period.
- Project Evaluation and Selection:
  - The Finance Department and the executive officer and general manager of the Finance and Accounting Department of JR Kyushu are responsible for evaluation and selection of the eligible projects. The Finance Department will evaluate and select candidate projects based on the eligibility criteria set out for the use of proceeds. The executive officer and general manager of the Finance Accounting Department of the Company will review the selected candidate projects

to ensure that the projects are aligned with the group's guiding principles and basic policies on the global environment protection activities and will make the final approval. The Finance Department will report on the selected projects to the Ecology Committee chaired by the Company's representative director, president and CEO and composed of general managers of business divisions.

- Considering that the process to be conducted based on eligibility criteria and in line with the Company's environmental guidance and policy, Sustainalytics considers the Company's project evaluation and selection process to be aligned with market practice.
- **Management of Proceeds:**
  - The management of proceeds of JR Kyushu's green bond will be conducted by the Finance Department of the Company. The Department will track and manage the allocation of the proceeds to each eligible project quarterly using the Company's internal accounting system in order to ensure that an amount equal to the issue amount of the green bond is allocated to eligible projects. The Company intends to complete allocation of the proceeds within about 24 months from issuance. Pending full allocation of the proceeds to eligible projects, the unallocated proceeds will be held in cash or cash equivalents.
  - Based on the clearly stated process of tracking and managing proceeds, intended allocation period and management of unallocated proceeds, Sustainalytics considers the Company's proceeds management process to be aligned with market practice.
- **Reporting:**
  - JR Kyushu intends to report on allocation of proceeds of the green bonds and environmental impact of the projects to which the proceeds are allocated, annually and in the event of significant change, on the Company's website.
  - Allocation reporting will include the overview of eligible projects, amounts allocated to eligible projects on a project-by-project basis and unallocated amount, expected timing of allocation in case there remain unallocated proceeds and ratio of finance and refinance where feasible.
  - Impact reporting will include, an overview of eligible projects, the number of train cars newly introduced in a year, reduction in CO<sub>2</sub> emissions by introducing new-model train cars, situation of damages due to natural disasters, progress of the implementation of disaster prevention works, overview of works in relation to maintenance, repair and renewal of railway-related facilities, and progress of installation of platform doors (number of stations with platform door installation completed/total number of stations), and progress of other railway-related infrastructure that has been maintained, renovated, or upgraded, for clean transportation projects, and an overview of eligible projects, progress of acquisition of certification (expected timing of acquisition and level of acquired certification), reduction in annual CO<sub>2</sub> emissions, reduction in energy consumption, progress of revitalization of regions, mainly in Kyushu area, through new buildings and urban development for green building projects.
  - Based on the Company's disclosure of quantitative and qualitative environmental impact metrics, Sustainalytics views the Company's reporting as aligned with market practice.

### **Alignment with Green Bond Principles 2018**

Sustainalytics has determined that the Kyushu Railway Company Green Bond Framework aligns to the four core components of the GBP. For detailed information please refer to Appendix 4: Green Bond/Green Bond Programme External Review Form.

### **Alignment with Japan's Green Bond Guidelines 2020**

Sustainalytics is of the opinion that the Framework is in line with Japan's Green Bond Guidelines 2020 developed by the Ministry of the Environment of Japan. The guidelines communicate what an issuer is expected to do to issue a credible green bond, and also covers sustainability bonds that include green projects in the use of proceeds. Sustainalytics assessed the alignment between the Framework and the 'should' items outlined in the Japan's Green Bond Guidelines 2020. For detailed information please refer to Appendix 3: Alignment with Japan's Green Bond Guidelines 2020.

## Section 2: Sustainability Strategy of JR Kyushu

### Contribution of framework to Kyushu Railway Company's sustainability strategy

JR Kyushu aims to contribute to the sustainable development of the Kyushu region that is the Company's business base, as its Long-Term Vision for 2030.<sup>4</sup> Based on this vision, the Company has selected "addressing environmental issues (climate change and resource conservation)" as one of the ESG themes to be focused on in its medium-term business plan<sup>5</sup> that covers three years to FY2021, and is working to preserve the global environment through business activities based on the following goals and policies.

- JR Kyushu has set up the JR Kyushu Low-Carbon Society Action Plan<sup>6</sup>, in which the Company sets out a quantitative target of raising the rate of energy-saving train cars to 83% by FY2030. To achieve the target, the Company is promoting introduction of energy-saving train cars with lighter car bodies and technologies that use energy more efficiently, including VVVF inverters and regeneration brakes. The Company is also introducing energy-saving measures such as LED equipment. The company planned to reduce the unit energy consumption in the railway division by 2.5% by FY2030 in comparison to FY2011, but achieved a 3.7 reduction by FY2019, exceeding the target, and is now considering revising the target.
- The Company plans to contribute to the sustainable society by improved safety and wider use of the railway service, which is an energy-efficient transportation means with low environmental load. In the medium-term business plan, in consideration of increasing number of torrential rains in Kyushu area, the Company plans to invest 70 billion JPY in total in safety-enhancing facilities in the railway business by FY2021.<sup>7 8</sup>
- The Company has the Basic Policy on Environmental Conservation Activities,<sup>9</sup> which commits to reducing CO<sub>2</sub> emissions and waste, promoting recycling of resources, and reducing environmental load through adequate management and treatment of environmental pollutants. JR Kyushu has a proven track record of environmental considerations in the development of real estate near stations and its own facilities, through the introduction of energy-efficient equipment and renewable energy generation facilities, and the implementation of water recycling. The employee training center building which is undergoing reconstruction, is designed to be environmentally friendly and has obtained green building certifications of BELS five-star and ZEB Ready.<sup>10</sup>
- The Company has announced its support for the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD), and committed to formulating an interim goal and roadmap to achieve net zero CO<sub>2</sub> emissions by 2050 within its disclosure based on the recommendations.<sup>11</sup>

In consideration of the above targets, policies and programs, Sustainalytics views that JR Kyushu has integrated sustainability-related initiatives with its management strategy, and that the Framework will further support the Company's initiatives in its railway business to mitigate climate change, and measures to reduce environmental loads accompanying its business activities.

### Well-positioned to address common environmental and social risks associated with the projects

While Sustainalytics recognizes that investments in manufacturing, remodeling and renewal of train cars and railway infrastructure and in construction of green buildings as set down by JR Kyushu are expected to generate positive environmental impacts through reduction in greenhouse gas emissions and contribution to low-carbon society, Sustainalytics is aware that large-scale infrastructure development including railway and

<sup>4</sup> Kyushu Railway Company, "JR Kyushu Group Integrated Report 2020", at:

[https://www.jrkyushu.co.jp/company/ir\\_eng/library/integrated\\_report/pdf/2020\\_ir\\_En.pdf](https://www.jrkyushu.co.jp/company/ir_eng/library/integrated_report/pdf/2020_ir_En.pdf)

<sup>5</sup> Kyushu Railway Company, "Notice Regarding JR Kyushu Group Medium-Term Business Plan 2019-2021", at:

[https://www.jrkyushu.co.jp/company/ir\\_eng/news/\\_icsFiles/afieldfile/2019/03/19/cyuukikeikaku.pdf](https://www.jrkyushu.co.jp/company/ir_eng/news/_icsFiles/afieldfile/2019/03/19/cyuukikeikaku.pdf)

<sup>6</sup> Kyushu Railway Company, "JR Kyushu Group's Approach to the Global Environment (Japanese only)", at:

<https://www.jrkyushu.co.jp/company/esg/env/effort2.html>

<sup>7</sup> Kyushu Railway Company, "Notice Regarding JR Kyushu Group Medium-Term Business Plan 2019-2021", at:

[https://www.jrkyushu.co.jp/company/ir\\_eng/news/\\_icsFiles/afieldfile/2019/03/19/cyuukikeikaku.pdf](https://www.jrkyushu.co.jp/company/ir_eng/news/_icsFiles/afieldfile/2019/03/19/cyuukikeikaku.pdf)

<sup>8</sup> Kyushu Railway Company, "JR Kyushu Group Integrated Report 2020", at:

[https://www.jrkyushu.co.jp/company/ir\\_eng/library/integrated\\_report/pdf/2020\\_ir\\_En.pdf](https://www.jrkyushu.co.jp/company/ir_eng/library/integrated_report/pdf/2020_ir_En.pdf)

<sup>9</sup> Kyushu Railway Company, "Environmental Initiatives (Japanese only)", at: <https://www.jrkyushu.co.jp/company/esg/environment/>

<sup>10</sup> Kyushu Railway Company, "Construction of employee training center (Japanese only)", at:

[https://www.jrkyushu.co.jp/news/\\_icsFiles/afieldfile/2020/01/28/200128Newsrelease01.pdf](https://www.jrkyushu.co.jp/news/_icsFiles/afieldfile/2020/01/28/200128Newsrelease01.pdf)

<sup>11</sup> Kyushu Railway Company, "Announcement of Support for TCFD Recommendations and Disclosure of Climate-Related Information", at:

[https://www.jrkyushu.co.jp/company/ir\\_eng/news/\\_icsFiles/afieldfile/2021/02/17/9142\\_TCFD\\_en.pdf](https://www.jrkyushu.co.jp/company/ir_eng/news/_icsFiles/afieldfile/2021/02/17/9142_TCFD_en.pdf)

green buildings could be associated with potential environmental and social risks. Some key environmental and social risks could be included noise accompanying development of infrastructure including railway and green buildings, air pollution, loss of biodiversity, relationship with neighborhood residents, and health and safety of employees. Sustainalytics is of the opinion that JR Kyushu is well positioned to reduce environmental and social risks for the following reasons:

- JR Kyushu has established the organizational structure for environment management based on the Basic Policy and Basic Principles on Environmental Conservation Activities<sup>12</sup>, and its environment protection measures are implemented by the "Ecology Committee," chaired by the President and Representative Director<sup>13</sup>. The Ecology Committee consists of four special sub-committees: Sub-Committee on Environment Management; Sub-Committee on Energy Management; Sub-Committee on Environmental Pollutant Management; and Sub-Committee on Resource Conservation; and each group is taking measures to address the environmental issues, ensuring abidance by relevant laws and regulations, collecting information on relevant issues, planning implementation of measures and setting targets.
- In the environment management structure that JR Kyushu has established, the four special sub-committees manage measures to ensure abidance by relevant laws and regulations. Moreover, the Company is committed in the Framework to compliance with the national and local environment-related laws and regulations and to implementation of environmental impact assessment. The Company's commitment includes, for the railway business, the assessment of, in addition to railway routes with extension of 10 kilometers or longer that is required under Japan's Environmental Impact Assessment Act, railway routes with extension of between 7.5 and 10 kilometers that are determined to be subjected to the assessment<sup>14</sup>, and for green buildings, the assessment of buildings that is required by municipalities. For the railways, Japan's Environmental Impact Assessment Act requires assessment of impacts on the natural environment including the atmosphere and water environment, soil, inhabitation and growth of animals and plants, vegetation and ecosystem as well as identification of social conditions including location of facilities that call for special attention and residential houses.<sup>15</sup>
- In the Framework, JR Kyushu is committed to adequate explanation to local residents prior to construction of railway infrastructure and green buildings.
- Regarding the labor safety of the employees, JR Kyushu has formulated the Safety Principles<sup>16</sup> that has five items for safe operation by employees. Specifically, the Company set up the Safety Middle-term Plan (2017 – 2019) and basic safety policy, which emphasize: 1) Enhancement of mechanism to improve safety (safety management mechanism); 2) Fostering human resources that support safety; 3) Implementation of measures for ensuring safety; 4) Enhancement of disaster prevention and mitigation measures; and 5) Prevention of failure of train cars and facilities; and has implemented measures to prevent or mitigate disruption in the respective fields<sup>17</sup>.
- JR Kyushu has set out the Basic Procurement Policy, which calls for: 1) Compliance with laws, regulations and social norms; 2) Provision of safe and secure products and services; 3) Provision of safe and healthy work environments and implementation of appropriate labor management; 4) Fair business administration, prevention of corruption, exclusion of anti-social forces; 5) Respect for human rights and elimination of discrimination; 6) Information disclosure and information management; and 7) Consideration for the environment; promoting measures for compliance with social norms, respect for human rights and environmental friendliness.

<sup>12</sup> Kyushu Railway Company, "Environmental Initiatives (Japanese only)", at <https://www.jrkyushu.co.jp/company/esg/environment/>

<sup>13</sup> Kyushu Railway Company, "JR Kyushu Group's Approach to the Global Environment (Japanese only)", at: [https://www.jrkyushu.co.jp/company/esg/environment/report/pdf/environment2020\\_all.pdf](https://www.jrkyushu.co.jp/company/esg/environment/report/pdf/environment2020_all.pdf)

<sup>14</sup> Ministry of the Environment, "List of Projects Subject to Environmental Assessment (Japanese only)", at: [http://assess.env.go.jp/files/1\\_seido/pamph\\_j/05.pdf](http://assess.env.go.jp/files/1_seido/pamph_j/05.pdf)

<sup>15</sup> Ministry of Internal Affairs and Communications, "Ministerial ordinance to prescribe the items of environmental impact assessment for railroad construction and improvement projects, guidelines for selecting methods to reasonably conduct surveys, forecasts, and assessments related to the items, and guidelines for measures to preserve the environment (Japanese only)", at: <https://elaws.e-gov.go.jp/document?lawid=410M50000800035>

<sup>16</sup> Kyushu Railway Company, "Safety Policy (Japanese only)", at: [https://www.jrkyushu.co.jp/company/esg/safety/pdf/2020\\_anzen01.pdf](https://www.jrkyushu.co.jp/company/esg/safety/pdf/2020_anzen01.pdf)

<sup>17</sup> Kyushu Railway Company, "Policy on Ensuring Railway Safety (Japanese only)", at: [https://www.jrkyushu.co.jp/company/esg/safety/pdf/2020\\_anzen02.pdf](https://www.jrkyushu.co.jp/company/esg/safety/pdf/2020_anzen02.pdf)



### Section 3: Impact of Use of Proceeds

All two use of proceeds categories are aligned with those recognized by the GBP and Japan's Green Bond Guidelines 2020. Sustainalytics explains why those project categories produces positive environmental impacts in Japan as follows:

#### **Contribution to carbon reduction through promotion of use of railway services and enhancement of energy consumption efficiency**

The transportation sector accounts for about 20%, within Japan's total CO<sub>2</sub> emissions, of which automobiles account for about 90% (passenger cars: 49.6%; and motor trucks: 36.6%) and railways 3.9%<sup>18</sup>. Based on the Paris Agreement, Japan has set the target of reducing greenhouse gas (GHG) emissions of automobiles by 26% by FY2030 from the FY2013 level, and, to achieve the target, is working to reduce the CO<sub>2</sub> emissions in the transportation sector by 28%.<sup>19</sup> Railways emits about 86.5% less CO<sub>2</sub> gas per passenger than automobiles and about 81.3% less than airplanes, and about 90.6% less per ton of freight than business motor trucks and about 43.6% less than vessels.<sup>20</sup> As railways are a transportation means that emits less CO<sub>2</sub> than other means, promotion of use of railway services and further improvement of energy efficiency in the railway sector are expected to contribute to reducing carbon emissions in the transportation sector. The Japanese government stated in its Nationally Determined Contributions (NDC) that it plans to achieve the FY2030 reduction target in the transportation sector by promoting use of public transportation, encouraging modal shift to rail freight transportation as measures to control use of automobiles which are major sources of emissions in the transportation sector, as well as improving energy consumption efficiency of railways.<sup>21</sup>

JR Kyushu intends to allocate green bond proceeds to capital investment related to introduction of energy-saving train cars and maintenance and renewal of railway-related facilities. In consideration of the above, Sustainalytics views that the use of proceeds of JR Kyushu will contribute to the reduction of carbon emissions in the transportation sector through enhancement of infrastructure and improved energy efficiency of the railway transportation, as transportation means with low environmental loads, and will contribute to climate change measures that the Japanese government is promoting.

#### **Importance of green buildings for climate change measures**

JR Kyushu intends to allocate green bond proceeds to investments for construction of the Company's own facilities and properties near stations that will obtain one of the top two levels of green building certification of LEED, CASBEE, BELS or DBJ Green Building that are well known both in Japan and overseas. In Japan, the final energy consumption of the commercial and others sector related to buildings including offices and commercial facilities has increased about 20% since 1990.<sup>22</sup> These buildings are also responsible for 18.5% of Japan's total CO<sub>2</sub> emissions.<sup>23</sup> Accordingly, it is important to enhance energy-saving performance of buildings in response to climate change. In 2015, the Japanese government enacted the "Act on the Improvement of Energy Consumption Performance of Buildings (Building Energy Efficiency Act)," <sup>24</sup>imposing rigorous regulations to promote enhancement of energy efficiency of buildings. The Nationally Determined Contributions (NDC), in which Japan is committed to reducing GHG emissions by 26% by FY2030 in comparison to those in FY2013, imposes a 40% reduction in CO<sub>2</sub> emissions on the commercial and others sector in relation to buildings, the largest among all the sectors. To achieve the target, the Japanese government is promoting measures to ensure new buildings are compliant with the energy-saving standards, refurbishment of existing buildings, and thorough energy management and other measures.<sup>25</sup>

<sup>18</sup> Ministry of Land, Infrastructure, Transport and Tourism, "Carbon Dioxide Emissions from the Transportation Sector (Japanese only)", at: [https://www.mlit.go.jp/sogoseisaku/environment/sosei\\_environment\\_tk\\_000007.html](https://www.mlit.go.jp/sogoseisaku/environment/sosei_environment_tk_000007.html)

<sup>19</sup> "Submission of Japan's Nationally Determined Contribution (NDC) (Japanese only)", at: <https://www.env.go.jp/press/files/jp/113664.pdf>

<sup>20</sup> Ministry of Land, Infrastructure, Transport and Tourism, "Carbon Dioxide Emissions from the Transportation Sector (Japanese only)", at: [https://www.mlit.go.jp/sogoseisaku/environment/sosei\\_environment\\_tk\\_000007.html](https://www.mlit.go.jp/sogoseisaku/environment/sosei_environment_tk_000007.html)

<sup>21</sup> "Submission of Japan's Nationally Determined Contribution (NDC) (Japanese only)", at: <https://www.env.go.jp/press/files/jp/113664.pdf>

<sup>22</sup> Agency for Natural Resources and Energy, "FY2018 Energy Supply and Demand Report (Final Figures) (Japanese only)", at: [https://www.enecho.meti.go.jp/statistics/total\\_energy/pdf/stte\\_029.pdf](https://www.enecho.meti.go.jp/statistics/total_energy/pdf/stte_029.pdf)

<sup>23</sup> Ministry of the Environment, "Greenhouse Gas Emissions in Fiscal Year 2018 (Final Figures) (Japanese only)", at: <https://www.env.go.jp/press/files/jp/113761.pdf>

<sup>24</sup> Ministry of Land, Infrastructure, Transport and Tourism, "Overview of the Act on the Improvement of Energy Consumption Performance of Buildings (Building Energy Conservation Act) (Japanese only)", at: [http://www.ibec.or.jp/ee\\_standard/files/outline\\_pamphlet.pdf](http://www.ibec.or.jp/ee_standard/files/outline_pamphlet.pdf)

<sup>25</sup> "Submission of Japan's Nationally Determined Contribution (NDC) (Japanese only)", at: <https://www.env.go.jp/press/files/jp/113664.pdf>

Sustainalytics is of the opinion that the use of proceeds of JR Kyushu in relation to green buildings will contribute to reduction in CO<sub>2</sub> emissions attributing to buildings by allocating proceeds to buildings with environmental performance, and support the climate change measures that the Japanese government is promoting.

#### Alignment with/contribution to SDGs

The Sustainable Development Goals (SDGs) were set in September 2015 by the United Nations General Assembly and form an agenda for achieving sustainable development by the year 2030. The bonds issued under the Kyushu Railway Company Green Bond Framework advances the following SDGs and targets:

Use of Proceeds Category	SDG	SDG target
Clean Transportation	Sustainable cities and communities	11.2 By 2030, provide access to safe, affordable, accessible and sustainable transport systems for all, improving road safety, notably by expanding public transport, with special attention to the needs of those in vulnerable situations, women, children, persons with disabilities and older persons
Green Buildings	Industry, innovation and infrastructure	9.4 By 2030, upgrade infrastructure and retrofit industries to make them sustainable, with increased resource-use efficiency and greater adoption of clean and environmentally sound technologies and industrial processes, with all countries taking action in accordance with their respective capabilities

#### Conclusion

JR Kyushu intends to issue green bonds under the Framework and use the proceeds to finance and/or refinance expenditures related to clean transportation and green buildings. Sustainalytics considers that use of proceeds categories defined in the Framework will contribute to promotion of the Company's measures to address environmental issues stated in its Medium-term Business Plan, and support the climate change mitigation measures that the Japanese government is promoting and to advancement of the UN SDGs 9 and 13.

The use of proceeds categories defined by JR Kyushu are recognized by the GBP and Japan's Green Bond Guidelines 2020 as those with clear environmental impact. In addition to the electric train cars and hybrid train cars with CO<sub>2</sub> emissions that meet certain thresholds, the Company will allocate the proceeds to railway-related facilities and to properties that have or will have one of the top two levels of green building certification from a third-party certification agency. Sustainalytics is of the opinion that the Company's commitments on the eligibility criteria, proceeds management process, project evaluation and selection process and reporting are aligned with market practice.

Based on the above, Sustainalytics is of the opinion that the Framework is robust, transparent, and in alignment with the four core components of the GBP and Japan's Green Bond Guidelines 2020.



## Appendices

### Appendix 1: Framework Overview

For the purpose of issuing green bonds, JR Kyushu has developed the following Framework which addresses the four key core components of the GBP: use of proceeds, project evaluation and selection process, management of proceeds, and reporting, in February 2021. The Framework belongs to JR Kyushu.

#### 1. Use of proceeds

An amount equal to the total proceeds of the green bonds that the Company issues will be allocated to finance new investments or refinance existing investments in eligible projects. For existing investments, the use of proceeds is restricted to refinance investments whose expenditures were made, or whose environmental performance was affirmed, within two years prior to issuance of the green bond.

##### 1.1 Eligibility Criteria

GBP Category	Eligible project/criteria		Example of eligible project
Clean Transportation	Train Cars	<ul style="list-style-type: none"> <li>Investments in relation to manufacturing, remodeling or replacement of train cars powered by electricity</li> </ul>	<ul style="list-style-type: none"> <li>821 series AC suburban-type rolling stock</li> <li>Renovation of 811 series train cars</li> <li>New model development of Shinkansen train cars</li> </ul>
		<ul style="list-style-type: none"> <li>Investments in relation to manufacturing, remodeling or replacement of hybrid train cars</li> </ul>	<ul style="list-style-type: none"> <li>YC1 series diesel-electric rolling stock equipped with storage battery</li> </ul>
	Railway-related Facilities	<ul style="list-style-type: none"> <li>Investments in relation to repair and replacement of railway-related facilities as measures to cope with intensifying natural disasters (torrential rainfalls, typhoons, among others), due to climate changes, that strike Kyushu area.</li> <li>Investments in relation to maintenance, repair and replacement of railway-related facilities</li> </ul>	<ul style="list-style-type: none"> <li>Disaster preparedness railway work for Kyushu Shinkansen</li> <li>Replacement of aged railway traffic control system</li> <li>Installation of platform doors (for stations between Shimoyamato and Chikuzen Maebara)</li> <li>Installation and enhancement of ATS-DK ground facilities (automatic train stop device)</li> <li>Replacement of wooden sleepers with TPC sleepers</li> </ul>
Green Buildings		<ul style="list-style-type: none"> <li>Investments in relation to construction of buildings near stations and the facilities of the Company to be obtained the 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 Green Building Certification: 4 or 5 Stars)</li> </ul>	<ul style="list-style-type: none"> <li>Renovation of employee training center</li> </ul>

## 2. Process for project evaluation and selection

### 2.1 Application of Eligibility and Exclusionary Criteria in Project Selection

The Finance Department of the Company will identify the candidate projects to which the proceeds of this Green Bond will be allocated based on the eligibility criteria defined in 1. Use of Proceeds. The Executive Officer and General Manager of the Finance and Accounting Department of the Company will give final approval to the identified candidate projects based on the alignment with the basic philosophy and basic policy of the Group's environmental conservation activities. The decision is reported to the Ecology Committee, which is chaired by the President and Representative Director of the Company and composed of general managers of the business divisions.

### 2.2 Environmental Objectives

The Group defines materiality as "Points that the JR Kyushu Group focuses on at all times" and discusses from the viewpoint of "importance to society" and "importance to JR Kyushu Group." The Group has, as one of the matters of materiality, "Addressing environmental issues (climate change and resource conservation)" and is engaged in a variety of programs. For example, the railway service, which is the Company's core business, is a mode of transportation that is very efficient in energy use without much burden on the environment. In order to further strengthen these advantages, the Company will strive to further enhance energy efficiency by introducing train cars with improved energy use, and will reduce the CO<sub>2</sub> emission that is one of the causes of the global warming.

### 2.3 Process to Mitigate Environmental and Social Risks

The Company will confirm that the following measures are taken for all the eligible projects in order to reduce environmental and social risks.

- Compliance with environmental laws and regulations required by the national government or the local government where the project is to be implemented, and implementation of environmental impact studies as necessary.
- Providing adequate explanations to local residents when conducting business.
- Ensuring the safety of transportation based on our safety management system.
- Procurement of materials, prevention of environmental pollution, and consideration of the working environment and human rights in accordance with the Group's basic philosophy and policies for global environmental conservation activities, basic procurement policies, and other policies.

## 3. Management of Proceeds

The Finance Department of the Company will allocate to eligible projects and manage proceeds of the green bonds. The Finance Department will track and manage the proceeds on a quarterly basis using the internal accounting system until maturity, to ensure the amount equal to the proceeds of the green bonds is allocated to one or more of the eligible projects. The internal accounting system will keep track of and manage allocation for each of the eligible projects.

Until the proceeds of the green bonds are allocated in full to eligible projects or in case there are not sufficient eligible projects to allocate the proceeds to, the unallocated proceeds will be held in cash or cash equivalent, and the Company intends to complete the allocation within 2 years after issuance of the green bonds.

## 4. Reporting

The Company will report on the status of allocation to eligible projects and effects on the environment annually on the Company's website. The initial report will be published within one year after issuance of the green bonds.

### 4.1 Allocation reporting

Until the proceeds from the green bonds are allocated in full, the Company will annually disclose the following indicators in relation to the status of allocation of the proceeds to eligible projects to the extent practicably feasible.

- 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

Once the proceeds are allocated in full and in the event of any major changes in allocation, reporting will be disclosed on a timely basis.

#### 4.2 Impact reporting

As long as there are green bonds outstanding, the Company will annually disclose the following matters in relation to the impact of the eligible projects on the environment to the extent practicably feasible. Information will also be disclosed in the event of significant changes in a timely manner.

Eligible Business		Item of impact reporting
<b>Clean Transportation</b>		
Train Cars	<ul style="list-style-type: none"> <li>Investments in relation to manufacturing, remodeling or renewal of train cars powered by electricity</li> </ul>	<ul style="list-style-type: none"> <li>Overview of eligible projects</li> <li>Number of train cars newly introduced in a year</li> <li>Reduction in CO<sub>2</sub> emission through introduction of new-model train cars</li> </ul>
	<ul style="list-style-type: none"> <li>Investments in relation to manufacturing, remodeling or renewal of hybrid train cars</li> </ul>	<ul style="list-style-type: none"> <li>Overview of eligible projects</li> <li>Number of train cars newly introduced in a year</li> <li>Reduction in CO<sub>2</sub> emission through introduction of new-model train cars</li> </ul>
Railway-related Facilities	<ul style="list-style-type: none"> <li>Investments in relation to repair and renewal of railway-related facilities as measures to cope with intensifying natural disasters (torrential rainfalls, typhoons, among others), due to climate changes, that strike Kyushu area.</li> <li>Investments in relation to maintenance, repair and renewal of railway-related facilities</li> </ul>	<ul style="list-style-type: none"> <li>Overview of eligible projects</li> <li>Situation of damages due to natural disaster</li> <li>Progress of implementation of disaster prevention work</li> <li>Details of work in relation to maintenance, repair and renewal of railway-related facilities</li> <li>Progress of installation of platform doors (Number of stations with platform door installation completed/Total number of stations)</li> <li>Progress of other railway-related infrastructure that has been maintained, repaired, or upgraded, if any.</li> </ul>
<b>Green Buildings</b>		
	<ul style="list-style-type: none"> <li>Investments in relation to construction of buildings near stations and the facilities of the Company to be certified as green building</li> </ul>	<ul style="list-style-type: none"> <li>Overview of eligible projects</li> <li>Status of acquisition of certification (expected timing of acquisition/level of acquired certification)</li> <li>Reduction in annual CO<sub>2</sub> emission and energy consumption through green building</li> <li>Progress of revitalization of regions, mainly in Kyushu, through new buildings and urban development</li> </ul>

## Appendix 2: Alignment with Japan's Green Bond Guidelines 2020

Four elements	Alignment	Sustainalytics' comments
1. Use of Proceeds	Yes	The eligible categories for use of proceeds defined in the Framework of JR Kyushu, clean transportation and green building, are recognized by Japan's Green Bond Guideline 2020 as project categories with a clear environmental impact. The process to control and mitigate environmental risks associated with the eligible projects is also described in the Framework for investors to review in advance. JR Kyushu has confirmed to Sustainalytics that in case of refinancing an asset that requires long-term maintenance through multiple issuances of green bonds, the Company will disclose the asset's age, remaining useful life, and amount to be refinanced at the time of bond issuance.
2. Process for Project Evaluation and Selection	Yes	The Framework demonstrates the "Long-term Vision 2030" and materiality that the Company aims to achieve through issuance of the green bond. The eligibility criteria and process for project evaluation and selection are also defined in the Framework.
3. Management of Proceeds	Yes	The Framework describes that the Finance Department will manage the proceeds of the green bond, and that the department tracks and manages the allocated and unallocated amounts of the proceeds quarterly until the green bond is redeemed. The Company will allocate the proceeds in full within about two years from the issuance, and the unallocated proceeds will be kept in cash or cash equivalents.
4. Reporting	Yes	JR Kyushu is committed in the Framework to disclosing the status of allocation of the proceeds until the proceeds are allocated in full and environmental impact until the green bond is redeemed every year and when there is a substantial change as required. Allocation reporting will include the overview of the projects, allocated amounts on a project-by-project basis, unallocated amount, expected timing of allocation in case there remain unallocated proceeds, and ratio of new finance and refinance. Impact reporting will include the quantitative and qualitative indicators such as the overview of the projects and, depending on the type of project, the number of train cars newly introduced in a year, reduction in CO <sub>2</sub> emissions, description of works, progress of the implementation of disaster prevention works and progress of acquisition of the green building certification (expected timing of acquisition and certification level) to the extent practicable.

### Appendix 3: Overview and Comparison of Green Building Certification Schemes


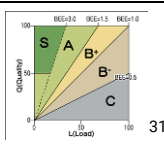


	LEED <sup>26</sup>	CASBEE Certification <sup>27</sup>	BELS <sup>28</sup>	DBJ Green Building Certification <sup>29</sup>
Background	Leadership in Energy and Environmental Design (LEED) is a US Certification System for residential and commercial buildings used worldwide. LEED was developed by the non-profit U.S. Green Building Council (USGBC) and covers the design, construction, maintenance and operation of buildings.	The Comprehensive Assessment System for Built Environment Efficiency (CASBEE) Certification is a green building certification scheme in Japan, which a third party certifies the environmental performance of buildings. The certification scheme includes, based on types of buildings: CASBEE for Buildings, CASBEE for Real Estate, and CASBEE for Housing.	The Building-Housing Energy-efficiency Labelling System (BELS) is an energy performance label, issued under guidelines established by Japan's Ministry of Land, Infrastructure, Transport, and Tourism. The BELS certification scheme evaluates primary energy consumption in order to measure performance of energy conservation.	The Development Bank of Japan (DBJ) Green Building Certification Programme was launched by Development Bank of Japan in 2011 and is operated in conjunction with the Japan Real Estate Institute (JREI), a major appraisal firm in Japan. The certification scheme is recognized as one of Japan's major regional standards. The certification is available for office buildings, logistics, residential, and retail facilities.
Certification levels	Certified Silver Gold Platinum	C (Poor) B- (Slightly Poor) B+ (Good) A (Very Good) S (Excellent)  * 4-grade evaluation for CASBEE for Real Estate excluding C rank	1 Star 2 Stars 3 Stars 4 Stars 5 Stars	1 Star 2 Stars 3 Stars 4 Stars 5 Stars
Areas of Assessment: Environmental Performance of the Building	<ul style="list-style-type: none"> <li>• Energy and atmosphere</li> <li>• Sustainable Sites</li> <li>• Location and Transportation</li> <li>• Materials and resources</li> <li>• Water efficiency</li> <li>• Indoor environmental quality</li> <li>• Innovation in Design</li> <li>• Regional Priority</li> </ul>	<ul style="list-style-type: none"> <li>• Energy Efficiency</li> <li>• Resource efficiency</li> <li>• Local environment</li> <li>• Indoor environment</li> </ul> <p>* Areas for assessment of CASBEE for Real Estate are energy/GHG, water, resource, biodiversity, indoor environment</p>	Energy efficiency	<ul style="list-style-type: none"> <li>• Energy &amp; Resources (Energy conservation, resource conservation, etc.)</li> <li>• Amenity (Convenience and comfort)</li> <li>• Resilience (Environmental risks, legal compliance, etc.)</li> <li>• Community &amp; Diversity (Consideration for the surrounding environment and biodiversity, etc.)</li> </ul>

<sup>26</sup> U.S. Green Building Council "Green building leadership is LEED", at: <https://new.usgbc.org/leed>

<sup>27</sup> Institute for Building Environment and Energy Conservation, "CASBEE certification scheme (Japanese only)", at: <http://www.ibec.or.jp/CASBEE/certification/certification.html>

<sup>28</sup> Association for Housing Performance Evaluation & Labeling, "Building-Housing Energy-efficiency Labelling System Building Energy-efficiency Performance Labeling System (Japanese only)", at: <https://www.hyokakyokai.or.jp/bels/bels.html>

<sup>29</sup> Development Bank of Japan, Japan Real Estate Institute (JREI), "DBJ Green Building", at: <http://igb.jp/en/index.html>

				<ul style="list-style-type: none"> <li>Partnership (information disclosure, etc.)</li> </ul>
Requirements	<p>Prerequisites (independent of level of certification) + Credits with associated points.</p> <p>These points are then added together to obtain the LEED level of certification</p> <p>There are several different rating systems within LEED. Each rating system is designed to apply to a specific sector (e.g. New Construction, Major Renovation, Core and Shell Development, Schools- /Retail- /Healthcare New Construction and Major Renovations, Existing Buildings: Operation and Maintenance).</p>	<p>Score-based performance level.</p> <p>CASBEE uses the BEE (Built Environment Efficiency) as its assessment indicator, which is calculated from Q (Built Environment Quality) as the numerator and L (Built Environment Load) as the denominator. Q and L are obtained through the classification and rearrangement of the four areas of assessment.</p> <p>* CASBEE for Real Estate does not use BEE, additional point system. Certification will not be given, if required item are not met.</p>	<p>Score-based performance level.</p> <p>The BELS score is based on the Building Energy Index, obtained by comparing the energy consumption of a building to the standard primary energy consumption of the building type in official guidelines.</p> <p>A two-star rating is equivalent to meeting existing energy conservation standards, with higher star ratings implying greater savings.</p> <p>The score is calculated by an accredited third party.</p>	<p>Score-based performance level.</p> <p>The assessment has a full score of 300 points and consists of 85 questions, 73 of which are regular questions and 12 of which are questions on innovative initiatives.</p> <p>JREI will conduct on the ground review of building performance on the indicators above, and a committee set in JREI will decide the result of certification rank.</p>
Performance display	 Platinum 80+ points earned 30	 31	 32	 33
Qualitative considerations	Worldwide recognition and application	<p>CASBEE is continuously developed based on industry-government-academia collaboration under the support of Ministry of Land, Infrastructure, Transport and Tourism. In Japan, many local governments have made CASBEE assessment results mandatory for building permits.</p>	<p>BELS is aligned with official government standards.</p> <p>The scheme assesses only energy performance, without any broader consideration of holistic environmental factors.</p>	<p>In addition to LEED and CASBEE, DBJ Green Buildings Certification Programme is considered as one of the green building standards in Japan. According to its website, as of end of March 2020, 902 properties in Japan are certified by the programme.<sup>34</sup></p>

<sup>30</sup> U.S. Green Building Council "Green building leadership is LEED", at: <https://new.usgbc.org/leed>

<sup>31</sup> Institute for Building Environment and Energy Conservation, "Method of Evaluation and Built Environment Efficiency (BEE)", at: [http://www.ibec.or.jp/CASBEE/CASBEE\\_outline/method.html](http://www.ibec.or.jp/CASBEE/CASBEE_outline/method.html)

<sup>32</sup> Institute for Building Environment and Energy Conservation, "Display example of BELS (Japanese only)", at: [https://www.hyoukakyokai.or.jp/bels/pdf/170401bels\\_07.pdf](https://www.hyoukakyokai.or.jp/bels/pdf/170401bels_07.pdf)

<sup>33</sup> Development Bank of Japan, "DBJ Green Building", at: [http://www.dbj.jp/en/pdf/service/finance/g\\_building/gb\\_presentation.pdf](http://www.dbj.jp/en/pdf/service/finance/g_building/gb_presentation.pdf)

<sup>34</sup> Development Bank of Japan, Japan Real Estate Institute (JREI), "DBJ Green Building", at: <http://igb.jp/en/index.html>



## Appendix 4: Green Bond / Green Bond Programme - External Review Form

### Section 1. Basic Information

<b>Issuer name:</b>	Kyushu Railway Company
<b>Green Bond ISIN or Issuer Green Bond Framework Name, if applicable:</b>	Kyushu Railway Company Green Bond Framework
<b>Review provider's name:</b>	Sustainalytics
<b>Completion date of this form:</b>	February 24, 2021
<b>Publication date of review publication:</b>	

### 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 GBP:

- |  |  |
|--|--|
| <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 REVIEW PROVIDER

- |   |  |
|---|--|
| <input checked="" type="checkbox"/> Consultancy (incl. 2 <sup>nd</sup> opinion) | <input type="checkbox"/> Certification |
| <input type="checkbox"/> Verification   | <input type="checkbox"/> Rating        |
| <input type="checkbox"/> Other ( <i>please specify</i> ):                       |  |

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

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

Please refer to Evaluation Summary 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*):

The eligible categories for the use of proceeds Clean Transportation and Green Buildings, are aligned with those recognized by the GBP. Sustainalytics considers that the eligible categories will lead to positive environmental impacts and advance the UN Sustainable Development Goals, specifically SDGs 9 and 11.

#### 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  |
| <input type="checkbox"/> Unknown at issuance but currently expected to conform with GBP categories, or other eligible areas not yet stated in GBP | <input type="checkbox"/> Other ( <i>please specify</i> ):  |

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

## 2. PROCESS FOR PROJECT EVALUATION AND SELECTION

Overall comment on section (if applicable):

The Finance Department of JR Kyushu evaluates and selects candidate projects based on eligibility criteria for use of proceeds, and the Company's executive officer and general manager of the Finance and Accounting Department will make the final decision. Sustainalytics considers this process of JR Kyushu to be aligned with market practice.

#### 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**

- ☒ Evaluation / Selection criteria subject to external advice or verification
 ☐ In-house assessment
- ☐ Other (please specify):

**3. MANAGEMENT OF PROCEEDS**

Overall comment on section (if applicable):

The Finance Department of JR Kyushu will track and manage the allocation of the proceeds for each eligible project quarterly using an internal accounting system. Until the proceeds of the green bond are fully allocated to the eligible projects, the unallocated proceeds will be held in cash or cash equivalents. JR Kyushu's proceeds management process is aligned with market practice.

**Tracking of proceeds:**

- ☒ Green Bond proceeds segregated or tracked by the issuer in an appropriate manner
- ☒ Disclosure of intended types of temporary investment instruments for unallocated proceeds
- ☐ Other (please specify):

**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 (please specify):  |

**4. REPORTING**

Overall comment on section (if applicable):

JR Kyushu intends to report on allocation and environmental impacts of the proceeds annually on the Company's website. Allocation reporting will disclose the overview of eligible projects, amount of allocated and unallocated proceeds, expected timing of allocation and ratio of new finance and refinance. Impact reporting will include annual reduction in CO<sub>2</sub> emissions by introducing new-model train cars, progress of implementation of disaster prevention work, progress of green building certification acquisition and other relevant qualitative and quantitative impact metrics. Sustainalytics views the allocation and impact reporting of JR Kyushu as aligned with market practice.

**Use of proceeds reporting:**

- ☐ Project-by-project
 ☒ On a project portfolio basis

☐ Linkage to individual bond(s)

☐ Other (please specify):
**Information reported:**
☒ Allocated amounts

☐ Green Bond financed share of total investment

☒ Other (please specify): 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:**
☒ Annual

☐ Semi-annual

☐ Other (please specify):
**Impact reporting:**
☐ Project-by-project

☒ On a project portfolio basis

☐ Linkage to individual bond(s)

☐ Other (please specify):
**Information reported (expected or ex-post):**
☐ GHG Emissions / Savings

☒ Energy Savings

☐ Decrease in water use

☒ Other ESG indicators (please specify): The impact reporting will include, in addition to the overview of eligible projects, the number of train cars newly introduced in a year, reduction in CO<sub>2</sub> emission through introduction of new-model train cars, situation of damages due to natural disasters, progress of the implementation of disaster prevention works, overview of works in relation to maintenance, repair and renewal of railway-related facilities, and progress of installation of platform doors (number of stations with platform door installation completed/total number of stations), and progress of other railway-related infrastructure that has been maintained, renovated, or

upgraded, for clean transportation projects, and status of acquisition of certification (expected timing of acquisition and level of acquired certification), reduction in annual CO<sub>2</sub> emission, progress of revitalization of regions, mainly in Kyushu, through new buildings and urban development for green buildings

**Frequency**☒ Annual☐ Semi-annual☐ Other (please specify):**Means of Disclosure**☐ Information published in financial report☐ Information published in sustainability report☐ Information published in ad hoc documents☒ Other (please specify): JR Kyushu's website☐ Reporting reviewed (if yes, please specify which parts of the reporting are subject to external review):

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.)

**SPECIFY OTHER EXTERNAL REVIEWS AVAILABLE, IF APPROPRIATE****Type(s) of Review provided:**☐ Consultancy (incl. 2<sup>nd</sup> opinion)☐ Certification☐ Verification / Audit☒ Rating☐ Other (please specify):**Review provider(s):****Date of publication:****ABOUT ROLE(S) OF INDEPENDENT REVIEW PROVIDERS AS DEFINED BY THE GBP**

- i. 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.

- ii. **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.
- iii. **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.
- iv. **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.



## Disclaimer

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These are based on information made available by the issuer and therefore are not warranted as to their merchantability, completeness, accuracy, up-to-dateness or fitness for a particular purpose. The information and data are provided "as is" and reflect Sustainalytics' opinion at the date of their elaboration and publication. Sustainalytics accepts no liability for damage arising from the use of the information, data or opinions contained herein, in any manner whatsoever, except where explicitly required by law. Any reference to third party names or Third Party Data is for appropriate acknowledgement of their ownership and does not constitute a sponsorship or endorsement by such owner. A list of our third-party data providers and their respective terms of use is available on our website. For more information, visit <http://www.sustainalytics.com/legal-disclaimers>.

The issuer is fully responsible for certifying and ensuring the compliance with its commitments, for their implementation and monitoring.

This document is translated from the Japanese language. In case of discrepancies between the Japanese language and translated versions, the Japanese language version shall prevail.

## About Sustainalytics, a Morningstar Company

Sustainalytics, a Morningstar Company, is a leading ESG research, ratings and data firm that supports investors around the world with the development and implementation of responsible investment strategies. The firm works with hundreds of the world's leading asset managers and pension funds who incorporate ESG and corporate governance information and assessments into their investment processes. The world's foremost issuers, from multinational corporations to financial institutions to governments, also rely on Sustainalytics for credible second-party opinions on green, social and sustainable bond frameworks. In 2020, Climate Bonds Initiative named Sustainalytics the "Largest Approved Verifier for Certified Climate Bonds" for the third consecutive year. The firm was also recognized by Environmental Finance as the "Largest External Reviewer" in 2020 for the second consecutive year. For more information, visit [www.sustainalytics.com](http://www.sustainalytics.com).

### 5th Green Bond Pioneer Awards

Climate Bonds Initiative

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