

Third-party Opinion on K Line's Transition Link Finance Framework and Long-Term Loan

Japan Credit Rating Agency, Ltd. (JCR) submitted a third-party opinion to the Transition Link Loan (Arranger Bank: Mizuho Bank, Ltd., Transition Structuring Agent: Mizuho Securities Co., Ltd., Mizuho Bank, Ltd.), which was formed based on K Line ("K Line" or the "Company")'s Transition Link Finance Framework and Framework.

<Summary>

This third-party opinion confirmed the conformity of Transition Link Finance Framework (the "Framework") and Transition Link Loans originated under the Framework with respect to Climate Transition Finance Handbook ("CTFH")¹, Climate Transition Finance Basic Guidelines² ("CTF Basic Guidelines") (CTFH and CTF Basic Guidelines collectively, "CTFH, etc."), Sustainability Link Loan Principles (SLLP)³, Sustainability Link Bond Principles (SLBP)⁴, Green Loan and Sustainability Link Loan Guidelines ("Guidelines") (Guidelines for SLLP, SLBP and Ministry of the Environment, collectively, "SLLP, etc."). In order to ensure the transparency and objectivity of evaluations recommended by CTFH, etc., and SLLP, etc., JCR, as an independent third-party organization, conducted third-party evaluations of the follows: (1) K Line's transition strategy and its validity, (2) K Line's sustainability strategy and key performance indicators (KPIs) and the establishment of sustainability performance targets (SPTs), and (3) loan terms and the monitoring system during the period.^{1,2,3,4}

(1) K Line's Business Overview, Transition Strategy, and Its Appropriateness

K Line is a comprehensive logistics company centered on a shipping business established in 1919 as a separate entity from Kawasaki Dock-yard Co., Ltd. (current Kawasaki Heavy Industries, Ltd.), and is one of the three major domestic shipping companies. K Line and its consolidated subsidiaries (the "K" LINE Group") operate in the following three business segments: Dry Bulk, Energy Resources Transport, and Product Logistics. K Line boasts one of the largest fleets in the world in terms of car carriers, dry bulk carriers, and LNG carriers, and has an excellent customer base both domestically and overseas. On the other hand, among the major shipping companies, the scale of businesses other than oil tankers and marine transportation is small. In the fiscal year ending March 2021 (FY2020), sales by segment are as follows: Dry Bulk 29.1%, Energy Resources Transport 12.4%, and Product Logistics 54.3%.

In 2015, K Line announced its long-term environmental vision up to 2050 (the "K" LINE Environmental Vision 2050), ahead of the industry. It set a goal of halving CO₂ emissions and eliminating serious accidents. Since CO₂ reduction target set as a milestone for 2019, of "10% reduction of 2011 level by 2019," was achieved ahead of schedule in FY 2015, a new target of "25% reduction of CO₂ emission efficiency by 2030 (compared to 2011 level)" was set in June 2016. In June 2020, a revised version of "K" LINE Environmental Vision 2050 was announced. The 2030 Medium-Term Milestones and the 2050 Goals for low-carbonization are as follows:

- By 2030, improve CO₂ Emissions Efficiency (Volume of CO₂ emissions per unit transportation volume) by 50% compared to 2008.
- By 2050, reduce GHG emissions by half (improve CO₂ emissions by 70% compared to 2008)

¹ Established by International Capital Market Association (ICMA) in December 2020.

² Established by the Financial Services Agency, the Ministry of Economy, Trade and Industry, and the Ministry of the Environment in May 2021.

³ Revised in May 2021. Established by Loan Market Association (LMAs), Asia Pacific Loan Market Association (APLMA) and Loan Syndication and Trading Association (LSTA).

⁴ International Capital Market Association (ICMA) established in July 2020.

K Line achieved some of the goals of "K LINE Environmental Vision 2050, which was formulated in 2015, ahead of schedule in 2019. In response to this, the Company revised it and set a medium-to long-term target of "improving CO₂ emission efficiency by 50% compared to 2008," a medium-term milestone for 2030. Along with the 2050 goal of halving total GHG emissions, a number of specialized groups have been established and implemented directly under the Executive Committee to promote action plans aimed at achieving the target.

K Line has already introduced LNG-fueled car carrier (Century Highway Green) and other LNG-fueled vessels, and has implemented economically safe operations by introducing Kawasaki-Integrated Maritime Solutions "K-IMS." As of 2020, CO₂ emission efficiency had been reduced by 38% compared to 2008. The Company also plans to introduce Seawing, an automated kite system jointly developed with Airseas SAS, a subsidiary of Airbus SE in Europe, in the near future.

The Company plans to invest JPY100 billion yen over five years from 2021. The plan calls for investments of 25 billion yen in environmental technology, 10 billion yen in new projects that contribute to low-carbonization, and 500-70 billion yen in alternative fuel-fired vessels such as LNG fuel. Through these investments, it plans to invest in new technologies and projects related to alternative fuels and carbon degeneration in order to achieve its goals for 2030 and 2050.

JCR evaluates that the above transition strategies and specific policies satisfy the four elements of CTFH, etc. K Line 's Transition Strategy is higher than the international target, and the formulation of investment plans for the next five years is also evaluated as increasing transparency.

(2) K Line's Sustainability Strategy and Setting of KPIs and SPTs

K Line has confirmed by JCR that the following KPIs and SPTs will be set in the Individual Transition Linked Loans and/or Transition Linked Bonds (collectively, the "Finance") implemented under the Framework.

KPI1: Annual total GHG emissions during the full term of the Finances

SPT1: Linearly interpolated reduction target of 50% compared to 2008 by 2050 and setting targets for each fiscal year

KPI2: Annual CO₂ emissions per ton-mile over the entire Finance period

SPT2: Linear interpolation of 50% reduction target compared to 2008 by 2030 and setting annual targets

KPI3: CDP evaluation⁵

SPT3: Maintenance of a rating of A- or higher

In this financing, K Line set two of the above themes set in "K" LINE Environmental Vision 2050, CO₂ emission efficiency and total GHG emissions as KPIs, and set SPTs for each fiscal year for each KPI by linear interpolation from the goals for 2030 and 2050.

All of the above KPIs are consistent with the targets set by the International Maritime Organization (IMO). Regarding SPTs, the details set by K Line for the target year of 2030 and 2050, are equal to (for 2050) or higher than the numerical targets set by the IMO (for 2030). In addition, JCR evaluates this as a meaningful and ambitious target setting because that it establishes targets for CO₂ emissions efficiency and GHG emissions for each fiscal year by linearly interpolating from the target values for 2030 and 2050 and requires the achievement of targets each year.

Moreover, K Line established the CDP Climate Change Score as a KPI, and the lending conditions were linked to the achievement status. The CDP conducts and publishes scores of responses submitted by corporates as independent third-parties with the purpose of motivating companies to disclose their impacts on the environment and natural resources and take actions to reduce negative impacts. According to the CDP Climate Change Report 2020, a survey of Japanese companies sent questionnaires mainly to 500 companies ("Japan 500") selected based on companies that fall under FTSE Japan Index. The total number of companies responding was 327 among Japan 500 selected companies and 375 including companies that did not fall under Japan 500. As for the distribution of scores among respondent companies in Japan 500, A is 16%, A-is 21%, and B is 30%. Maintaining A-or higher, therefore, is aiming for the top 37%, and is a target setting with a relative degree of ambition. K Line has been rated "A" for five consecutive years from 2016 to 2020, and only four Japanese companies have been rated A for five consecutive years. Since responding to CDP

⁵ The CDP is a non-governmental organization (NGO) administered by a charitable organization in the United Kingdom that operates a global disclosure system for investors, corporates, nations, regions, and cities to manage their environmental impacts. Since its inception in 2000, the company has worked to improve engagement with global environmental issues. Japan has been active since 2005. (Source: CDP website <https://japan.cdp.net/>)

questions every year and continuing to obtain the highest evaluation will place a considerable impact on the organizational structure and sustainability promotion system, etc., it is an ambitious and meaningful target setting for K Line to continue to acquire "A-" or higher as an SPT in the future.

(3) Finance Terms and Monitoring System During the Period

On the content of the incentives in the financing terms, JCR confirmed that the monitoring of the impact indicator is scheduled to be announced once a year as soon as the score results are received by K Line, and that the final degree of sustainability achievement is also scheduled to be announced when the redemption or repayment date is due. In addition, K Line and JCR will conduct a review of this financing when it matures or becomes due, and assess the status of achievement of SPTs as well as the status of development of the impact on K Line and the public. JCR also confirmed that the system is in place to acquire third-party verification of GHG emissions related to SPTs^{1, 2} every year.

Based on the above considerations, JCR confirmed that this financing for K Line, which is the subject of the third-party opinion, conforms to CTFH, etc. and SLLP, etc.

*Please refer to the following pages for details of the opinions.

Third-Party Opinions

Evaluated by: Transition Link Finance Framework
Borrower and Issuer: Kawasaki Kisen Kaisha, Ltd.

September 6, 2021
Japan Credit Rating Agency, Ltd.

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<Summary>

This third-party opinion confirmed the conformity of the Transition Link Finance Framework (the Framework) formulated by Kawasaki Kisen Kaisha, Ltd. with the Climate Transition Finance Handbook (CTFH), the Basic Guidelines for Climate Transition Finance (CTF Basic Guidelines) (CTFH and CTF Basic Guidelines collectively, CTFH, etc.), the Sustainability Link Loan Principles (SLLP), the Sustainability Link Bond Principles (SLBP), the Green Loan and Sustainability Link Loan Guidelines (Guidelines for SLLP, SLBP and the Ministry of the Environment, collectively, "SLLP, etc."). In order to ensure the transparency and objectivity of evaluations recommended by CTFH, etc., and SLLP, etc., Japan Credit Rating Agency, Ltd. (JCR), as an independent third-party organization, conducted third-party evaluations of (1) Kawasaki Kisen Kaisha's transition strategy and its validity, (2) Kawasaki Kisen Kaisha's sustainability strategy and key performance indicators (KPIs) and the establishment of sustainability performance targets (SPTs), and (3) Terms of the loan and the monitoring system during the period.¹²³⁴

(1) Overview of Kawasaki Kisen Kaisha, Ltd.'s Business, Transition Strategy, and Its Appropriateness

K Line is a comprehensive logistics company centered on a shipping business established in 1919 as a separate entity from Kawasaki Dock-yard Co., Ltd. (current Kawasaki Heavy Industries, Ltd.), and is one of the three major domestic shipping companies. K Line and its consolidated subsidiaries (the "K" LINE Group") operate in the following three business segments: Dry Bulk, Energy Resources Transport, and Product Logistics. K Line boasts one of the largest fleets in the world in terms of car carriers, dry bulk carriers, and LNG carriers, and has an excellent customer base both domestically and overseas. On the other hand, among the major shipping companies, the scale of businesses other than oil tankers and marine transportation is small. In the fiscal year ending March 2021 (FY2020), sales by segment are as follows: Dry Bulk 29.1%, Energy Resources Transport 12.4%, and Product Logistics 54.3%.

In 2015, K Line announced its long-term environmental vision up to 2050 (the "K" LINE Environmental Vision 2050), ahead of the industry. It set a goal of halving CO₂ emissions and eliminating serious accidents. Since CO₂ reduction target set as a milestone for 2019, of "10% reduction of 2011 level by 2019," was achieved ahead of schedule in FY 2015, a new target of "25% reduction of CO₂ emission efficiency by 2030 (compared to 2011 level)" was set in June 2016. In June 2020, a revised version of "K" LINE Environmental Vision 2050 was announced. The 2030 Medium-Term Milestones and the 2050 Goals for low-carbonization are as follows:

- By 2030, improve CO₂ Emissions Efficiency (Volume of CO₂ emissions per unit transportation volume) by 50% compared to 2008.
- By 2050, reduce GHG emissions by half (improve CO₂ emissions by 70% compared to 2008)

K Line achieved some of the goals of "K LINE Environmental Vision 2050, which was formulated in 2015, ahead of schedule in 2019. In response to this, the Company revised it and set a medium-to long-term target of "improving CO₂ emission efficiency by 50% compared to 2008," a medium-term milestone for 2030. Along with the 2050 goal

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of halving total GHG emissions, a number of specialized groups have been established and implemented directly under the Executive Committee to promote action plans aimed at achieving the target.

K Line has already introduced LNG-fueled car carrier (Century Highway Green) and other LNG-fueled vessels, and has implemented economically safe operations by introducing Kawasaki-Integrated Maritime Solutions "K-IMS." As of 2020, CO₂ emission efficiency had been reduced by 38% compared to 2008. The Company also plans to introduce Seawing, an automated kite system jointly developed with Airseas SAS, a subsidiary of Airbus SE in Europe, in the near future.

The Company plans to invest JPY100 billion yen over five years from 2021. The plan calls for investments of 25 billion yen in environmental technology, 10 billion yen in new projects that contribute to low-carbonization, and 500-70 billion yen in alternative fuel-fired vessels such as LNG fuel. Through these investments, it plans to invest in new technologies and projects related to alternative fuels and carbon degeneration in order to achieve its goals for 2030 and 2050.

JCR evaluates that the above transition strategies and specific policies satisfy the four elements of CTFH, etc. K Line's Transition Strategy is higher than the international target, and the formulation of investment plans for the next five years is also evaluated as increasing transparency.

(2) K Line's Sustainability Strategy and Setting of KPIs and SPTs

K Line has confirmed by JCR that the following KPIs and SPTs will be set in the Individual Transition Linked Loans and/or Transition Linked Bonds (collectively, the "Finance") implemented under the Framework.

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KPI2: Annual CO₂ emissions per ton-mile over the entire Finance period

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KPI3: CDP evaluation⁵

SPT3: Maintenance of a rating of A- or higher

In this financing, K Line set two of the above themes set in "K" LINE Environmental Vision 2050, CO₂ emission efficiency and total GHG emissions as KPIs, and set SPTs for each fiscal year for each KPI by linear interpolation from the goals for 2030 and 2050.

All of the above KPIs are consistent with the targets set by the International Maritime Organization (IMO).

Regarding SPTs, the details set by K Line for the target year of 2030 and 2050, are equal to (for 2050) or higher than the numerical targets set by the IMO (for 2030). In addition, JCR evaluates this as a meaningful and ambitious target setting because that it establishes targets for CO₂ emissions efficiency and GHG emissions for each fiscal

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year by linearly interpolating from the target values for 2030 and 2050 and requires the achievement of targets each year.

Moreover, K Line established the CDP Climate Change Score as a KPI, and the lending conditions were linked to the achievement status. The CDP conducts and publishes scores of responses submitted by corporates as independent third-parties with the purpose of motivating companies to disclose their impacts on the environment and natural resources and take actions to reduce negative impacts. According to the CDP Climate Change Report 2020, a survey of Japanese companies sent questionnaires mainly to 500 companies ("Japan 500") selected based on companies that fall under FTSE Japan Index. The total number of companies responding was 327 among Japan 500 selected companies and 375 including companies that did not fall under Japan 500. As for the distribution of scores among respondent companies in Japan 500, A is 16%, A-is 21%, and B is 30%. Maintaining A-or higher, therefore, is aiming for the top 37%, and is a target setting with a relative degree of ambition. K Line has been rated "A" for five consecutive years from 2016 to 2020, and only four Japanese companies have been rated A for five consecutive years. Since responding to CDP questions every year and continuing to obtain the highest evaluation will place a considerable impact on the organizational structure and sustainability promotion system, etc., it is an ambitious and meaningful target setting for K Line to continue to acquire "A-" or higher as an SPT in the future.

(3) Finance Terms and Monitoring System During the Period

On the content of the incentives in the financing terms, JCR confirmed that the monitoring of the impact indicator is scheduled to be announced once a year as soon as the score results are received by K Line, and that the final degree of sustainability achievement is also scheduled to be announced when the redemption or repayment date is due. In addition, K Line and JCR will conduct a review of this financing when it matures or becomes due, and assess the status of achievement of SPTs as well as the status of development of the impact on K Line and the public. JCR also confirmed that the system is in place to acquire third-party verification of GHG emissions related to SPTs^{1, 2} every year.

Based on the above considerations, JCR confirmed that this financing for K Line, which is the subject of the third-party opinion, conforms to CTFH, etc. and SLLP, etc.

I. Positioning and Purpose of Third-party Opinions

JCR conducted a third-party evaluation of the Finance in line with CTFH, etc. and SLLP, etc. CTF refers to a financial method aimed at supporting the efforts of corporates considering measures to combat climate change when they are making efforts to reduce greenhouse gases in accordance with long-term strategies toward the realization of a carbon-free society. SLLs and SLBs are loan products, lines of credit, and other credit facilities or bonds that are designed to help issuers, borrowers, and lenders or investors realize a sustainable society by incentivizing issuers and borrowers to achieve ambitious SPTs set in advance.

CTFH consists of the following four Elements: Element 1 is Issuer's climate transition strategy and governance; Element 2 is Business Model Environmental Materiality; Element 3 is Climate Transition Strategy to be 'science-based' including targets and pathways; and Element 4 is Implementation Transparency.

SLLP, etc. consists of the following five Principles: Principle 1 is the selection of KPIs; Principle 2 is the calibration of SPTs; Principle 3 is the loan characteristics; Principle 4 is reporting; and Principle 5 is verification. The purpose of this third-party opinion is to ensure the transparency and objectivity of the evaluation recommended by the Basic Guidelines on CTF, SLLP and SLBP Principle 5 by JCR, as an independent third-party, to verify the Finance's conformity with SLLP, SLBP Principles 1 through 5 and the Guidelines, as well as to verify its conformity with CTFH four Elements and the Basic Guidelines on CTF.

II. Outline of the Subjects of Third-Party Opinion

The subjects of this evaluation is the Transition Link Finance Framework prepared by K Line in September 2021. The following are the endpoints included in this Third-Party Opinion.

1. Relationship of Finance with sustainability
2. K Line's Medium-to Long-Term Management Plan and Transition Strategy
3. Consistency with items required in CTFH
4. Consistency with SLLP, etc. (Principle 1): Appropriateness of KPIs selection
5. Consistency with SLLP, etc. (Principle 2): Measuring SPTs
6. Consistency with SLLP, etc. (Principle 3): Characteristics of loans and bonds (economic conditions)
7. Consistency with SLLP, etc. (Principle 4): Reporting and verification
8. Conclusions on suitability with CTFH, etc. and SLLP, etc.

III. Confirmation of conformity with SLLP, etc., Such as CTFH of the Finance

1. Relationship of the Finance with Sustainability

K Line set the following three KPIs and SPTs related to its materiality-focused efforts in financing under the Transition Link Finance Framework. The matter of KPIs and SPTs are one of the most critical issues in the Company's sustainability strategy, as detailed in the following section:

KPI1: Annual Total GHGs emission during the Full Term of Financing

SPT1: Linear interpolation of reduction target of 50% compared to 2008 by 2050 and setting targets for each fiscal year.

KPI2: Annual CO₂ emissions per tonne-mile over the entire financed finance period

SPT2: Linear interpolation of 50% ▲ reduction target compared to 2008 by 2030 and setting annual targets.

2. K Line's Medium-to Long-Term Management Plan and Transition Strategy

<Business Overview>

K Line is a comprehensive logistics company centered on a shipping business established in 1919 as a separate entity from Kawasaki Dock-yard Co., Ltd. (current Kawasaki Heavy Industries, Ltd.), and is one of the three major domestic shipping companies. K Line and its consolidated subsidiaries (the "K" LINE Group") operate in the following three business segments: Dry Bulk, Energy Resources Transport, and Product Logistics. K Line boasts one of the largest fleets in the world in terms of car carriers, dry bulk carriers, and LNG carriers, and has an excellent customer base both domestically and overseas. On the other hand, among the major shipping companies, the scale of businesses other than oil tankers and marine transportation is small. In the fiscal year ending March 2021 (FY2020), sales by segment are as follows: Dry Bulk 29.1%, Energy Resources Transport 12.4%, and Product Logistics 54.3%.

In 2015, K Line announced its long-term environmental vision up to 2050 (the "K" LINE Environmental Vision 2050), ahead of the industry. It set a goal of halving CO₂ emissions and eliminating serious accidents. Since CO₂ reduction target set as a milestone for 2019, of "10% reduction of 2011 level by 2019," was achieved ahead of schedule in FY 2015, a new target of "25% reduction of CO₂ emission efficiency by 2030 (compared to 2011 level)" was set in June 2016. In June 2020, a revised version of "K" LINE Environmental Vision 2050 was announced. The 2030 Medium-Term Milestones and the 2050 Goals for low-carbonization are as follows:

- By 2030, improve CO₂ Emissions Efficiency (Volume of CO₂ emissions per unit transportation volume) by 50% compared to 2008.
- By 2050, reduce GHG emissions by half (improve CO₂ emissions by 70% compared to 2008)

<Rolling Planning for Medium-Term Management Plan>

K Line announced the Medium-Term Management Plan in August 2020. This Medium-Term Management Plan describes the policy that K Line should aim for toward the mid-2020s, and rolls the plan every year. In the theme of the management plan for FY2021, one of the themes is "a company that continues to be selected by all stakeholders by refining technologies for new reductions in environmental impact" and "aiming to be selected by all stakeholders by honing new environmental technologies for environment burden reduction."

As part of its "commitment to decarbonization and sustainability management," the Company has announced that, within its specific initiatives, it will implement mid-term milestones for 2030 and achieve the targets for 2050, as goal years set in the "K" LINE Environmental Vision 2050. These include the completion of LNG-fired automobile carriers, LNG-fired fuel-supplying vessels, the expansion of K-IMS implementation, and the launch of HySTRA.⁶

[Roadmap for growth strategy based on "K" LINE Sustainability Management]

Initiatives	<p>2030's Target of Environmental vision</p> <ul style="list-style-type: none"> • Making progress toward our goal of 50% improvement in CO2 emission by 2030, through introduction in LNG-fueled vessels, bunker-saving equipment, fine-tuning of operations, and use of bigger-size vessel 	<p>2050's Target of Environmental vision</p> <ul style="list-style-type: none"> • Decarbonization • Promote zero emissions minimizing environment impact
	<p>Initiative by Project Team reporting directly to CEO</p> <ul style="list-style-type: none"> • Develop next-generation automation ship navigation system • R&D alternative fuel and fuel supply ⇒Promoted to formal internal committee (FY2021) • Onboard work-style reform 	<p>Expand safety, environment, service-quality initiatives</p> <ul style="list-style-type: none"> • Implementation of Seawing • Conduct CCS demonstration trial
	<p>Promote ongoing R&D Projects at present</p> <ul style="list-style-type: none"> • Delivery of LNG-Fueled Digital Flagship Car Carriers • FuelLNG(*) • LNG Bunkering Vessel in Ise-Bay • Expand Kawasaki - Integrated Maritime Solutions implementation • Start CO2-free hydrogen supply chain HySTRA 	<ul style="list-style-type: none"> • Promoting trials and implementation of next-generation ship-to-shore communication systems • Improving ship-to-shore video communications • Building and maintaining onboard cyber security

(Source: "K" LINE Management Plan, Rolling Plan)

<Basic Philosophy and Action Guidelines>

The "K" LINE Group is aware that its business activities have an impact on the global environment, and its determination is made in the Environmental Policy in order to minimize this impact.

⁶CO₂-free Hydrogen Energy Supply-chain Technology Research Association.

The association working towards creating a CO₂ free hydrogen energy supply chain comprised of hydrogen production effectively utilizing brown coal, transportation, storage and utilization of hydrogen, and establishing and demonstrating the technologies to commercialize the supply chain around 2030. <http://www.hystra.or.jp/>

"K" LINE Group Environmental Policy

Core Concept

The "K" LINE Group recognizes that addressing environmental issues is a common issue for all mankind, and we will contribute to the realization of a sustainable society by acting on our own initiative to reduce the.

Conduct Guidelines

1. We are setting objectives and targets for environmental preservation and making improvements on an ongoing basis to reduce the impact on the environment from our business activities. Furthermore, we are complying with all environmental treaties, laws and regulations as well as policies and voluntary standards to which the "K" LINE Group has consented.
2. We are striving to protect the global and marine environment through fleet-wide implementation of safe operation practices and are establishing the organizations and structures necessary for such implementation.
3. We are promoting research, development and introduction of ship facilities and equipment to improve ship energy efficiency and operating efficiency, which results in reduction of greenhouse gas emissions and the prevention of atmospheric pollution.
4. In consideration of biodiversity, we are maintaining an awareness of the impact that the transport of ballast water and living organisms that attach to ship hulls have on ecosystems and working to protect those ecosystems.
5. We are contributing to establish a recycle-based society by promoting the 3Rs (reduce, reuse and recycle) and promoting the effective re-use of resources, including ship recycling.
6. The entire "K" LINE Group is and will continue to support and participate in social contribution activities intended to protect the environment.
7. We are conducting education and training programs to elevate awareness and understanding of environmental preservation issues among each member of the entire "K" LINE Group.













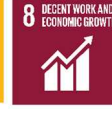







<Materiality (Material Issues)>

K Line regards its own sustainability management as two major frameworks: "Managing the impact of business activities" and "Creating new values." It has identified 23 material issues and is working on Building a management structure that emphasizes social responsibility" based on them. Among the material issues, "environmental preservation," "safety operation," and "human resource development" are identified as the most priority issues. Therefore, the transition strategy is a core issue in the Company's sustainability strategy. In 2014, in order to identify relevant themes, K Line invited outside experts (representatives of NPO corporations on environmental management and university professors specializing in safety and crisis

management) and hold stakeholder dialogues with (then) executive officers in charge of safety, the environment, and human resources. Thereafter, K Line identified material issues (materiality) for internal and external stakeholders, broadly reflecting the opinions of diverse stakeholders.

Subsequently, the CSR Activity Targets are set annually as single-year targets with respect to the identified materiality. In 2017, K Line reconciled the SDG's 17 goals adopted by the United Nations in 2015 with CSR activity targets.

["K" LINE Group's Materiality Related to the Environment]

Key Issues	Important Issue	Related SDGs
Safety in navigation and cargo operations	Preventing major accidents	  
Innovation	New value proposals through reduction of environmental burden and improvement of service quality	      
Environmental preservation	Reinforcing environmental management Environment-friendly business activities	         

(Source: JCR extracts the most important issues related to KPIs from the K Line website)

<Targets and Results Established for the Environment>

K Line formulated the "K" LINE Environmental Vision 2050 and has set long-term targets for the period until 2050. In "K" LINE Environmental Vision 2050, the mid-term milestone for 2030 is to improve CO₂ emission efficiency by 50% compared to 2008 and to halve the total GHG emissions compared to 2008 as the goal for 2050. K Line formulated the "K" LINE Environmental Vision 2050" in 2015. "K" LINE Environmental Vision 2050 sets out "to halve CO₂ emissions" and "Zero major accidents." In doing so, the Company set "10% reduction of CO₂ emissions by 2019 compared to 2011" as a milestone for 2019. Since the 2019 milestone was achieved ahead of schedule, in June 2016, it newly set a CO₂ emission rate of 25% (compared to 2011) by 2030. In June 2020, a revised version of the "K" LINE Environmental Vision was announced, and targets for carbon neutrality were set as described above. As shown in the table below, this target is more ambitious relative to the GHG emission reduction targets of the International Maritime Organization (IMO). In 2020, CO₂ emission rate

improved by 38% compared to the target of 50%. The Company also aims to achieve the following CO₂ reduction targets, for which it acquired SBT certification in 2017, together with the above targets.

- Improve CO₂ emissions by 25% by 2030 compared to 2011

GHG emission reduction targets announced by IMO are as follows:

Goal	K Line	IMO
In 2030	Greenhouse gas ("GHG") emission efficiency 25% improvement compared to 2011	—
	CO ₂ emission efficiency 50% improvement compared to 2008	CO ₂ emission efficiency 40% improvement Compared to 2008
By 2050	Total GHG emissions 50% reduction	Total GHG emissions 50% reduction
	CO ₂ emission efficiency 70% improvement compared to 2008	CO ₂ emission efficiency 70% improvement compared to 2008

[Overview of GHG Emission Reduction Strategy]

In April 2018, the IMO's 72nd Marine Environmental Protection Commission ("MEPC72") formulated the following medium-and long-term targets for GHG reductions with 2008 as the base year.

- 1) Reduce CO₂ emissions per transport work, as an average across international shipping, by at least 40% by 2030
 - 2) Reduce the total annual GHG emissions by at least 50% by 2050
 - 3) Reducing GHG emissions from international shipping to phase them out as soon as possible in this century
- Improvement targets for 2030 have been established based on analyses of scientific feasibility, including from analyses of technological feasibility and the effectiveness of EEDI regulations. This reflects the results of the following proposals from Japan in the IMO's discussion.

- A combination of 17% improvement in efficiency due to improved fuel efficiency of newly built vessels through EEDI controls and 28% improvement in efficiency due to improved operations such as slowdown operations and route optimization ($0.83 \times 0.72 = 0.60$)

Global warming countermeasures are discussed in the United Nations Framework Convention on Climate Change ("UNFCCC"). Regarding countermeasures against GHG emissions from international shipping activities that transcend national boundaries, it is difficult to distinguish between ship nationalities and countries in operation, and they do not fall within the framework of country-specific measures to reduce global warming in UNFCCC, and therefore their deliberation is entrusted to IMOs, which are specialized agencies of the United

Nations.

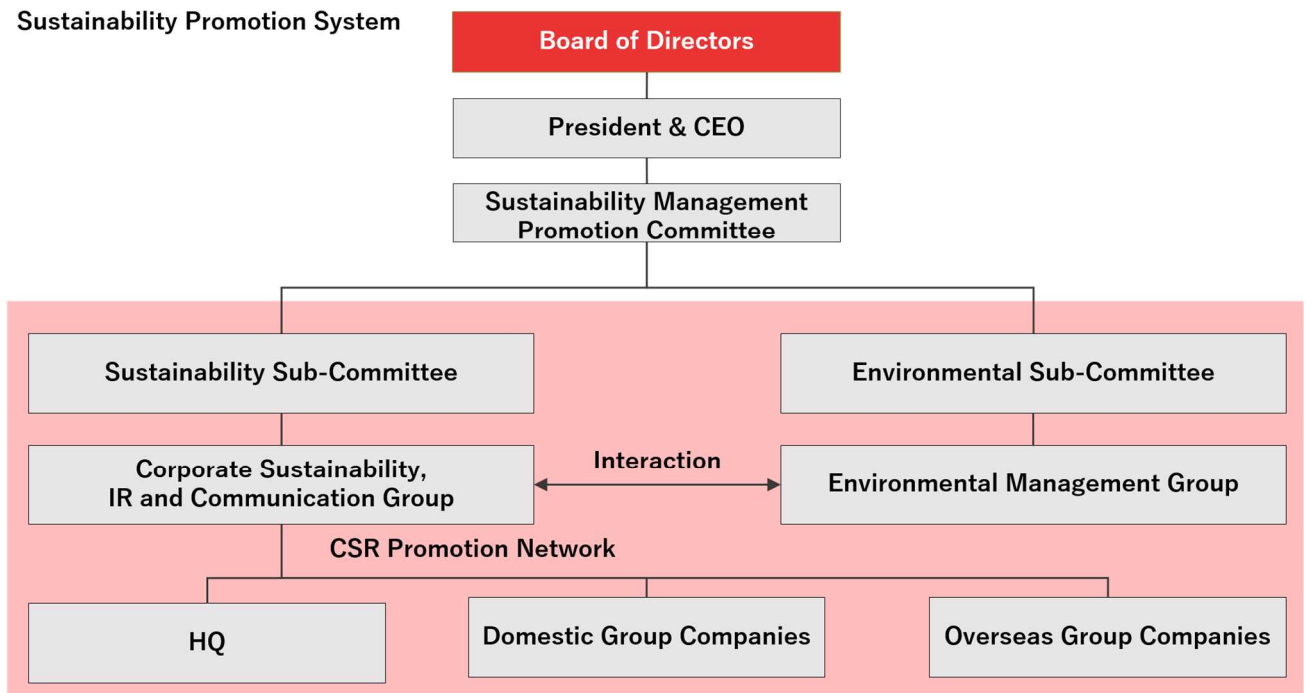
With regard to setting medium-and long-term goals for K Line, quantitative targets have also been set based on the IMO's GHG emission reduction strategy described above.

K Line has already introduced LNG-fueled car carrier (Century Highway Green) and other LNG-fueled vessels, and has implemented economically safe operations by introducing Kawasaki-Integrated Maritime Solutions "K-IMS." As of 2020, CO2 emission efficiency had been reduced by 38% compared to 2008. The Company also plans to introduce Seawing, an automated kite system jointly developed with Airseas SAS, a subsidiary of Airbus SE in Europe, in the near future.

<Sustainability Promotion System>

With regard to the K Line's Sustainability Promotion System, in order to ensure the promotion of environmental initiatives in line with the Environmental Policy, K Line have established the Sustainability Management Promotion Committee, chaired by the President, and established the Sustainability Sub-Committee and the Environmental Sub-Committee as subordinate organizations to deliberate and formulate the Group's Sustainability Promotion System. The Environmental Sub-Committee meets twice a year. Top management, environmental managers from each division within the Company, environmental officers, and deputy environmental officers gather together to formulate the Group's basic plans and targets for environmental prevention, evaluate achievements and results, and reconfirm and review targets. In addition, in order to promote concerted efforts by all the people who work in the Group, it holds a Group Environmental Liaison Meeting every year as a forum for the Group companies to gather together to share awareness of the current status of environmental issues and exchange opinions.

Sustainability Promotion System



(Source: K Line Website)

3. Consistency with items required in the Climate Transition Finance Handbook

3-1. Element 1: Issuer's climate transition strategy and governance

Whether the issuer, etc. that raises funds has a strategy for the transition for climate change mitigation or not.

K Line has set a mid-term milestone of improving CO₂ emission efficiencies by 50% in 2030 and a goal of halving total GHG emissions by 2050 in the "K" LINE Environmental Vision 2050. In order to achieve the mid-term milestone in 2030, the Company is implementing the following specific initiatives:

- Introduction of next-generation environment-friendly LNG-fueled car carriers (Century Highway Green), etc.
- Promoting Optimal Operations through Kawasaki-Integrated Maritime Solutions "K-IMS"
- Introduction of automated kite system "Seawing" that uses renewable energy

In the GHG emission reduction measures aimed by IMO regulations, "Roadmap to Zero Emissions from International Shipping" formulated by Ministry of Land, Infrastructure, Transport and Tourism ("MLIT"), and the "Green Growth Strategy Through Achieving Carbon Neutrality in 2050" of the Japanese government, scenarios for the transition from LNG fuel to carbon recycled methane are also being examined in the scenarios of utilizing fuels and technologies that meet the numerical targets of IMO GHG reduction strategy.

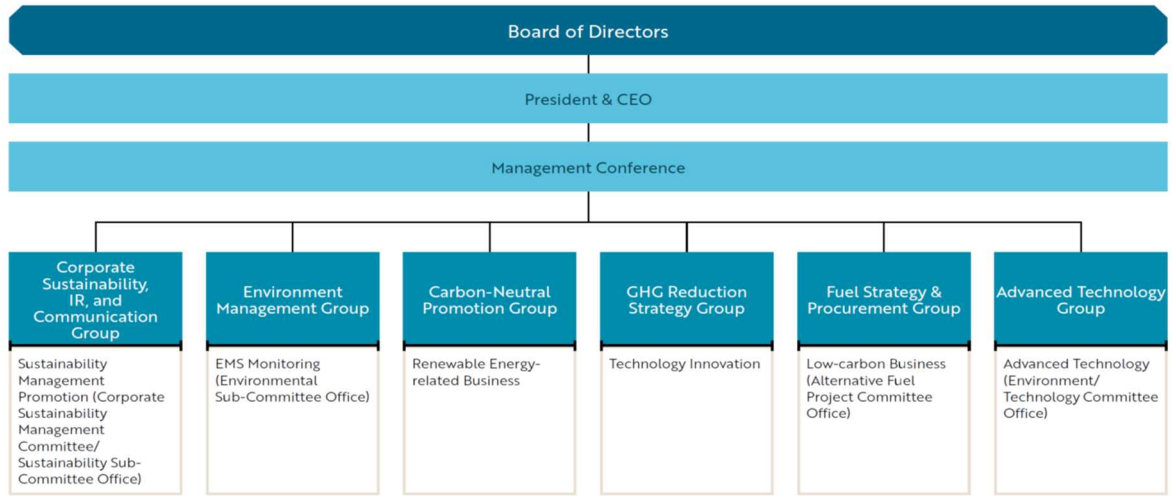
- (1) Using "Transition" label in procuring funds leads to contribute to realization of issuer's corporate strategies to move to a business model that can effectively address climate change-related risks and contribute to the achievement of the goals of the Paris Agreement.

K Line independently conducts risk scenario analysis when temperature rises by 2 or 4 degrees Celsius, and refers the results to when setting targets. K Line aims to reduce CO₂ at a higher level than the IMO's GHG emission reduction strategy based on risk scenario-analysis assuming that it contributes to the 2-Degrees Scenario of the Paris Agreement. In addition, for the 2030 target, with 2011 as the base year, the Company has obtained SBTi.

- (2) The Governance system that ensure the effectiveness of the transition strategies.

In addition to the sustainability promotion system, K Line has established the following governance system to ensure the effectiveness of the action plan for achieving the Environmental Vision 2050. JCR has evaluated that it has established a number of specialized groups for each theme, and that it has an excellent degree of disclosure of the matters under its jurisdiction and its members, etc.

[Governance system to achieve "K" LINE's Environmental Vision 2050]



(Source: K Line Transition Link Finance Framework)

The businesses in charge of each organization are as follows:

Corporate Sustainability, IR, and Communication Group	Integrates the existing CSR/IR/PR functions to promote communication with stakeholders inside and outside the Group, as the driving force behind sustainability management.
Environment Management Group	Manages “K” LINE’s environmental strategies in an integrated manner, formulates comprehensive strategies and a road map for realizing environmental management, and implements specific measures reduce the environmental impact.
Carbon-Neutral Promotion Group	<p>The demand for carbon-neutral businesses is increasing. This includes businesses related to renewable energy, including offshore wind power, the carbon capture, use and storage (CCUS) businesses, the fuel conversion (LNG value chain) businesses, and the emissions trading system.</p> <p>Promotes business development to achieve net-zero CO2 emissions in collaboration with relevant internal organizations and affiliated companies to respond to these trends and launch businesses as soon as possible.</p>
GHG Reduction Strategy Group	Supervises the technical aspects of next-generation environmental vessel strategies, with GHG reduction as the focus. Engages in research and implementation of GHG reduction initiatives, such as new fuels, including ammonia and hydrogen, electric propulsion (EV), carbon capture and storage (CCS), and methanation. Also

	<p>promotes the introduction of LNG fueled vessels, which are in the practical stage of development.</p>
<p>Fuel Strategy & Procurement Group</p>	<p>Carries out procurement of fuel oil, LNG fuel, and lubricating oil to ensure safe navigation and cargo operations of “K” LINE and “K” LINE Group companies and improve earnings. Also examines and drafts basic policies for new fuel compatibility aimed at reducing greenhouse gases and CO2 emissions in the future.</p>
<p>Advanced Technology Group</p>	<p>Promotes the examination and development of innovative technology that contributes to improving ship safety and economic efficiency and reducing environmental impact. Also carries out appropriate energy management for chartered ships and vessels controlled by “K” LINE and formulates and implements specific measures to reduce fuel consumption.</p>

(Source: K Line Transition Link Finance Framework)

3-2. Element 2: Business model environmental materiality

According to International Maritime Organization (IMO), CO₂ emissions from the shipping industry amounted to approximately 800 million tons, or 2.2% of the global total, as of 2012. For the international shipping industry, it is an essential to have a business form in which IMO plays a central role in working to prevent pollution, such as the carbon decarbonization strategy. More than 95% of K Line's business segments are marine transportation related to Dry Bulk, Energy Resources Transport and Product Logistics. In its core business, efforts to decarbonization in vessels are positioned as an important issue. JCR believes that efforts to decarbonization are an essential part of the Company's efforts, as customers' standards for selecting vessels also are becoming to include the reduction of environmental impact as a consideration factor.

3-3. Element 3: Climate transition strategy to be science-based including targets and pathways

Issuer's climate strategy should reference science-based targets and transition pathways. The planned transition trajectory should,

- (1) SCOPE1 and 2 that are quantitatively measurable. (it is desirable that SCOPE 3 should be set as a target to the extent feasible)

K Line has measured CO₂ emissions and obtained third-party certification. The figures covered cover 97% of SCOPE 1, and as SCOPE 1 accounts for 95% of SCOPE1+2, hence, JCR see it as almost cover SCOPE 1, 2. SCOPE 3 is not included in the target setting, but they measure figures.

- (2) be aligned with, benchmarked or otherwise referenced to recognized, science-based trajectories where such trajectories exist

K Line received Science Based Target ("SBT") certification from Science Based Targets initiative ("SBTi") for a goal of improving CO₂ emissions ratios by 25% in 2030 compared to 2011.

Medium-and long-term targets for CO₂ reduction compared to 2008 level is as same level as the IMO's, and the targets were set with scientific and technical grounds at the time of formulation. In order to realize IMOs' GHG reduction strategies, the Global Maritime GHG Zero Emissions Project Team, led by the Ministry Land, Infrastructure, Transport and Tourism of Japan (MLIT), is considering concrete measures by combining a number of technologies and elements, such as fuels, speeds, designs and CO₂ capture, based on estimates of marine transport volume by ship category and ship style by 2050 (estimates of oil and gas consumption on land which are based on climate-projected scenarios (RCP4.5) for tankers and liquefied gas carriers; and based on economic growth estimates, etc. for other ships). K Line's targets are higher than the IMO's targets by adding its specific decarbonization initiatives. Thus, K Line's target for reducing CO₂ using 2008 as the base year, is also set based on scientific grounds.

- (3) Be Publicly disclosed ((ideally in mainstream financing filings), include interim milestones)

"K" LINE Environmental Vision 2050 is published, which includes mid-point, mid-term milestones for 2030.

- (4) be supported by independent assurance or verification

From SBTi, the following objectives are certified as SBT -> "25% reduction in CO₂ emissions by 2030 compared to 2011 "

Third-party certification for actual CO₂ emissions is obtained.

3-4. Element 4: Implementation Transparency

At K Line, the Rolling Planning discloses a plan for investing in the next five years to achieve the "K" LINE Environmental Vision 2050. The total amount of the plan is about JPY 100.0 billion over five years. The plan calls for investments of JPY 25.0 billion in environmental technology development, JPY 10.0 billion in new business contributing to low carbon, and from JPY 50.0 to 70.0 billion in vessels using alternative fuels such as LNG fuel. Through these investments, K Line plans to invest in new technologies and projects related to alternative fuels and decarbonization in order to achieve its goals for 2030 and 2050.

(K Line: Planned environment-related investments for the next five years)

Environment investment budget ¥ 100.0bln scale (From FY2021 for 5years in total)		
Project	Amounts	Outline
Environmental Technology Development	¥ 25.0bln	Investment and R&D for alternative fuels technologies, other new low carbon / zero carbon technologies, improved fuel efficiency
Environmental response equipment	¥ 10.0bln	SOx Scrubber, Ballast Water Treatment System, Seawing ^(*) , etc.
New business contributing to low carbon	¥ 10.0bln	LNG Bunkering Vessels, Renewable Energy-related Business, etc.
Vessels using alternative fuels	¥ 50.0~70.0bln	One LNG-fueled Car Carrier delivered in FY2020. Now under considering further new order

Other Initiatives

- Promoting investment in low carbon by setting ICP ^(*) on investment
Evaluate investment projects with to a benchmark economic value of 4,000 yen future revenue contribution per ton of CO₂ emissions.
- Promoting investments that incorporate transition finance

(Source: K Line Rolling Planning)

Of this amount, for "Environmental Technology Development," JPY 5.0 billion will be invested annually over the next five years. K Line plans to invest in participation-related costs in HySTRA, an initiative formed in 2016 aimed at supplying CO₂ free hydrogen in the future, and in new technologies and projects related to alternative fuels and decarbonization that will be developed in the future, as well as in R&D.

K Line also has invested in SO_x scrubbers and ballast water treatment equipment for "environmental response equipment." JCR has also confirmed that K Line plans to allocate expenses related to the automatic kite system called Seawing, which is scheduled to be installed in stages from FY2023 onward.

In the "New Businesses Contributing to Low Carbon," in anticipation of rising demand for fuel supply infrastructure due to an increase in LNG bunkering vessels, construction of LNG fuel supply vessels and investment in renewable energy such as working vessels for offshore wind power generation are planned.

For "Vessels Using Alternative Fuels," in addition to the LNG-fueled car carrier "Century Highway Green" completed in March 2021, K Line plans to build more than one LNG-fired vessels in the next five years.

As mentioned above, K Line, based on IMO's GHG emission reduction strategy, has set mid-term milestones for 2030 and long-term targets for 2050, and also discloses as much as possible the specific investment plan for achieving them. JCR evaluates that transparency is extremely high. Moreover, the Internal Carbon Pricing ("ICP"), which serves as the basis for formulating investment plans, has already been adopted, which is also evaluated by JCR as advanced initiative.

In addition, JCR confirmed that the implementation of K Line's transition strategy had no potential negative impact on employment or on society other than climate change, and that appropriate measures were being taken in the environmental aspect, such as the prevention of marine pollution through SO_x scrubbers and ballast water treatment equipment described above. With regard to the possibility of lock-in to fossil fuels, K Line also plans to reduce the amount of fossil fuels, while simultaneously developing biomethane, carbon recycled methane, hydrogen, ammonia and on-board CO₂ capture technologies, which it aims to gradually implement from 2025 onward through the above-mentioned environmental technological developments. K Line also looks to vessels that will not emit CO₂ in the future by conducting investments and R&D in new decarbonisation-related technologies and projects. Therefore, there is no possibility of a lock-in to fossil fuels.

Furthermore, it is unlikely that the Finance will significantly harm other green projects (Do No Significant Harm Assessment), and through the above investment, areas that require "Just Transition" are not assumed at this moment..

Based on the above, JCR has evaluated that the Finance satisfies the four elements required by the Climate Transition Finance Handbook.

4. Consistency with Sustainability Linked Loan Principles, etc.: Principle 1 Selection of KPIs

4-1. Evaluation perspective

This section evaluates the meaningfulness of selected KPIs of issuers and borrowers, focusing on whether they contain the following factors, as illustrated in SLLP and elsewhere:

- 1) relevant, core and material to the borrower's overall business, and of high strategic significance to the borrower's current and/or future operations;
- 2) measurable or quantifiable on a consistent methodological basis;
- 3) able to be benchmarked, i.e. as much as possible using an external reference or definitions to facilitate the assessment of the SPT's level of ambition.

4-2. Current situation of evaluation targets and JCR's evaluation

(Evaluation Results)

The KPIs stipulated in the Finance includes all the elements required by SLLP, etc., and meaningful KPIs that contribute to the achievement of the goals of K Line's "K" LINE Environmental Vision 2050 have been selected.

Of the three KPIs (CO₂ emission efficiency compared to 2008 as of 2030, the total GHG emissions compared to 2008 as of 2050, and the CDP evaluation) set in the KPIs under the Finance, the above two indicators are the targets of "K" LINE Environmental Vision 2050, which meets K Line's quantitative targets for the environment. In addition, CDP evaluation includes items that CDP interviews responding companies when conducting assessments, such as whether they have formulated a low-carbon transition strategy in their business plans, the certainty of their governance systems, the status of collecting data on climate change, and questions related to disclosure those data. These are all of the items that are emphasized in CTFH. Therefore, JCR evaluates CDP evaluation as a KPI to be meaningful for measuring the sophistication of the Company's sustainability management.

5. Consistency with Sustainability Linked Loan Principles, etc.: Principle 2 Calibration of SPTs

5-1. Evaluation perspective

This section evaluates the ambitions and meaningfulness of SPTs set by the issuer and borrower, focusing on whether they include the following factors illustrated in SLLP and elsewhere:

- 1) represent a material improvement in the respective KPIs and be beyond a “Business as Usual” trajectory;
- 2) where possible be compared to a benchmark or an external reference;
- 3) be consistent with the borrower’s overall sustainability /ESG strategy; and
- 4) be determined on a predefined timeline, set before or concurrently with the origination of the loan.

Next, JCR confirms the benchmarks taken into account when setting SPTs for issuers and borrowers. The following elements are illustrated in SLLP, etc.:

- ✓ Set quantitative based on the issuer's and borrower's own level of recent performance (select KPIs with at least the last three years of track records whenever possible) and also disclose forward-looking information on KPIs as much as possible.
- ✓ Relative positioning of established SPTs in comparison to peers (e.g., average level of performance or industry-leading level)
- ✓ Scientific-based scenario analyses and absolute values (e.g., carbon budgets), national and regional or international targets (e.g., the Paris Agreement, zero CO₂ emissions targets and SDGs), certified BATs (best available technologies) and other indicators that determine relevant targets across ESG topics

5-2. Current situation of evaluation targets and JCR's evaluation

(Evaluation Results)

The KPIs and SPTs set by K Line are ambitious and comparable to the Company's historical performance and its industry peers. They are also consistent with the Company's overall policy of promoting sustainability.

(1) Comparison with the Company's historical track record

The following tables present actual figures of total GHG emissions and CO₂ emissions per ton mile and annual targets and medium-to long-term targets for the years 2021 through 2025, as well as reduction rates using 2008 as the base year. In the most recent fiscal years of 2019 and 2020, the outliers were observed in each fiscal year in response to the contraction of economic activities due to the global COVID-19 pandemic from the later part of FY2019. When the impact is subtracted, the numerical targets for individual SPTs can be said to have SPTs ambitions, as compared to the track records up to the present time, because they require initiatives that go beyond the Business As Usual.

[Actual and target figures for total GHG emissions in each year] (Unit: 1,000 tons)

	Base Year							Loan Due						
	2008	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2030	2050
2008-2050 Linear Plan	13,677	12,079	12,797	11,932	9,800	8,761	11,560	11,398	11,235	11,072	10,909	10,746	10,095	6,839
Reduction rate compare 2008 level	-	-11.7%	-6.4%	-12.8%	-28.3%	-35.9%	-15.5%	-16.7%	-17.9%	-19.0%	-20.2%	-21.4%	-26.2%	-50.0%

[Actual and target figures for CO₂ emissions per tonne mile in each year] (Unit: g-CO₂ per ton mile)

	Base Year							Loan Due						
	2008	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2030	
2008-2030 Linear Plan	7.21	5.31	5.36	5.32	4.82	4.49	5.08	4.92	4.75	4.59	4.42	4.26	3.61	
Reduction rate compare 2008 level	-	-26.4%	-25.7%	-26.2%	-33.1%	-37.7%	-29.5%	-31.8%	-34.1%	-36.4%	-38.6%	-40.9%	-50.0%	

(Source: K Line Transition Link Finance Framework)

For CDP, K Line has maintained the highest A rating since 2016. The question items changed every year and there are some items that require points higher than the previous-year's results for additional points, it is difficult to maintain A rank in the same response as the previous year. In addition, it is necessary to make a certain cost to maintain "A-" level such as collecting data to conduct responses every year, maintaining the organizational structure to respond, and even requiring requests for external consulting. Therefore, it can be said that the evaluation standards for the CDP of K Line have a degree of ambition as a SPTs.

(2) On the value chain, benchmarks and the degrees of significance and ambition in comparison to peers

As mentioned above, K Line accounts for more than 95% of its sales in the shipping industry for Dry Bulks, Energy Resources Transport and Product Logistics. Given the important position of the shipping industry in distribution, K Line's efforts to reduce GHGs and CO₂ can be regarded as one of the key measures to combat climate change.

Quantitative targets established as SPTs are equal to or higher than IMO's international numerical targets, which in this respect are ambitious. In addition, K Line has set medium-and long-term targets for GHG reduction and GHG intensity reduction, which are disclosed more than peers. In addition, K Line has formulated a linear plan for the amount of reduction for each year, and has set target reductions for climate change from 2015 through 2050. When IMO established its CO₂ emission efficiency in 2018, K Line took the lead in its efforts to reduce global GHGs and CO₂ emissions, including the establishment of new mid-term milestones for 2030, which exceeded the IMO's numerical target in its 2019 review. These efforts can be said to be very advanced and involve specificity. Based on the above, JCR evaluates that the setting of SPT1, 2 is meaningful and highly ambitious to lead the decarbonization of the shipping industry.

Regarding the CDP assessment for SPTs, the assessment in FY2020 showed that only 35% of Japanese companies rated A- or higher. K Line has maintained the A rank for five consecutive years. There are

only four such Japanese companies, and maintaining the A rating of CDP is considered to be a high hurdle initiative. K Line aims to maintain its "A-" rating, but lending rates do not fluctuate even if it maintains "A-." While spread tightens only when A is acquired, a spread widens if it falls below A-. Based on the above, JCR evaluates the setting of this SPT as a highly ambitious setting.

(3) K Line's efforts to reduce GHGs and CO₂

The following measures will be taken to reduce GHGs and improve CO₂ emissions at K Line.

Improve CO₂ emissions efficiency

- 1) Introduction of next-generation environment-friendly LNG-fueled vessels
- 2) Further introduction of Kawasaki-Integrated Maritime Solutions "K-IMS"
- 3) Introduction of automated kite system "Seawing"

Reduce total GHG emissions

- 1) Introduction of flagship with the aim of achieving a 70% improvement in efficiency through the use of advanced technologies
- 2) Introduction of Zero Emission Flagship with advanced technologies

In April 2021, K Line reorganized its existing organizational structure in an evolutionary manner and established a system to promote sustainability management center on the President.

Under the new organizational structure, the Company has established the Alternative Fuel Project Committee, Environment/ Technology Committee, and the Corporate Sustainability Management Committee as advisory bodies to the Management Conference, chaired by the president. The initiatives of each committee are incorporated by the Management Conference, enabling the Company to ascertain the impact of its efforts toward sustainability on management.

In addition to the committees, K Line has also reorganized its departments to establish the following three Groups: Corporate Sustainability, IR, and Communication Group, GHG Reduction Strategy Group, and Carbon-Neutral Promotion Group, under a policy to promote initiatives such as sustainable, de-carbonization and carbon neutral.

JCR evaluates this initiative as an effort by K Line to incorporate elements of sustainability into management more than ever before.

Based on the above, SPTs set by K Line aims to achieve a reduction rates that exceeds the conventional scenario. In addition to the fact that they are such ambitious targets that exceeds the industry level, JCR also evaluates setting three SPTs is also ambition.

Moreover, the KPIs of the Finance are consistent with the Company's sustainability strategy because they are identified as targets in K Line's "K" LINE Environmental Vision 2050 and items required to achieve these targets are subject to assessment.

SPTs are also in line with the direction aimed by K Line's "K" LINE Environmental Vision 2050.

5-3. JCR's impact assessment

JCR examined the degree of impact of SPTs in line with the five elements (variety, magnitude, scale, leverage and additionality) of the impact assessment criteria illustrated in Principle 4 of the Principles for Positive Impact Finance ("PIF") formulated by the United Nations Environmental Programme, in order to confirm that SPTs set forth in the Finance are ambitious and meaningful and contribute to the sustainable growth and improvement of the social value of K Line, as well as the extent to which the positive impact is maximized and negative impact is avoided, managed and reduced.

1) Variety: Impact of the entire value chain, impact by business segment, impact by region, etc.

From K Line's total GHG emissions reduction targets, improvements in CO₂ emissions efficiency, and CDP certification, a variety of positive impacts are expected to be realized, and negative impacts are expected to be curtailed, in terms of energy efficiency, industry, climate change mitigation, air pollution.

Although Scope covered by KPI 1, 2 is limited to only Scope 1, the CDP certification, which includes disclosures and whole initiatives related to Scope 3, which suggests that the selection of KPIs covers its entire value chain, business segments and geographic areas of operation.

2) Magnitude: SPTs' targeted sales, business activities, target geographies, and domestic and overseas market shares of business activities for which SPTs are assessed

The Finance has a significant impact in the shipping industry from the following perspectives.

K Line is one of the three major domestic shipping companies, and when the Company advances its efforts to decarbonization, large impacts are expected as it is working to develop low-carbon technologies through formation of consortiums with a variety of different industries, and so on. In addition, since it is also advanced as a characteristic of SLLs and SLBs, as shown by setting targets for each year based on a linear scenario for achieving the targets for 2030, it is an initiative with great influence from the viewpoint of further development of SLLs, SLBs, transition loans, and transition bonds.

3) Scale: A relatively large impact to invested capital.

The Finance is highly efficient from the following perspectives.

At K Line, the mid-milestone for 2030 and targets for 2050 were set in accordance with the "K" LINE Environmental Vision 2050.

For the achievement of the mid-term milestone in 2030, it is confirmed that efforts will be made to improve CO₂ emission improvement by the follows: 1) building LNG-fueled vessels, 2) promoting K-IMS, and 3) promoting automated kite system "Seawing."

Due to the growing interest in ESG and sustainability, cargo owners are increasingly selecting vessels to carry cargo in light of the environmental performance of vessels capable of transporting cargo and shipping companies' efforts for sustainability. Therefore, it is important for K Line to take the lead in promoting initiatives that contribute to the environment in maintaining and expanding their businesses in the future.

K Line has placed "environmental preservation" and "environment-friendly business activities" as the most important issues of materiality from the perception above, and has introduced scenario analyses and

environmental accounting in line with Task Force on Climate-related Financial Disclosures ("TCFD"), and decides investment plans after thoroughly considering its own risks and opportunities.

Based on the above, it is expected to have a large impact on invested capital.

4) Leverage: Degree of use of private funds relative to public funds or donations

Regarding the initiatives aimed at reducing GHGs and CO₂ emissions that the Finance aims for, subsidy systems can be used, particularly those from some countries for the development of next-generation fuels, but a large amount of funds are financed by private funds. Third-party opinions are recommended in order to be SLLs and SLBs, but subsidies for third-party evaluations of SLLs, SLBs, and transition loans and transition bonds are also partially enforced. It is expected that further decarbonization of the shipping industry, including the Finance, will proceed with the backup of these public funds.

5) Additionality: Encouraging to address areas where SDGs have not been achieved or responses are insufficient.

A major step toward achieving SDGs.

Of SDGs' 17 goals and 169 targets, the following are considered to receive additional impacts:



Goal 7: Ensure access to affordable, reliable, sustainable and modern energy for all

Target 7.3. By 2030, double the global rate of improvement in energy efficiency



Goal 9: Build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation

Target 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



Target 12: Ensure sustainable consumption and production patterns

Target 12.4 By 2020, achieve the environmentally sound management of chemicals and all wastes throughout their life cycle, in accordance with agreed international frameworks, and significantly reduce their release to air, water and soil in order to minimize their adverse impacts on human health and the environment

Target 12.6 Encourage companies, especially large and transnational companies, to adopt sustainable practices and to integrate sustainability information into their reporting cycle



Goal 13: Take urgent action to combat climate change and its impacts

Target 13.1: Strengthen resilience and adaptive capacity to climate-related hazards and natural disasters in all countries



Goal 14: Conserve and sustainably use the oceans, seas and marine resources for sustainable development

Target 14.1. By 2025, prevent and significantly reduce marine pollution of all kinds, in particular from land-based activities, including marine debris and nutrient pollution

Target 14.3. Minimize and address the impacts of ocean acidification, including through enhanced scientific cooperation at all levels

6. Consistency with the Sustainability Linked Loan Principles, etc.:

Principle 3 Loan and bond characteristics (economic conditions)

6-1. Evaluation perspective

In this section, JCR confirms the following details:

- (1) The financial and structural characteristics could change according to the achievement of SPTs which was set in their KPI.
- (2) The documents of loan agreement of sustainability linked loan or bond disclosure of sustainability linked bond include the definitions of KPIs as well as the variability of the financial and structural characteristics of SPTs.
- (3) The documents of loan agreement of sustainability linked loan or bond disclosure of sustainability linked bonds refer the countermeasure of unexpected events which could significantly affect the measurement of KPI, setting of SPTs, precondition and KPI coverage (e.g., material M&A activities, substantial regulatory or other system changes, or the occurrence of abnormal events).

6-2. Current situation of evaluation targets and JCR's evaluation

(Evaluation Results)

The Finance could change the financial profile changes depending on whether or not the Company achieves pre-established SPTs for selected KPIs. Such variability is included in the loan's contract documents or bond disclosure documents, and all annual goals to be disclosed in the framework, which suggests high transparency. The measurement of KPIs, establishment of SPTs, and preconditions will be made in the loan's contractual documents or bond disclosures.

In its loan contract documents or bond disclosure documents, JCR confirmed that K Line would enter into or expect to disclose arrangements that change its financial profile if it achieves SPTs. Defining KPIs, setting SPTs, and preconditions are also included in this document. In the event that the definition of KPIs, the establishment of SPTs, or preconditions change due to circumstances that cannot be foreseen at the time of funding of the Finance, K Line plans to disclose the content of the change from K Line to lenders or investors through a change report or other means.

In addition, in the event of a significant change in the setting of SPTs, such as a change in the evaluation criteria for CDP, K Line will discuss with the relevant parties the establishment of SPTs with a degree of ambition equivalent to or higher than the previous evaluation criteria based on the details of these changes, and plans to obtain an assessment by an external review organization as required.

Based on the above, JCR confirmed that the necessary arrangements or disclosures will be made regarding linkage with financing conditions, etc., and that the contents of the descriptions or the planned announcements in the contract documents or bond disclosure documents are appropriate.

7. Consistency with Sustainability Linked Loan Principles, etc.:

Principles 4 and 5 Reporting and Verification

7-1. Evaluation perspective

In this section, JCR will confirm whether the following items are planned to be included in the report content scheduled after financing, and whether the disclosure method and third-party verification are planned.

i. Reporting items

The Company plans to disclose the following materials at least once a year.

- ✓ Update on selected KPI performance, including baseline preconditions
- ✓ Useful information for issuers/borrower fundraisers to measure their SPTs ambitions (e.g. information on the issuer's and borrower's most recent sustainability strategies and related KPI/ESG governance, as well as information on analyzing KPIs and SPTs)

Disclosure of the following information to the extent possible:

- ✓ Qualitative and quantitative explanations of the main factors contributing to the improvement in performance/KPIs (including M&A activities, etc.)
- ✓ Explanation of how improved performance impacts the sustainability of issuers and borrowers
- ✓ Presence of revaluation of KPIs, revision of set SPTs, and changes in baseline preconditions and scope of KPIs

ii. Verification

The Company plans to disclose verification details (the status of achievement of SPTs, impacts on changes in financial and structural characteristics, information of such changes, etc.).

7-2. Current situation of evaluation targets and JCR's evaluation

(Evaluation Results)

K Line has appropriately planned the contents, frequency, and methods of disclosures in the post-financing reporting, and plans to receive a third-party verification of the contents required in principle, such as the status of SPTs progress.

K Line plans to disclose an annual report on the KPI performance on K Line's website on the progress of CO₂ reduction plan (progress in achieving medium-and long-term goals: both indicators of total volume and efficiency). In addition, on the K Line website, the annual disclosure of the results of the acquisition of CDP scoring is planned for the overall disclosure content, including policies, systems, risks, and opportunity analysis related to the environment.

In addition, GHG emissions data generated in the process from upstream to downstream of K Line's business activities, calculated in accordance with the GHG accounting and reporting standards (GHG Protocol), have been verified by a third-party organization and a statement (Verification Statement) has been obtained. DNV, a third-party organization, verifies and evaluates the validity of the GHG emissions data of K Line K Line in accordance with ISO14064 (International Standard for GHG Accounting, Reporting, and Verification). In addition, figures calculated accurately in accordance with the standards will be reported annually on the website.

K Line will commission JCR to confirm the achievement status of SPTs every year, and will publish the results of the confirmation.

In case of a significant change in SPTs occur during the period, JCR will continue to review the status of compliance with CTFH, SLLP, etc. and whether the initially assumed level of ambition and meaningfulness will be maintained.

A review of individual transition linked loans and/or transition link bonds implemented under the Framework by K Line and JCR in the due year will be conducted to assess the status of achievement of SPTs as well as the status of development of the impact on K Line and the public.

8. Conclusions on conformity with CTFH, etc. and SLLP, etc.

Based on the above considerations, JCR has confirmed that the Framework, which is the subject of this third-party opinion, conforms to CTFH, etc. and SLLP, etc.

(Responsible Analyst of this third-party opinion: Atsuko Kajiwara, Kosuke Kajiwara)

Third-party opinion on individual financing

Scope of Evaluation	Transition Link Loan
Borrowing Amount	Up to JPY 120 billion Tranche A: JPY 40 to 60 billion Tranche B: JPY 40 billion Tranche C: JPY 20 billion
Arranger	Mizuho Bank, Ltd.
Transition structuring agent	Mizuho Securities Co., Ltd. and Mizuho Bank, Ltd.
Loan contract date	September 2021 (planned)
Due date	September 2026 (planned)

JCR has confirmed that the above transition link loan described above meets all of the requirements set forth in the Transition Link Finance Framework of K Line that JCR has confirmed in advance the conformity to the following principles.

- (1) Climate Transition Finance Handbook (CTFH),⁷
- (2) Basic Guidelines on Climate Transition Finance (CTF Basic Guidelines)⁸
- (3) Sustainability Linked Loan Principles (SLLP),⁹
- (4) Sustainability Linked Bonds Principles (SLBP),¹⁰
- (5) Green Loan and Sustainability Link Loan Guidelines¹¹

⁷ Established by International Capital Market Association (ICMA) in December 2020.

⁸ Established by the Financial Services Agency, the Ministry of Economy, Trade and Industry, and the Ministry of the Environment in May 2021.

⁹ Established by Loan Market Association (LMA), Asia Pacific Loan Market Association (APLMA) and Loan Syndication and Trading Association (LSTA). Revised in May 2021

¹⁰ Established by International Capital Market Association (ICMA) in July 2020.

¹¹ Established by the Ministry of the Environment in April 2020.

Important explanation regarding the Third-party Opinion

1. Assumptions, Significance, and Limitations of JCR Third Party Opinion

The third-party opinions granted and provided by the Japan Credit Rating Institute (JCR) are the climate transition finance handbook (CTFH) developed by the International Capital Markets Association (ICMA), the Sustainability Link Bond Principles (SLBP), the Sustainability Link Loan Principles (SLLP) formulated by the Loan Markets Association (LMA), the Basic Guidelines on Create Transition Finance formulated by the Financial Services Agency, the Ministry of Economy, Trade and Industry and the Ministry of the Environment in May 2021, and the JCR's current opinion on conformance to the Green Loan and Sustainability Linked Loan Guidelines formulated by the Ministry of the Environment in March 2020, and the JCR's comprehensive opinion on conformity to the Guidelines for Sustainability Link Loans has not been fully expressed.

This Third Party Opinion evaluates current plans or circumstances based on information provided by the Client and information independently collected by JCR and does not guarantee an evaluation of future status. In addition, this third-party opinion does not quantitatively prove the positive effects of the Sustainability Link Loan and is not responsible for its effect. JCR confirms that the funding raised by this project is measured quantitatively and qualitatively by the borrower or by a third party requested by the borrower as to the degree of achievement of the impact indicators established by the Company, but in principle, this is not directly measured.

2. International initiatives, principles, etc. referred to in carrying out this evaluation

In conducting this evaluation, JCRs refer to the following principles and guides developed by ICMA, LMAs, UNEP FI, and ministries and agencies.

- Climate Transition Finance Handbook
- Basic Guidelines on Climate Transition Finance of the Financial Services Agency, the Ministry of Economy, Trade and Industry, and the Ministry of the Environment
- Principles of Sustainability Linked Bonds
- Sustainability Linked Loan Principles
- Ministry of the Environment's Green Loan and Sustainability Link Loan Guidelines
- Positive impact financial principle
- Positive Impact Finance Model Framework without Limited Use of Funds

3. Relationship with activities related to credit rating business

The act of providing this Third-Party Opinion is conducted by JCR as a related business and is different from the conduct related to the credit rating business.

4. Relationship with credit ratings

This evaluation differs from credit ratings and does not constitute a commitment to provide or inspection a predetermined credit rating.

5. Third-party character of JCR

There are no capital or personal relationships, etc. between the parties subject to this evaluation and JCR that may give rise to conflicts of interest.

■Matters of Attention

The information in this document has been obtained by JCR from issuers and accurate and reliable sources. However, this information may contain errors due to human, mechanical or other reasons. Accordingly, JCR makes no representation, express or implied, as to the accuracy, consequences, accuracy, timeliness, completeness, marketability or fitness for any particular purpose of such information, nor does JCR assume any liability for any error, omission or consequence of the use of such information. JCR shall not under any circumstances be liable for any special, indirect, incidental or consequential damages of any kind, including loss of opportunity or financial loss, which may arise from any use of such information, whether contractual liability, tort liability, negligent liability or other cause of liability, and whether such damages are foreseeable or unforeseeable. This third-party opinion does not express an opinion on various risks (credit risk, price fluctuation risk, market liquidity risk, price fluctuation risk, etc.) related to positive impact finance, which is the subject of evaluation. In addition, this third-party opinion represents JCR's overall opinion at this time and is not a representation of facts, and does not constitute any recommendation as to risk judgments or any decision to purchase, sell or hold individual debt securities, commercial paper or the like. This Third Party Opinion may be changed, suspended or withdrawn due to changes in information, lack of information or other reasons. All rights associated with this document are reserved by JCR. Any reproduction, adaptation, or modification of this document, in whole or in part, without the permission of JCR is prohibited.

■Glossary

Third-Party Comments: This report has been prepared by International Capital Market Association and expresses a third-party opinion on the sustainability-linked loans made by the lender to the borrower from an independent, neutral and equitable standpoint, as requested by the client, as to conformity with the sustainability-linked loan principles prepared by Loan Market Association as a Climate Transition Finance Handbook.

■Registration status as an external evaluator of sustainable finance, etc.

- Members of the Working Group on the Impact Financial Initiative for the United Nations Environment Programme
- Registered as External Reviewer of Green Bonds, Ministry of the Environment
- Climate Bonds Initiative Approved Verifier (Accreditation Verification Agency for Climate Change Initiative)
- ICMA (registration with the International Capital Markets Association as an observer) Principles for Social Bonds, Members of Climate Transition Finance Working Group

■Other status of registration as a credit rating agency, etc.

- Director-General of the Financial Services Agency (Credit Rating) No. 1
- EU Certified Credit Rating Agency
- NRSRO: JCR is registered in the following four classes of five credit rating classes of NRSRO (Nationally Recognized Statistical Rating Organization as defined by the U.S. Securities and Exchange Commission. (1) Financial institutions, broker-dealers, (2) insurance companies, (3) general business corporations, and (4) government and local governments. When subject to disclosure under Section 17g-7(a) of the Securities and Exchange Commission, such disclosure is attached to the news release appearing on JCR's website (<https://www.jcr.co.jp/en/>).



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<Reference>

Check Sheet for Consistency with Basic Guidelines on Climate Transition Finance

September 6, 2021

Japan Credit Rating Agency, Ltd.

Company to be evaluated: Kawasaki Kisen Kaisha, Ltd.

The following are the check results of the consistency of the Finance with respect to the items recommended in the Basic Guidelines on Climate Transition Finance (the "Guidelines") published by the Financial Services Agency, the Ministry of Economy, Trade and Industry, and the Ministry of the Environment.

The Guidelines use three expressions: "should," "recommended," and "be considered/possible." These expressions are used in the following context:

- Items described with the word "should" are basic elements that financial instruments labeled as transition finance are expected to have.
- Items described with the word "recommended" are elements that financial instruments labeled as transition finance are optimally recommended to have under the Guidelines although instruments which do not have these items can also be labeled as transition finance.
- Items described with the word "be considered" or "possible" are elements that they are not considered problematic even if financial instruments labeled as transition finance do not have them.

Element 1: Fundraiser's Climate Transition Strategy and Governance

a) Financing through transition finance **should** aim to implement or incentivize the achievement of transition strategies. Such strategies **should** incorporate a long-term target to align with the goals of the Paris Agreement, relevant interim targets on the trajectory towards the long-term goal, disclosure on the levers towards decarbonization, and fundraiser's strategic planning.

Consistency: ✓

K Line has set the achievement of GHG and CO₂ reduction targets, which are the interim milestones stipulated in "K" LINE Environmental Vision 2050, as SPTs of the Loan, which can be said to be aimed at motivating it to realize its transition strategy.

The Company's transition strategy is more ambitious than IMO's GHG reduction strategy assuming the achievement of the Paris Agreement's goals, and it discloses target setting for 2030, 2050, action plans for decarbonization, and investment plans for the next five years.

b) A transition strategy **should** serve to explicitly communicate the implementation of an issuer's strategy to transform the business model in a way which effectively addresses climate-related risks and contributes to achieving the goals of the Paris Agreement. Transformation of a business

model is not limited to initiatives as an extension of existing businesses but **can** also be transformation based on various other perspectives. It includes fuel conversion that achieves significant carbon and GHG reduction benefits, introduction of innovative technologies, improvement of / changes in manufacturing processes and products, and development and provision of products and services in new fields.

Consistency: ✓

K Line aims to contribute to decarbonization through the achievement of "K" LINE Long-Term Vision 2050. The plan includes the introduction of innovative technologies, such as fuel conversion, utilization of kites, and on-board CO₂ capture technologies, as the intent of business transformation to this end.

c) The implementation of a transition strategy assumes cases where it affects society and environment other than climate change, such as employment or stable provision of products and services, through transformation of a business model. In such cases, it is **recommended** that the fundraiser also takes into consideration the impact of business innovations to society and environment other than climate change.

Consistency: ✓

The following items have been examined and considered as impacts on the environment and society other than climate change:

Environment: Prevention of marine pollution

Society: There are no matters of particular concern, but the Company takes consideration to safe vessel operation in general.

d) Climate change-related scenarios **should** be referenced in developing transition strategies. The pathway to transition **should** be planned for respective sector and regions of individual fundraiser, who **may** generally be placed in a different starting point and pathway to transition.

Consistency: ✓

When formulating "K" LINE Environmental Vision 2050, K Line analyzed risks based on climate change scenarios based on TCFD guidance, and benchmarked IMO's GHG reduction strategy. The results are reflected in this analysis. K Line also acquired SBT certification in 2017.

e) Transition strategies and plans must be highly credible in terms of their effectiveness. Therefore, it is **recommended** that a transition strategy and plan are linked to management strategy and business plan, including medium-term management plans.

Consistency: ✓

K Line's "K" LINE Environmental Vision 2050 announces investment plans aimed at realizing these

plans for five years from 2021, which are linked to management strategies and business plans. Promote low-carbon investment by setting the internal carbon pricing ("ICP") for investment. (When evaluating investment projects, the economic efficiency index considering the contribution to future earnings of 4,000 yen per ton of CO₂ emissions is calculated as a reference value.)

f) However, because such strategies and plans run for a long period of time, it is **possible** that the content may be modified or adjusted in the event of a major change in the assumed external environment and so on.

Consistency: ✓

K Line plans to change or revise the contents in the future if it is judged necessary in the event of a major change in the external environment, etc.

g) In the initial phase of developing a transition strategy by the fundraiser, it is **considered** as an option for the fundraiser to indicate a plan for future implementation of items described with the words "recommended" and "be considered/possible" in these Guidelines.

Consistency: ✓

All items that are considered "should" in the Basic Guidelines satisfy their requirements. In addition, almost all items identified as "desirable" and "considered/possible" have met their requirements or are expected to be implemented in the future.

h) In order to secure the effectiveness of the transition strategy, the fundraiser **should** establish an organizational structure for the board of directors and/or other such committee to oversee the activities addressing climate change and for management to play a role in assessing and managing such climate-related activities.

Consistency: ✓

In order to ensure the effectiveness of the transition strategy, K Line has established an organizational structure for the board of directors, management committee, etc. to oversee the activities and for management to play a role in assessing and managing such climate-related activities.

i) While a transition strategy shall be basically developed by a company in need of finance, it is **possible** for entities to utilize the strategy of companies that are wholly or partially responsible for the initiatives to establish or explain their own strategy, given that the finance supports GHG emissions reduction initiatives of not just a single company but its supply chain.

Consistency: Not applicable

K Line is building its own transition strategy.

j) Transition strategies **should** be disclosed in advance in a company's integrated report, sustainability report, statutory documents and other materials for investors (including such disclosures on the website). This also applies to the other three elements.

Consistency: ✓

K Line's transition strategy is disclosed to the public on its website as "K" LINE Environmental Vision 2050.

k) It is **possible** to disclose transition strategies and elements concerning the governance guaranteeing that the execution of transition strategies is in alignment with the reporting frameworks such as the Recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD; Final Report).

Consistency: ✓

K Line makes disclosures consistent with TCFD framework.

l) If the implementation of a transition strategy assumes impacts on society and environment other than climate change, it is **recommended** that the fundraiser explain the view underlying its approach¹⁴, etc. to address such impacts and disclose how the strategy on the whole contributes to achieving the Sustainable Development Goals (SDGs) so that the effects can be appropriately evaluated by the financier.

Consistency: ✓

K Line, through the framework, discloses to lenders its environmental and social impacts from factors other than climate change and its responses and contributions to SDGs achievement. It is also scheduled for publication to the public through JCR's third party opinion.

m) Considering the length of application and other factors, there may be instances when a transition strategy and plan will need to be modified due to major changes in the external environment and relevant conditions that were assumed at a planning phase. In this case, the contents of the modification **should** be disclosed together with the underlying reason in a timely manner.

Consistency: ✓

If there is a major change in the future, the strategy and plan will be changed and disclosed in a timely manner.

n) In terms of governance, it is **recommended** that disclosures include an organizational structure for overseeing the implementation of a transition strategy and for assessing and managing related initiatives. It is also **recommended** that disclosures include the specific roles of the

constituent organizations and the management and the process by which the content of deliberations is reflected in management.

Consistency: ✓

The necessary organizational structure is established and announced in the Medium-Term Management Plan (Rolling Plan), website, etc.

o) In cases where the fundraiser determines the need for an objective assessment regarding the transition strategy, it is **recommended** that a review, assurance and verification by an external organization for its transition strategy.

Consistency: ✓

K Line utilizes JCR review in the implementation of this finance for objective evaluation. In addition, the mid and long-term goals of decarbonization was certified by SBTi in 2017.

p) It is **recognized** useful to obtain a review particularly concerning the following in connection with the transition strategy:

- Alignment of short-term, mid-term and long-term targets (for targets, refer to Element 3) with the overall scenario
- Credibility of the fundraiser's strategy to reach the targets
- Appropriateness of the management process and governance for the transition strategy

Consistency: ✓

JCR confirms the above three items and provides this third-party opinion.

Element 2: Business Model Environmental Materiality

a) Initiatives for achieving the transition strategy **should** be such that contribute to transforming core business activities that are environmentally material parts today and in the future.

Consistency: ✓

K Line's transition strategy is an initiative that contributes to environmental preservation, etc., which the Company's regarded as the most important issue when identifying materiality.

b) When identifying business activities that are environmentally material parts, it is **recommended** that the fundraiser consider multiple climate change-related scenarios that may possibly impact its judgment on the identification.

Consistency: ✓

K Line conducts scenario-based analyses in accordance with TCFD guidance.

c) In terms of considering materiality, it is **possible** to apply existing guidance provided by an organization that creates standard criteria concerning sustainability reporting.

Consistency: ✓

K Line refers to existing guidance in particular materiality.

d) The fundraiser **should** indicate that climate change is an environmentally material part of business activities.

Consistency: ✓

K Line considers climate change to be an important theme when identifying its materiality and makes it one of its most important management issues. This has been clarified through the disclosure of integrated reports, websites, etc.

e) It is **recommended** that disclosures include the contents of climate change-related scenarios used in identifying business activities that are environmentally material parts along with the underlying reasons (e.g., regional and industrial characteristics) for selecting such scenarios.

Consistency: ✓

K Line formulates and analyses climate change-related scenarios for marine transportation project based on TCFD in "K" LINE Environmental Vision 2050. Its scenario analysis involves risk and opportunity analysis of changes in cargo volumes under multiple temperature increase scenarios and their associated impact on the Company's business. This approach to scenario analysis is the same as that used when the IMO formulated its GHG reduction strategy.

Element 3: Climate Transition Strategy to be Science-based Including Targets and Pathways

a) The fundraiser **should** reference science-based targets in developing its transition strategies.

Consistency: ✓

K Line is constructing a transition strategy by referring to TCFD's scenario analysis, SBT's 2°C scenarios, and IMO's GHG reduction strategy.

b) This **should** include mid-term targets (short- to mid-term targets) in addition to long-term targets for 2050 and be quantitatively measurable based on a measurement methodology which is consistent over a long period of time.

Consistency: ✓

The target setting for K Line includes the following medium-and long-term goals.

- Improve CO₂ emissions efficiency (emissions of CO₂ per transportation volume) by 50% from 2008 levels by 2030

- Halve GHG emissions by 2050 (improve CO₂ emissions effectiveness by 70% compared to 2008)
Scope for reducing CO₂ emissions includes Scope 1 and can be measured quantitatively.
In addition, K Line conducts linear interpolation in the implementation of the Loan and sets quantitative targets for each year.

c) In addition, it is recommended that GHG reduction targets, which could be formulated either in intensity and absolute terms, **should** consider environmental materiality and cover Scopes 1 through 3 of GHG Protocol, the international standard on supply-chain emissions.
It is **recommended** that targets covering Scope 3 be set using a practical calculation method when it could be subject to significant reduction in the fundraiser's business model.
It is also **possible** to disclose the avoided emissions as necessary.

Consistency: ✓
K Line calculates emissions for all scopes. As Scope 1 accounts for 95% of the total, the goal is set mainly for the reduction measures for Scope 1. For Scope 3, CO₂ emissions for the relevant categories are calculated. K Line discloses CO₂ emissions and GHG emissions intensity of production.
Target setting is based on emission intensity through 2030 and on a total volume basis in 2050.

d) Science-based targets are GHG reduction targets required for achieving the goals of the Paris Agreement and **should** be set while taking into account differences in regional characteristics and industries. In so doing, it is **possible** to refer to the following trajectories.
- Scenarios widely recognized in the international community (Examples include the Sustainable Development Scenario (SDS) outlined by the International Energy Agency (IEA))
- Objectives verified under the Science Based Targets Initiative (SBTi) and such like
- Nationally Determined Contributions (NDC) of countries aligned with the goals of the Paris Agreement, roadmaps by industry sector, industries set out plans that are science-based achieving the Paris Agreement and so on.

Consistency: ✓
K Line referred to all of the above in its target setting.
- Internationally recognized scenarios
IMO's GHG reduction strategy
- SBTi
Establishment of current medium and long-term goals on the assumption that certification will be obtained in the future
- Roadmap and green growth strategy outlined in Zero Emission from International Shipping Project established by the Ministry of Land, Infrastructure, Transport and

Tourism

e) Short- to mid-term targets (with a term of three to fifteen years) **should** be set by referencing the aforesaid trajectories or on the pathway toward the long-term targets planned as benchmarks.

Consistency: ✓

K Line, considering the roadmap to the implementation of next-generation fuels, kites, and on-board CO₂ capture, examines GHG reduction paths, and discloses them in "K" LINE Environmental Vision 2050, Rolling Plan, etc.

f) In doing so, since short- to mid-term targets will likely be set in consideration of various factors (including the starting point and track records of the issuer, timing of capital investments, economic rationality, cost-benefit analysis, and availability of technology necessary to achieve the targets), it is **possible** that the pathway may not necessarily be linear with the same slope at all times but may be nonlinear.

Consistency: ✓

The progress of K-Line's goals is planned to be reduced linearly at the present stage.

g) The fundraiser **should** disclose the short- to mid-term and long-term targets they have set, including the base years etc.

Consistency: ✓

K Line has set the mid-to long-term goals set forth in the "K" LINE Environmental Vision 2050 as the base year for fiscal 2008, and the target for SBT-certification is fiscal 2011 as the base year. The Company also discloses this information on its website and so on.

h) In order to show that long-term targets are science-based, disclosures **should** explain the methodology or trajectory used to define target, including the underlying reasons (e.g., characteristics specific to a region or industry). In particular, when reference is made to plans and industry roadmaps established by an industry, etc., the explanation **should** include that they are grounded in scientific basis.

Consistency: ✓

The references described in 3-d) are included in the "K" LINE Environmental Vision 2050.

i) It is **possible** that disclosures explain the pathway toward a long-term target and the alignment between the short- to mid-term targets on the pathway and the transition strategy, based on the investment plan (refer to Element 4) and other plans.

Consistency: ✓

The investment plan is disclosed in the Rolling Plan of the Medium-Term Management Plan.

j) Concerning targets and trajectories, obtaining expert reviews on the following is **considered** to be particularly useful:

- Whether the long-term target is aligned with science-based targets
 - > Whether the disclosed information explains the alignment with the Paris Agreement
- Whether the short- to mid-term targets are determined using a GHG emissions forecast calculated based on a climate change scenario analysis
 - > Whether scenarios, etc. widely recognized in the international community are used or referenced
- Whether the actual values of the indicators used for the targets are quantitatively measured using consistent measurement methods
 - > Whether a specific GHG emissions reduction measure has been developed to achieve short- to mid-term targets aligned with long-term goals

Consistency: ✓

JCR has reviewed all of the above items to be met.

Element 4: Implementation Transparency

a) In implementing transition strategies, the fundraiser **should** provide transparency of the basic investment plan to the extent practicable.

Consistency: ✓

The Rolling Plan announced to invest in low-/de-carbonization from 2021 through 2025. In addition, major milestones through 2035 were also announced.

b) The investment plan includes not only capital expenditure (Capex) but also capital and operational expenditure (Opex). Therefore, costs related to research and development, M&A, and dismantling and removal of facilities are also subject to the investment plan. In other words, it is **recommended** that the investment plan incorporate, to the extent possible, expenditure and investment necessary for implementing the transition strategy.

Consistency: ✓

The investment plan includes not only capital investment but also research and development expenses, etc. ICP setting for investment promotes low-carbonization investment.

c) It is **recommended** that the investment plan outline the assumed climate-related outcomes and impacts in a quantitative fashion where possible, along with the calculation methods and

prerequisites. If quantification is difficult, the use of external certification systems **can be** considered as a substitute for qualitative assessment.

Consistency: ✓

The expected outcomes and impacts of investments are shown in the "K" LINE Environmental Vision 2050. In addition, a series of investment plans are all positioned as measures that contribute to the achievement of medium and long-term goals, and the calculation method and preconditions for such goals are disclosed in the Vision.

d) In particular, when outlining the assumed climate-related outcomes and impacts, it is **recommended** that the disclosure include not only GHG emission reduction and other initiatives to ease climate change but also report how consideration of a "just transition" is incorporated into the transition strategy.

Consistency: Not applicable

The transition strategy implementation by K Line does not require consideration for a just transition.

e) If implementing the transition strategy has the potential of having a negative impact on employment or the environment and communities other than climate change, it is **recommended** that any expenditures to mitigate such negative impacts be added to the plan.

Consistency: ✓

The implementation of K Line's transition strategy has no negative impact on employment or other social aspects. In terms of the environment, appropriate measures have been taken, such as the prevention of marine pollution.

f) Moreover, the outcomes arising from investments included in the investment plan **should** align with the targets.

Consistency: ✓

All of the results of K Line's investment plan are positioned as efforts that ultimately contribute to the goal of decarbonization, and results and targets are consistent each other.

g) Transition finance is a means to financially support the implementation of a transition strategy, and it is **recommended** that financing be provided for new initiatives. However, in the case of transition finance in the format of Use of Proceeds instruments, refinancing for a reasonably set lookback period (the period during which refinancing is to be applied for projects that have already started) is **considered** to be eligible.

Consistency: Not applicable

The purpose of the Finance is unspecified.

h) It is **recommended** that investment plans be disclosed by linking the outcomes and impacts with the expenditures to the extent practicable.

Consistency:

Amounts, results and impacts of investments under the Finance are disclosed in the framework in conjunction with each other. For the entire transition strategy, each investment target and the total investment amount are disclosed, but it is difficult at this point to link the results and impact individually, and therefore it is not disclosed. In the future, it is assumed that specific individual plans will be disclosed as soon as they are finalized.

i) It is **recommended** that the fundraiser, after securing financing, reports any deviations between the initial plan and the actual expenditure, outcomes and impacts. For any deviations, it is **recommended** that the underlying reasons be explained.

Consistency: ✓

Differences between the initial plan and actual expenditures, results, and impact of the Finance will be disclosed in impact reporting, which is scheduled to be implemented on a regular basis after loan execution.

j) In cases where the Use of Proceeds bonds include refinancing, the fundraiser **should** provide an explanation on the lookback period set under the framework or other relevant methods along with the underlying reasons and factors.

Consistency: Not applicable

The purpose of the Finance is unspecified.

k) While there are differences in business practices, such as the fact that loans are traditionally made based on the bilateral relationship between a borrower and a lender, it is **recommended** that disclosure on the above be made to the extent possible in order to ensure transparency and credibility of transition finance. However, if it is difficult to disclose such information to the public from the standpoint of confidentiality and competition, it is **possible** to report such information only to lenders or external evaluation organizations without disclosing it to the public.

Consistency: ✓

The Finance is a loan, but the progress of the transition strategy is generally scheduled to be disclosed.

l) Similarly, in cases where the fundraiser is a small-to-medium-sized enterprise and it is difficult to disclose to the public the same content as that reported to the financier or an external evaluation institution, it is **possible** for the fundraiser to simplify the content of disclosure, for example, by limiting disclosure to a summary of h) to j) of this section.

Consistency: Not applicable

K Line is not a small or medium-sized enterprise, and therefore is not subject to this conformity confirmation.