

Green Bond Evaluation by Japan Credit Rating Agency, Ltd.

Japan Credit Rating Agency, Ltd. (JCR) announces the following Green Bond Evaluation Results.

JCR Assigned Green 1 to the Bonds of DAIKEN Corporation

Subject	:	DAIKEN Corporation 1st unsecured corporate bonds (with limited inter-bond pari passu clause) (Green Bonds)
Type	:	Bonds
Issue Amount	:	JPY 5 billion
Interest Rate	:	0.200%
Issue Date	:	September 20, 2019
Redemption Date	:	September 20, 2022
Method of Repayment	:	Bullet
Use of Proceeds	:	Investment funds for production facilities for circular economy adapted products

<Green Bond Evaluation Results>

Overall Evaluation	Green 1
Greenness Evaluation (use of proceeds)	g1
Management, Operation and Transparency Evaluation	m1

Chapter 1: Evaluation Overview

DAIKEN Corporation (hereafter, “the Company”) is a major manufacturer of housing materials founded in 1945. Since its founding, it has been involved in the wood processing business, and in order to make effective use of this business, it has long been contributing to realize a circular economy through the effective use of waste and unused materials, such as starting from the early stage of manufacturing insulation boards that reuses waste materials. Our business activities consist of the three segments of "Industrial Materials," "Building Materials," and "Engineering." In the Industrial Materials Business, the Company tries to make effective use of wood and mineral resources from the perspective of sustainability.

The Company’s long-term vision, "GP25," was established in 2015 to celebrate the 70th anniversary of its founding. The first goal and goal of this vision is to "contribute to the realization of a sustainable society through

the efficient use of limited resources." Also, in the current Medium-Term Management Plan (FY2019-2021), which is the second stage for realizing this Long-Term Vision, as its basic policy, it is aiming to increase corporate value by "pursuing solutions to social issues through businesses" and "implementing ESG management" as one of the measures to strengthen its management foundations. In particular, the Company has set ambitious numerical targets for environmental issues, and it has set a target of achieving CO2 reductions of 26% from the FY2013 level by FY2021 ahead of schedule, which was set as the target to be achieved by 2030 at the time of the formulation of the Long-Term Vision.

The use of proceeds for the bonds (the Bonds) is for capital investment and refinancing of the funds for the "Insulation boards" that we produce by reusing construction waste materials, the "Rock Wool Inorganic Board (hereinafter, "Dai-Lotone")" that we produce by-product of steel manufacturing of mineral resources, and the "Dai-Lotone" and "Dai-Lite (Wall Base underlayment Volcanic Vitreous Double Glaze Board)" manufacturing plants (Okayama and Takahagi plants) that utilize the unused resource of volcanic soil, named "Shirasu". The use of proceeds contributes significantly to the construction of a circular society by contributing to the reduction and minimization of waste through the effective use of resources and the use of recycled resources. Regarding the potential negative environmental impacts of the plant, such as CO2 emissions and water pollution generated in the manufacturing process, the Company is working to minimize such negative impacts by introducing biomass boilers using domestic wood chips and water purification and other equipment at the plants. Based on the above, JCR concludes that the use of proceeds subject to this evaluation as having a high environmental improvement effect.

With regard to the management and operation system, we confirmed through hearings and related materials that the proceeds will be allocated for the capital investment of the two targeted factories within one year, that the allocation status will be tracked and managed appropriately by the department in charge, and that the funds will be subject to internal and external audits. In addition, prior explanations and reporting to investors were also well planned. JCR confirmed that the management and operation system for the Green Project, the funding source for the Bonds, was properly established and highly transparent. We also confirm that the organization's environmental efforts are being actively carried out through its mid-and long-term plans and the appropriate operation of the quality environmental management system.

Based on the JCR Green Bond Evaluation Methodology, JCR assigns "g1" for "Greenness Evaluation (Use of Proceeds)" and "m1" for "Management, Operation and Transparency Evaluation". Consequently, JCR assigns "Green1" as an overall "JCR Green Bond Evaluation" to the Bonds. Evaluation results are discussed in detail in the next chapter. The Bonds are considered to meet the standards for the items required by the Green Bond Principles and the Green Bond Guideline of the Ministry of the Environment of Japan.^{1,2}

¹ ICMA(International Capital Market Association) Green Bond Principles 2018
<https://www.icmagroup.org/green-social-and-sustainability-bonds/green-bond-principles-gbp/>

² Ministry of the Environment Green Bond Guidelines 2017 years
http://greenbondplatform.env.go.jp/pdf/greenbond_guideline2017.pdf

Chapter 2: Current Situation of Target Businesses and JCR Evaluation for Each Evaluation Item

Evaluation Phase 1: Greenness Evaluation

JCR assigns "g1", the highest grade, to "Evaluation Phase 1: Greenness Evaluation".

Rationale: 100% use of proceeds of the bond will be allocated to a green project, considering the factors described below.

(1) JCR's Key Consideration in This Factor

In this section, JCR confirms whether the proceeds are used for green projects that have a clear environmental improvement effect. Next, JCR confirms whether an internal department/division which is exclusively in charge of environment issues or a third party agency prove it sufficiently and have taken necessarily workaround or mitigation measures, in case of possibility use of proceeds has negative impact on the environment. Finally, JCR confirms consistency with the Sustainable Development Goals (SDGs).

(2) Current Status of Evaluation Targets and JCR's Evaluation

Overview of Use of Proceeds

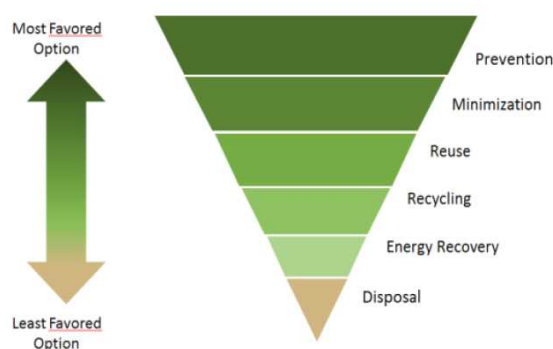
The Bonds will be used for new capital investment and refinancing at facilities (Okayama and Takahagi factories) that produce the following eco-friendly products using construction wastes and unused materials. The Company plans to allocate 60% of the funds to the Okayama Plant, 40% to the Takahagi Plant, and about 3:7 to new investments and refinancing.

- (1) Insulation boards: Recycling of wood resources and reduction of CO2 emissions (Okayama Plant and Takahagi Plant)
- (2) Dai-Lotone: Effective use of recycled resources (Okayama Plant)
- (3) Dai-Lite: Promote effective utilization of unused resources and seismic resistance (Okayama Plant)

a. On the environmental improvement effects of the project

- i. **100% of the proceeds are new investments or refinancing in production facilities for circular economy adapted products that contribute to realize a sustainable society with the reduction of waste, and thus is highly effective in improving the environment.**

According to ICMA's impact reporting, the waste hierarchy is typically presented in the following schematic form. JCR has evaluated the use of construction waste as recycling in the chart below, and the use of recycled resources and unused materials (shirasu) as waste minimization for the three types of environment-friendly products covered in this report.



(Source: ICMA, Harmonized Framework for Impact Reporting)

Specific effects of environmental improvement of each product are as follows.

(1) Insulation boards: Extending the carbon fixation period through the recycling of wood resources (Okayama Plant and Takahagi Plant)

The Company aims to make effective use of wood resources by producing insulation boards that reuse old decommissioned building materials that were previously waste or were used as fuel. By recycling wood resources as housing materials over a long period of time, waste can be reduced, and by lengthening carbon-fixation periods, CO₂ emissions can be reduced.

In Japan, wooden houses account for 60% of all houses. Because the useful lives of wooden houses are shorter than those of non-wooden houses, the reconstruction cycle for Japanese houses is relatively short, and a large amount of construction waste including wood is discharged. According to the Ministry of the Environment, construction waste, including concrete ingots, asphalt and concrete ingots, and construction waste, accounted for about 20% of the total amount of industrial waste generated and final disposal (FY2001) and about 60% of the total amount of illegal dumping (FY2002). As a solution to this problem, the Construction and Recycling Law was enacted in May 2000 in order to recycle and reuse these wastes from the viewpoint of ensuring the effective use of resources. The Construction Recycling Law requires contractors, etc. to separately demolish and recycle construction work for buildings using specified construction materials (including precast boards, etc.), asphalt and concrete, and wood, or for new construction work using specified construction materials, etc. that exceeds a certain scale and is to be done for demolition, etc., and recycling, etc.

Although the Company has been using waste materials since before the enactment of the Construction and Recycling Law, in modern societies where recycling of waste materials is mandatory and the creation of a sustainable society is stronger, the insulation board is a material that greatly contributes to the long-term effective use of wood, which is essential for the housing sector.

If trees are considered to remain carbon sequestered (carbon fixation) even if they are logged into timber or wood products, it can be said that the carbon fixation period is prolonged by reuse. According to DAIKEN report, carbon-fixation in insulation boards in FY2018 was 139,000t-CO₂. The amount of woodchips used at the Okayama Plant and Takahagi Plant, which are subject to the present survey, is expected to be approximately 80,000 tons per year.³

³ According to the Forestry Agency, lumber accounts for half (50%) of the total amount of carbon on a nuclear basis, regardless of tree species. Therefore, about 50% of the weight of the recycled lumber can be considered to be the amount of carbon sequestration. As of 2015, 14 prefectures have been operating a system for evaluating and certifying wood structures and wood products, mainly in the form of carbon dioxide sequestration, based on the amount of wood used by each prefecture.

(2) Dai-Lotone: Effective use of recycled resources (Okayama Plant)

The Company produces recycled resources (rock wool, a byproduct of iron making) as its main raw material, and produces a plate-shaped material with non-combustible, light weight, sound absorbing, and processability, and mainly supplies it as a ceiling material for houses and buildings, thereby contributing to waste control.

Dai-Lotone is produced by the effective utilization of rock wool made from blast furnaces slag, which is a by-product of steelmaking. The use of this by-product is also a use that contributes to the control and minimization of waste because it is recycled rather than simply discarded.

The amount of rock wool used as a recycled resource is expected to be 35,000 tons per year.

(3) Dai-Lite: Promote effective utilization of unused resources and seismic resistance (Okayama Plant)

The Company uses unused shirasu (volcanic ash) as its main raw material and produces "Dai-Lite," a lightweight, high-strength, high-durability, fire-proofing, and processible material, which is supplied as a durable material for wooden houses. It contributes to improve the earthquake resistance of houses.

"Shirasu" used for Dai-Lite means fine-grained pumice and volcanic ash. Shirasu plains are inappropriate for rice cultivation because they have low nutritional value and shirasu soil cannot keep water to grow rice. They are suitable only for some crops, such as sweet potatoes, soybeans, and rapeseed. Therefore, there are some cases in which the use of shirasu as a building material has resulted in soil improvement. Dai-Lite produced by effectively utilizing this unused resource, shirasu, has the above-mentioned excellent performance, and therefore contributes to the improvement of the earthquake resistance performance of wooden housing in Japan, and it can be said that it is an excellent environmentally friendly product by the effective utilization of the unused resource.

Shirasu, an unused resource, is expected to use 15,000 tons per year.

- ii. Among the Green Bond Principles or the Green Bond Guidelines defined by the Ministry of the Environment, this use of proceeds falls under "Pollution prevention and control (waste reduction, waste reduction, and waste recycling)", "circular economy adapted products ", defined in Green Bond Principles. It also falls under "Pollution prevention and management (businesses that contribute to the circular economy)" and "projects related to environmentally conscious products and environmentally conscious manufacturing technologies and processes (projects that conduct research and development and introduction of technologies and products that contribute to greenhouse gas reduction)" defined in the Green Bond Guidelines.**

b. Negative impact on the environment

The Company takes the following measures to address and manage possible environmental and social risks in the production process.

- Biomass boilers are installed to reduce CO₂ emissions. Fuels consist of wood chips procured in Japan and wood chips generated in the Company owned factories' production lines. It uses biomass boilers at all nine plants, and uses biomass boilers to cover 50% of the total energy consumption at our domestic production sites.
- From the viewpoint of reducing the amount of water used in the production process and preventing water pollution, a recycled and purification facility is in place.

- In addition to the safety, health, fire prevention, 6S, and production maintenance activities at individual plants, we have introduced a Groupwide "Mutual Plant Safety Diagnosis" in an effort to raise the group of safety and raise awareness at production sites.
- The Company has formulated procurement policies, CSR procurement standards, and green procurement standards for procurement of materials, and conducts surveys of domestic suppliers regarding the green procurement of CSR materials in an effort to ensure appropriate procurement of raw materials.
- The Company recycles waste, for example by reusing defective products generated in the Group's manufacturing process as raw materials for products or thermal fuel for products that cannot be used as product materials. In fiscal 2018, the recycling rate of waste was 90%.⁴

JCR evaluates that through this project, the Company takes appropriate countermeasures or mitigation measures against potential adverse impacts on the environment and society.

c. Consistency with SDGs goals and Targets

This project is a project categorized into "pollution control (waste reduction, waste reduction, and waste recycling)" and "environmentally conscious production technologies and processes." While referring to the SDGs mapping of the ICMA, JCR evaluated the project as contributing to the following SDGs objectives and targets.



Target 12: Responsible consumption and production

Target 12.5. By 2030, substantially reduce waste generation through prevention, reduction, recycling and reuse.

⁴ Figures contained in the DAIKEN Report as a whole

Resource recovery ratio = Amount recycled ÷ Total amount of waste generated × 100%

Amount recycled = Amount of valuable resources + Amount of materials used + Amount of thermal materials used

Evaluation Phase 2: Evaluation on Management, Operation and Transparency

JCR assigns "m1", the highest rating on JCR Evaluation Phase 2: Evaluation on Management, Operation and Transparency.

Rationale: These projects will be allocated the funding and implemented the businesses as planned through a firmly equipped management and operation system and high transparency as described below.

1. Appropriateness and Transparency Concerning Selection Standard and Processes of the Use of Proceeds

(1) JCR's Key Consideration in This Factor

In this section, JCR confirms that the objectives to be achieved through the Bonds, the criteria for selecting green projects, the appropriateness of the process, and the series of processes are appropriately disclosed to investors.

(2) Current status of evaluation targets and JCR's evaluation

a. Goal

The Company's long-term vision, "GP25," established in 2015 to celebrate the 70th anniversary of its founding, puts "contributing to the realization of sustainable societies through the efficient use of limited resources" as the primary reason for its existence. Under this vision, the GP25 Second Medium-Term Management Plan (GP25 2nd Stage 2019-2021), which started in April 2019, has set ambitious environmental targets as quantitative non-financial targets, such as moving ahead of the target for fiscal 2021 of a 26% reduction in CO₂'s domestic emissions from the fiscal 2013 level, which had been aimed at achieving the target by 2030. The use of capital is expected to prolong the carbon-fixation period through the reuse of decommissioned building materials, and to reduce CO₂ emissions through the use of biomass boilers at plants. This can be said to be an initiative that contributes to our environmental targets.

b. Selection standard

The Company qualified a factory that is the production infrastructure for circular economy adapted products (insulation boards, Dai-Lotone, and Dai-Lite) produced using recycled or unused resources. JCR evaluates the eligible criteria having a high environmental improvement effect, as detailed in Evaluation Phase 1.

c. Processes

Projects for which funds were raised were reviewed, evaluated and selected by the Treasury staff to comply with eligibility criteria. In addition, the Corporate Communications Department personnel comprehensively analyze and examine the projects to be selected, and the finalizing decision is made by the Finance Director. The issuance of green bonds is drafted by the Finance Department and decided by resolution of the Board of Directors after being reported to the CSR Committee, which is responsible for promoting CSR and environmental activities throughout the Company. The CSR Committee is also scheduled to receive subsequent reports. JCR assesses that management is properly involved in the selection process for both the selection of funding uses and the issuance of green bonds.

The above objectives, selection criteria and processes are disclosed in supplementary documents of shelf registration to ensure the transparency for investors.

2. Appropriateness and Transparency of Management of the Proceeds

(1) JCR's Key Consideration in This Factor

The management method of the proceeds is usually assumed to be diverse by the issuer. JCR assesses whether the proceeds firmly allocated to the green project, the project have internal systems to easily track the allocation of the proceeds and the money funded by the bond will be allocated to the green project at once.

JCR also considers the evaluation of asset management of unallocated money. It also attaches importance to evaluating the management and operation of the unallocated funds, as well as to confirming that the funds procured from the bond will be allocated to the green projects at an early stage.

(2) Current Status of Evaluation Targets and JCR's Evaluation

- a The issue of the Bonds will be managed in cash or cash equivalents and will be fully allocated within one year of the issue.
- b The Company plans to prepare and track a list of procurement funds based on acceptance and payment data from the Treasury Department. The report is scheduled to be reported quarterly to the head of the Finance Department, who is a senior executive officer, including confirmation of progress.
- c Such fund management is subject to internal and external audits.
- d The filing period is longer than the redemption period.
- e Until the full allocation, the Company will manage the unallocated funds in cash or cash equivalents. It is disclosed to the investors through shelf registration documents.

Based on the above, JCR evaluates that the management of proceeds is appropriate and the transparency is ensured.

3. Reporting

(1) JCR's Key Consideration in This Factor

In this section, JCR evaluates whether the disclosure system for investors, etc. before and after the issuance of green bonds is planned in a detailed and effective manner at the time of the issuance of green bonds

(2) Current Status of Evaluation Targets and JCR's Evaluation

a. Reporting on the proceeds allocation

The Company will disclose a summary of the funded eligible projects and the allocated and unallocated amounts until the funding is fully allocated on its website. If there is a significant change in circumstances after all the funding has been allocated. The Bonds is scheduled to be fully allocated within one year.

b. Reporting on environmental improvement effects

The Company plans to disclose on its website the following indicators of environmental improvement effects once a year until the redemption of the Bonds.

- (1) Amount of unused resources (shirasu) used for the products
- (2) Amount of recycled resources (rock wool) used for the products
- (3) Amount of recycled resources (woodchips) used for the products

(4) Amount of carbon fixation

Of the above impact reporting, item (1) through (3) are appropriate as quantitative indicators for the recycling and reuse of waste or the minimization of waste through the effective use of unused resources. Item (4) is appropriate as an indicator to quantitatively show the amount of CO₂ reduction as a result of lengthening the lifecycle of timber.

Based on the above, JCR evaluates that the disclosure items and frequency of reporting are appropriately set as indicators of the environmental improvement effects. We will undergo an annual third-party review of the accuracy of reporting by maturity.

4. Environmental Initiatives of the Organization

(1) JCR's Key Consideration in This Factor

In this section, JCR evaluates whether the issuer's management positions environmental issues as a high priority management issue, and whether the green bond policy, process and the criteria for selecting green projects are clearly defined through the establishment of a department specializing in the environmental field or through the assistance of external organizations.

(2) Current Status of Evaluation Targets and JCR's Evaluation

Since its founding in 1945, the Company has been conducting business activities based on the core philosophy of effectively using wood without waste. Production of insulation boards made from construction waste began in 1958 and in 1964 and 1997 for Dai-Lotone, and Dai-Lite, respectively, and these have been improved to the present day. It contributes to the creation of a circular society by putting the production of these circular economy adapted products at the core of its business activities. The manufacture of circular economy adapted products, which are the subject of the use of proceeds for the Bonds, is consistent with the core philosophy that has been in place since the Company's founding, and can be said to be the foundation of its business activities that have been ongoing for a long time.

In 2015 (the 70th anniversary of its founding), it formulated the long-term vision, "GP25," which lays out its vision for 2025, 10 years from now. The Group's raison d'être and aspiration are to contribute to the realization of a sustainable society through the effective use of limited resources. In the medium-term management plan entitled "GP25 2nd stage (FY2019-2021)" formulated in April 2019, it sets not only financial targets but also non-financial targets. Through its businesses, the Group seeks to further solve social issues, while at the same time increasing its corporate value.

The Group has established the DAIKEN Group Environmental Policy on concrete initiatives to address environmental issues. It formulated a medium-term environmental plan and is promoting environmental activities to realize its environmental policy.

DAIKEN's Environmental Policy

1. Enhancing circular economy
2. Minimization of environmental burden
3. Supporting Biodiversity
4. Compliance
5. Communication

The Board of Directors shall determine the fields and themes of ESG that are considered particularly important for achieving the medium-term management plan after deliberations by various projects and the CSR Committee. Specific numerical targets are also set for each area and theme. Corporate Communications

Department is responsible for planning and managing progress toward achieving these goals. It obtained ISO14001 and has established an appropriate environmental management system. In addition to this, it introduced the Quality and Environmental Management System (QEMS), which integrates environmental management and quality management, in order to strengthen the quality management system in a comprehensive manner with the president as the head of this system. To ensure the effectiveness of the system, environmental auditors are trained and assigned to each plant. In addition, an internal audit is conducted once a year to continually improve the level of environmental management. In addition, related environmental data at each factory is reported to the Corporate Communications Department and is managed on a company-wide basis.

JCR evaluates these organizations' environmental initiatives is clear and identifies the senior management's high priority on environmental issues.

■ Evaluation result

Based on JCR Green Finance Evaluation Methodology, JCR assigns "g1" for the "Greenness Evaluation (use of proceeds)" and "m1" for the "Management, Operation and Transparency Evaluation." As a result, JCR assigns "Green 1" for overall "JCR Green Bond Evaluation." The Bonds are considered to meet the standards for the items required by the Green Bond Principles and the Green Bond Guideline of the Ministry of the Environment of Japan.

[JCR Green Bond Evaluation Matrix]						
		Management, Operation, and Transparency Evaluation				
		m1	m2	m3	m4	m5
Greenness Evaluation	g1	Green 1	Green 2	Green 3	Green 4	Green 5
	g2	Green 2	Green 2	Green 3	Green 4	Green 5
	g3	Green 3	Green 3	Green 4	Green 5	Not qualified
	g4	Green 4	Green 4	Green 5	Not qualified	Not qualified
	g5	Green 5	Green 5	Not qualified	Not qualified	Not qualified

■ Scope of Evaluation

Issuer: DAIKEN CORPORATION (Security Code: 7905)

[Assignment]

Subject	Issue Amount	Issue Date	Redemption Date	Interest Rate	Evaluation
1st unsecured corporate bonds (with limited inter-bond pari passu clause) (Green Bonds)	JPY 5 billion	September 20, 2019	September 20, 2022	0.200%	Green Bond Evaluation :Green1 Greenness Evaluation :g1 Management, Operation, and Transparency Evaluation :m1

(Responsible analysts for this evaluation) Atsuko Kajiwarra and Rieko Kikuchi

Important explanation of the Green Bond Evaluation

1. Assumptions, Significance, and Limitations of JCR Green Bond Evaluation

JCR Green Bond Evaluation, which is granted and provided by Japan Credit Rating Agency (JCR), is a comprehensive expression of JCR's current opinion on the extent to which the funds procured from the issuance of green bonds, which are subject to evaluation, are allocated to green projects defined by JCR and the extent to which the management, operation, and transparency of the use of green bonds are ensured. JCR Green Bond Evaluation does not fully indicate the extent to which the funds procured from such green bonds are allocated and the management, operation, and transparency of the use of the funds are ensured.

JCR Green Bond Evaluation assesses the plan or status of the appropriation of funds at the time of the green bond issuance plan or at the time of issuance, and does not guarantee the status of the appropriation of funds in the future. In addition, JCR Green Bond Evaluation does not prove the environmental effects of green bonds and is not responsible for their environmental effects. JCR confirms that the effects of the funds procured from the issuance of green bonds on the environment are measured quantitatively and qualitatively by the borrower or by a third party requested by the borrower, but in principle it does not directly measure the effects.

2. Methods used in the conduct of this evaluation

The methods used in this evaluation are listed on JCR website (Green Finance & ESG in <https://www.jcr.co.jp/en/>) as JCR Green Finance Evaluation Method.

3. Relationship with Acts Related to Credit Rating Business

JCR Green Bond Evaluation is determined and provided by JCR as a related business, which is different from the activities related to the credit rating business.

4. Relationship with Credit Ratings

The Assessment differs from the Credit Rating and does not promise to provide or make available for inspection a predetermined Credit Rating.

5. Third-party character of JCR

There is no conflict of interest related to capital or human resources relationships between the subject of this evaluation and JCR.

■Disclaimers

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■Glossary

JCR Green Bond Evaluation: JCR Green Bond Evaluation evaluates the extent to which the funds procured from the Green bond are allocated to the Green Project as defined by JCR, and the extent to which the management, operation, and transparency of the Green Loan are ensured. Evaluations are graded on a scale of 5, beginning with the top, using the Green1, Green2, Green3, Green4, and Green5 symbols.

■Status of registration as an external reviewer of green finance

- Ministry of the Environment's external green bond reviewer registration
- ICMA (registered as an observer with the International Capital Markets Association)

■Status of registration as a credit rating agency. etc.

- Credit Rating Agency: the Commissioner of the Financial Services Agency (Rating) No.1
- EU Certified Credit Rating Agency
- NRSRO: JCR has registered with the following four of the five credit rating classes of the Securities and Exchange Commission's NRSRO(Nationally Recognized Statistical Rating Organization. (1)Financial institutions, broker dealers, (2) insurance companies, (3) general business corporations, and (4) government and local governments. If the disclosure is subject to Section 17g-7(a) of the Securities and Exchange Commission Rule, such disclosure is attached to the news releases posted on the JCR website (<https://www.jcr.co.jp/en/>).

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