19-D-0885
November 29, 2019

Third party opinions on Sustainability Linked Loan to Nippon Yusen Kabushiki Kaisha Provided by syndicated loan group (Arranger: MUFG Bank, Ltd.)

Japan Credit Rating Agency, Ltd. (JCR) provided a third party opinions to Positive Impact Finance provided by MUFG Bank Ltd.

<Executive Summary>

This report aims to provide a third party opinion on whether the Sustainability Linked Loan (the "Loan") to Nippon Yusen Kabushiki Kaisha (the "Borrower") arranged by MUFG Bank, Ltd. aligns with the Sustainability Linked Loan Principles (the "SLLP") established by Loan Market Association ("LMA") or not.

In order to ensure the transparency and the objectivity of the assessments, which is recommended in the Principles, JCR, as an independent third party, assessed the appropriateness of the Sustainability Performance Target ("SPT") from the perspective of the Borrower's sustainability strategy and corporate value increase. The Borrower agreed with the lender to set its SPT as to maintain a high evaluation in CDP's Borrower's disclosure score for climate change. CDP aims to motivate companies to take actions to disclose their impacts on the environment and natural resources which leads the company to reduce their possible adverse impacts on environment. In the Borrower's business strategy and medium-term management plan, consideration of the environment is regarded as an important issue in terms of both opportunities and risks. The Borrower sets themes and goals for each area of CSR activities, reviews the status of achievement, and sets goals for the following fiscal year. Themes to be addressed in CSR are divided into four categories: "Safety," "Environment," "Human Resources," and "Governance." In particular, there are eight specific themes and 20 objectives that are further subdivided in the area of "Environment", which is the largest among other areas. The establishment of these targets and the measurement of achievements are highly correlated with the preparation of responses to CDP. It is considered that obtaining a high evaluation in CDP plays an important role in the execution of the Borrower's CSR strategy.

JCR also confirmed that incentives under the terms of the loan are set in a way that is acceptable to both parties; the impact indicators are going to monitor annually by the Borrower’s reporting score results to the lender; and that the ultimate achievements of sustainability is confirmed when the loan matures.

Based on the above considerations, JCR has confirmed that the Loan to the Borrower, which is the subject of the third-party opinions, is in conformity with the SLLP.

*For more details, please see the third party opinion report attached below.

Reasons for Evaluation of Electronic Media (Not required if the same text is used)

Third-Party Opinion

Subject of Evaluation: Sustainability Linked Loan to Nippon Yusen Kabushiki Kaisha
Provided by Syndicated Loan Group (Arranger: MUFG Bank, Ltd.)

November 29, 2019

Japan Credit Rating Agency, Ltd.

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Summary

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I. Positioning and Aims of Third-Party Opinions

Japan Credit Rating Agency, Ltd. (JCR) conducted a third-party evaluation of the Sustainability Linked Loan (the "Loan") to the Borrower arranged by MUFG Bank, Ltd. in accordance with the SLLP formulated by the LMA. Sustainability Linked Loan is a loan product, commitment line, or other line of credit, designed to contribute to the realization of a sustainable society by incentivizing Borrowers to achieve their predetermined ambitious Sustainability Performance Targets (SPT).

The SLLP consists of four principles. Principle 1: links the SPT to the Borrower's overall CSR strategy; Principle 2: target setting- Measuring the sustainability of the borrower; Principle 3: plans for regular impact reporting to lenders; and Principle 4: external review or internal review of alignment with the SLLP.

To ensure the transparency and objectivity of the evaluations recommended in Principle 4 of the SLLP, JCR, as an independent third party, aims to review whether the loan meets the first through third principles of the SLLP.

II. Outline of this Third-Party Opinion

The subject of Third-Party Opinions is a Sustainability Linked Loan, which is scheduled to be concluded with the Borrower on November 29, 2019 by the Syndicated loan, which is arranged by MUFG Bank, Ltd. The following are the evaluation items included in this third-party opinion.

1. Relationship between the Borrower's core CSR strategy and the material issues focusing on this Loan
2. Establishment and validity of the SPT, and verification of incentives under the terms of the loan
3. Appropriateness of monitoring content and methods of impact indicators
4. Appropriateness of review method

III. Confirmation of conformity of the Loan with the Sustainability Linked Loan Principles

1. Medium-Term Management Plan and Sustainability Strategy of NYK Lines ("the Borrower")

1-1. Borrower's core sustainability strategy

< Basic Principle >

The Borrower's basic principle is "Bringing Value to Life." The Borrower Group considers "delivering valuable goods and services to enrich people's lives through the development of a wide range of logistics businesses spanning ocean, land, and air transportation" and "supporting social development and protecting the global environment" to be the roles of the Borrower Group in society. As a social infrastructure, Borrowers aim to create the following social and economic values in a sustainable manner while working with various stakeholders (customers, employees, business partners, shareholders and investors, local communities, the government and municipalities), and to pass on the rich global environment and rich lives of all people for the next generation.

- Achievement of prosperity for people
- Creation of global logistics network, especially in emerging and developing countries
- Reduction of CO_2 emissions during transport
- Innovation for next-generation energy
- Prevention of ocean/air pollution, preservation of biodiversity
- Creation of employment around the world
- Provision of a stable supply chain structure
- Delivery of goods vital to daily living
- Provision of a stable supply of energy
- Revitalization of the global economy through transportation

<Business Strategy>

In the medium-term management plan (Staying Ahead 2022 with Digitalization and Green), the Borrower has three basic strategies; (1) Optimize the business portfolio, (2) Expand businesses that secure stable freight rates, and (3) Increase efficiency and create new value. Especially, "Digitalization" and "Green", which are included in the titles in the medium-term management plan, are the key to (3) Increase efficiency and create new value. The Borrower considers that Developing and introducing a ship operation information system ahead of other companies in the shipping industry and digitizing it in various aspects of business activities, such as digitization of workflow and support for safety activities, are not only lead to operational efficiency but also lead to the creation of new value for companies. With regard to "Green", the Borrower creates new business opportunities, such as the development and launch of LNG fuel tankers, the development of LNG fueling vessels and supply businesses, and the commercialization of renewable energy-related businesses. The Borrower recognizes that "Green" not only lead to new growth opportunities, but are also an important issue that cannot be avoided when considering corporate sustainability. For protection of marine resources and air pollution prevention, strict marine regulations are required in the shipping industry. From January 2020, SO_X (Sulfur Oxide) regulations have become stricter, and it is mandatory to reduce sulfur content in bunker oil to 0.5% or less. The Borrower is working to comply with these regulations taking into account costs and efficiency.

Efforts to reduce environmental negative impact are not limited to the Borrower group. For example, if automobile manufacturers, who are customers of Borrower group, want to control their own CO_2 emissions, they are likely to use ships to transport automobiles from their production sites to their sales sites. By using ships that reduce CO_2 emissions, customers will be able to further reduce CO_2 emissions during transportation. Borrower strive to identify and reduce CO_2 emissions beyond the value chain that includes all stakeholders, including customers, and the Borrower.

1-2. JCR's Evaluation

Items for Evaluation of Framework	Evaluation Results by JCR
How does the SPT set by the borrower align with its sustainability target in its Corporate Social Responsibility Strategy?	The Borrower set CDP scores as SPT. CDP score is designed to motivate corporates to disclose their impact for environmental and natural resource and to take actions to reduce negative impacts, as discussed in detail in the next chapter. In the Borrower's business strategy and medium-term management plan, consideration of the environment is regarded as an important issue in terms of both opportunities and risks. The Borrower sets themes and goals for each area of CSR activities, reviews the status of achievement, and sets goals for the following fiscal year. Themes to be addressed in CSR are divided into four categories: "Safety," "Environment," "Human Resources," and "Governance." In particular, there are eight specific themes and 20 objectives that are further subdivided in the area of "Evaluation". The establishment of these targets and the measurement of achievement are highly correlated with the preparation of responses to CDP. It is considered that obtaining a high evaluation in CDP plays an important role in the execution of the Borrower's CSR strategy.
Is information on overall sustainability targets, strategies, policies or processes provided to lenders?	Information on overall sustainability targets, strategies, policies, or processes of the Borrower is widely disclosed, including to lenders, through the Integrated Report (NYK Report) and responses to CDP.
Does the Borrower disclose the standards and certifications that trying to comply with?	The Borrower obtained, as environmental-related standards and certifications, (1) ISO14001,(2)third-party verification of CO_2 emissions related to SCOPE1 ~ 3, and (3)second opinions for green finance. The Borrower also disclosed them.

2. Establishment and validity of the SPT, and verification of incentives under the terms of the Loan

2-1. Outline of the SPT established by the Borrower

The Borrower maintains a high CDP ranking as SPT. The Borrower has begun responding to CDP for two reasons: CDP is one of the most reliable sustainability rating in the world and is broadly known globally. Second, It aims to increase its credibility by disclosing the strategies against climate change, managing risks and opportunities and their efforts in the past to present to their stakeholders.

CDP is a project in which institutional investors work together to require companies to disclose their strategies and specific CO_2 emissions. This is useful as a means of engaging investors in measures against climate change, etc. required by the Principles for Responsible Investment. Disclosure by corporates is expected to create a dialogue on sustainability, primarily related to climate change and other environmental issues, between investors and companies. Since the project started in 2000, questionnaires have been sent annually to companies with large market capitalization in major countries, and the rate of responses from companies has been increasing year by year. In 2018, more than 7,000 companies and 750 governments around the world disclosed their responses to CDP. Their responses have basically been published, and the scoring according to the content of the efforts has been published worldwide. It is becoming one of the important indicators for measuring corporate value.

Only a very limited number of corporates are ranked in to A list of CDP, which is the Borrower ranked in this year. The response documents are divided into three sectors: Climate Change, Forest Conservation, and Water Management. The A-ranked companies consist of only 139 companies out of 7,000 companies in the climate change sector, seven companies in the forest conservation sector, and 31 companies in the water safety sector. Borrowers also achieved the top score in the shipping industry.

CDP takes a scoring method for evaluation, and the questionnaire consists of four levels (Disclosure, Awareness, Management, and Leadership). It is structured so that companies will not reach the next level unless it clears 45% or more of the score bands in each level of the table below.

Level	Climate Change	Water Management	Forest Conservation	Scoreband
Disclosure	0-44%	0-44%	0-44%	D-
	45-79%	45-79%	45-79%	D
Awareness	0-44%	0-44%	0-44%	C-
	45-79%	45-79%	45-79%	C
Management	0-44%	0-44%	0-44%	B-
	45-79%	45-79%	45-79%	B
Leadership	0-79%	0-79%	0-79%	A-
	80-100%	80-100%	80-100%	A

The Borrower raises ESG and Management strategies integration in its management plan and positioned the environment as one of the material issues for the entire NYK Group. The Borrower has set environmental targets (CO2 reduction targets) to be achieved by 2050 in line with the Paris Agreement. Through interviews with the Borrowers, JCR confirmed that the Borrower believes that maintaining a high evaluation of CDP is closely linked to achieve the Borrower's environmental targets and initiatives toward them, since it can objectively evaluate the progress of efforts in environment.

The following is a summary of the main disclosure and impact of the Borrowers' initiatives to address climate change disclosed in CDP.

(1) Governance

- ✓ Impact Category: Climate Change
- ✓ Detail: Management's responsibilities and governance mechanisms focusing on climate change issues, the responsibilities of subordinates of the board of directors, organizations and committees specifically established in connection with climate change, incentives for employees working on climate change, etc.
- ✓ Response: The responsibilities and decision-making processes of the President and members of the Board of Directors for climate change are clearly defined in NYK Line. The Safety and Environmental Management Committee (SEMC) is also a member of the management team, which sets and verifies key CO_2 emissions reductions and short-term targets for the long-term targets (50% reduction in t/km basis by 2050). Group Environmental Management Liaison Meetings are also held annually, with domestic relationship companies participating. Various award systems have been also introduced as incentives for climate change.
- ✓ KPI: None

(2) Risks and Opportunities

- ✓ Impact Category: Climate Change
- ✓ Detail: (1)Identification of risk categories related to climate change, assumption of serious risks, and estimation of costs
  (2)Identification of climate change-related opportunities and cost estimates required to realize business opportunities
- ✓ Response: Borrowers perceive risks such as tighter regulations (now and in the future), fuel shifts from technological innovation, market conditions, reputation, litigation, natural disasters (impact on the value chain as a whole), etc.
  Opportunities that Borrowers are aware include reduced financing costs from green financing, cost reductions from efficient transportation, production of low CO_2-emission products, cost reductions from efficient use of resources, and expansion demand for LNG as consumers shift to low-emission fuels.
- ✓ KPI: Estimated costs of assumed risks and opportunities

(3) Business Strategy

- ✓ Impact Category: Climate Change
- ✓ Detail: How does the Borrower link climate change issues to business strategies?
- ✓ Response: The Borrower builds a unique environmental management system (status on ISO14001) and builds a business linking corporate strategies with CO_2 emissions reductions, as well as exploring new

business opportunities related to climate change. The Borrower is also building a long-term environmental strategy aimed at introducing eco-ships in 2050. ✓ KPI: Achievement of the long-term decarbonization plan symbolized by the NYK SUPER ECO SHIP 2050 and medium-term management plan.

(4) Targets and performance

✓ Impact Category: Climate Change ✓ Detail: Setting science based target and other targets in Scope 1, 1+2. Budgets for reducing CO_2 emissions, lower CO_2 emissions compared to other means of transport when vessels are used ✓ Response: The Borrower sets targets and confirms achievements each year. ✓ KPI: Rate of CO_2 emissions reduction (on a per-unit basis)

(5) CO_2 emissions methodology and CO_2 emissions data

✓ Impact Category: Climate Change ✓ Detail: Methods of calculating CO_2 emissions, standards, protocols and methods, etc. used to collect Scope 1 and 2 data. ✓ Response: The Borrower monitors the operational effectiveness of vessels by environmental Management Indicator. ✓ KPI: CO_2 emissions (t/km) (by scope, country, and business segments)

(6) Energy

✓ Impact Category: Climate Change ✓ Details: Ratio of energy to total working capital, type of heat source, and consumption by heat source ✓ Response: The Borrower uses 10-15% of their total working capital for energy consumption. ✓ KPI: Energy consumption by heat source (MWh)

(7) Additional Metrics, Verification, Carbon Pricing, Engagement, etc.

✓ Impact Category: Climate Change ✓ Detail: Setting of climate change-related targets, ratio of research and development expenditure for low carbon to total R&D expenditure, verification used for monitoring, etc. ✓ Response: Third party verification is obtained for calculating the SCOPE 1-3. Low carbon investments account for 21-40% of R&D expenditure. The Borrower is also working on carbon offsetting. ✓ KPI: Acquisition status of verification report, R&D expenditure, etc.

2-2. Confirmation of incentive setting in terms of loans

To provide an incentive for the sustainability of Borrowers, the syndicated loan provides that interest rates will not rise due to CDP ratings until the repayment deadline as long as high CDP ratings are maintained. JCR confirmed that both the lender and the Borrower agreed on the terms.

2-3. JCR impact assessment

In order to confirm that the indicator contributes to the sustainable growth of Borrowers, JCR has examined the impact of the SPT from the five factors presented in the PIF principles: (1) diversity, (2) effectiveness, (3) efficiency, (4) multiplicity, and (5) additionality, in accordance with the concept of impact measurement in the principles of positive impact finance (hereinafter referred to as "PIF") developed by the United Nations Environment Programme.

(1) Diversity: Is there a diversity of positive impacts? (Impact on the entire value chain, impact by business segment, Region impact, etc.)
Although the scope of disclosure in CDP is limited because the impact category focuses primarily on climate change, it covers all business activities (general freight forwarding, bulk shipping and other businesses) undertaken by Borrowers worldwide (28 countries). CO_2 emissions cover the entire range from SCOPE 1 to 3. Disclosure and monitoring of diverse aspects of climate change can be expected to have a positive impact on climate change countermeasures in a comprehensive manner.
(2) Effectiveness: Is there a significant impact? (Sales, business activities, geographical areas targeted by the SPT, and businesses that perform SPT measurements Market Share of Activities in Japan and Overseas)
It has a significant impact because it covers all business activities and the entire world. In fiscal 2018, net sales from all business activities were JPY 1,829.3 billion. According to a survey conducted by the French Alpher Liner, as of December 24, 2017, the Borrowers ranked 10th in the world in terms of the volume of time-container ships in operation. In 2018, ONE (Ocean Network Express) was the sixth largest in the world in terms of volume of containerships, which was launched in 2017 after the consolidation of the containership operations of the three companies, including Borrowers. In the bulk carrier business, the company ranked first in the world in terms of the exclusive automobile fleet (as of the end of December 2018) and second in terms of the ranking of dry bulker fleet (as of January 1, 2019). The impact of Borrowers' activities in the shipping industry is generally significant.
(3) Efficiency: Is there a large impact relative to invested capital?
<u>Financial Invested Capital</u> Borrowers identify risks and opportunities associated with climate change and calculate costs for each potential risk and opportunity. The total cost of responding to the risk is estimated to be JPY 78.715 billion, and the financial effect realized by cost reduction through the creation of business opportunities and the efficiency of resources is estimated to be JPY 57.753 billion (net). Thus, the cost of responding to climate change exceeds the financial effect. On the other hand, in light of the fact that costs for dealing with risks account for only about 4% of net sales, that the majority of costs are inevitable to comply with IMO SO_X regulations, and that responding proactively to environmental issues leads to the maintenance and expansion of the current business, the positive impact is greater. <u>Human Invested Capital</u> The Environmental Group responds to CDP, and the Borrower believes that the positive impact exceeds the human capital input. Through this work, the awareness of environmental issues increased throughout the company. As a

result, not only the environmental group but also other related departments voluntarily formed an inter-company task force to exchange information and opinions for the realization of TCFD. In addition, the Borrower has increased the disclosure of environmental-related KPIs in its financial statements, and management is aware of the need to enhance disclosure.
(4) Multiplicity: Degree of utilization of private funds for public funds or donations
Official funding related to climate change initiatives in the shipping industry is basically not assumed in Japan, but is financed by private funding, including Borrowers.
(5) Additionality: Is there any additional impact? Are the impacts contributing to SDGs areas where they are unable to achieve or respond poorly? Is it a major step toward realizing SDGs?
Each indicator is considered to have additional impacts on multiple Goals and Targets among the SDGs 17 Targets and 169 Targets as follows:

Goal 3: Ensure healthy lives and promote well-being for all at all ages

Target 3.9. By 2030, substantially reduce the number of deaths and illnesses from hazardous chemicals and air, water and soil pollution and contamination

Goal 9: Build resilient infrastructure, promote 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

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

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

3. Appropriateness of monitoring content and methods of impact indicators

The Borrower will report the score results of CDPs set as SPTs to the MUFG Bank, Ltd., arranger, as soon as they are received from CDP. MUFG Bank, Ltd. confirms the information disclosed and the status of achievements at the time of receiving the report, and has meetings as necessary.

With regard to the above-mentioned monitoring, JCR has confirmed that the content and methods of monitoring are appropriate based on the SLLP items described below.

Items for Evaluation of Framework	Evaluation Results by JCR
Should the Borrower provide, where possible, up-to-date information on the SPT (e.g., external ESG ratings) and be available immediately, and should such information be provided to financial institutions participating in the loan at least annually?	Responses to CDP are submitted annually. The Borrower expects to report to the lender on the response and the results of the scoring once a year and is appropriate.
Since transparency is particularly important in this market, Borrowers should publish information on the SPT. Are such information scheduled to be published, such as in the Borrower's annual report or CSR report? (* This does not have to be publicly disclosed at all times and, where appropriate, the Borrower may choose to share this information privately with the lender, rather than making it publicly available.)	All responses to CDP are made available on the following CDP website and are highly transparent. https://www.cdp.net/en/responses?utf8=%E2%9C%93 & queries%5Bname%5D=Nippon+Yusen
Does the Borrower also provide details of the underlying valuation methodology and/or assumptions (recommendations)?	CDP scoring methods are available on the Group's website and are available to lenders.

4. Appropriateness of methodology of review

4-1. Method of reviewing concerning the appropriateness of the SPT established by the Borrower

The respondents to CDP on climate change submitted by the Borrower are evaluated by experts belonging to CDP on the basis of established scoring methods, and the accuracy of the information and the figures in the response is also verified as necessary by a third-party organization.

4-2. Appropriateness of the Loans aligning with SLLP

When financing the loan, JCR plans to conduct a third-party evaluation with the consent of the Borrower and the MUFG Bank, Ltd., compile this Opinion, and distribute it to investors (or members of syndicated loans) as a third-party organization regarding the alignment of the loan to the SLLP. Post-disbursement reporting will be evaluated by reviewing the SPT, which is reviewed annually, by the lender.

IV. Conclusion

Based on the above considerations, JCR has confirmed that the loan to the Borrower aligns with the SLLP.

Important explanation of this third-party opinion

1. Assumptions, Significance, and Limitations of JCR Third-party opinions

   Third-party opinions granted by Japan Credit Rating Agency, Ltd. (JCR) represent JCR's current comprehensive opinion on conformity with the principles of Sustainability Linked Loan Principles (SLLP) formulated by the Loan Market Association (LMA) and the Positive Impact Financial Principles (PIF) formulated by the United Nations Environment Programme Finance Initiative (UNEP FI), and do not fully represent the extent of the positive impacts that such assessments have.

   This third-party opinion is based on information provided by the client and information independently collected by JCR and is not intended to evaluate the current plans or conditions. This third-party opinion does not quantitatively demonstrate the positive effect of the Sustainability Linked Loan and does not represent a responsibility for its effectiveness. JCR confirms that the funds procured from this project are quantitatively and qualitatively measured by the Borrower or a third party requested by the Borrower in terms of the degree of achievement of the impact indicators set by the Company, but in principle does not directly measure these indicators.

2. International initiatives, principles, etc. referenced in the implementation of this assessment

   In performing this assessment, JCR referred to the following principles and guides developed by LMA and UNEP FI.
   - Sustainability Linked Loan Principles
   - Positive Impact Financial Principles
   - Positive Impact Finance Model Framework with Unlimited Capital Uses

3. Relationship with Acts Related to Credit Rating Business

   Providing this third-party opinion is undertaken by JCR as a related activity and does not constitute an activity relating 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 conflicts of interest related to capital or human resources relationships between the subject of this evaluation and JCR.

■Glossary

Third-Party Opinion: This Report expresses an independent opinion on the suitability of Loan Market Association's Sustainability Linked Loan Principles for sustainability-linked loans extended by lenders to Borrowers from an independent, neutral, and impartial standpoint at the request of the lender.

■ Registration as an External Evaluator of Sustainable Finance

- Members of the United Nations Environment Programme Financial Initiative Positive Impact Working Group
- Ministry of the Environment's external green bond reviewer registration
- Climate Bonds Initiative Approved Verifier (Climate Change Initiative Accreditation Verification Organization)
- ICMA (registration as an observer with the International Association of Capital Markets as an external evaluator) Member of the Working Group on Principles of Social Bonds

■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 17 g-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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