



Second Opinion

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Nippon Yusen K.K. Sustainability Linked Loan

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Rating and Investment Information, Inc. (R&I) reviewed the first foreign currency denominated Sustainability Linked Loan in Japan where Nippon Yusen K.K. (NYK) and The Shiga Bank, Ltd. are a borrower and lender, respectively, as an external party to provide a review under the Sustainability Linked Loan Principles (SLLP) and the Expected Elements of Sustainability Linked Loans described in the Ministry of the Environment's Green Loan and Sustainability Linked Loan Guidelines 2020. This opinion is based on the following views.

■ Outline of the Opinion

(1) Relationship between the borrower's strategy regarding its comprehensive social responsibility and the SPTs

Under its corporate philosophy "Bringing value to life" established in 2018, NYK engages in its daily activities with the belief that it should play a role in contributing to a sustainable society and environment in addition to delivering the essential items and services to the people that need them and to the desired places. NYK positioned ESG as a management strategy in the medium-term target "Staying Ahead 2022 with Digitalization & Green" formulated in 2018 with the recognition that transportation industry, not only maritime shipping, uses a large amount of fossil fuels, which has an impact on the global environment, and the industry is under constant pressure to improve in terms of responding to climate change and preserving the environment. The recently announced "NYK Group ESG Story" describes specific initiatives to integrate ESG into management strategy. NYK aims to become a Sustainable Solution Provider, focusing on projects for zero emissions such as reduction of greenhouse gas (GHG) emissions and use of renewable energy and alternative energy, as well as the creation of a framework for promoting ESG management.

The SPT set by NYK this time is to obtain a high rating on the CDP Climate Change Score. CDP, which is an NPO established for the purpose of promoting the disclosure of information on the environmental activities of companies, distributes three types of questionnaires on climate change, water security and forests to companies around the world, receiving replies from around over 9,600 of them. The Climate Change Score, obtained by replying to the CDP's climate change questionnaire, indicates the level of a company's environmental activities, including disclosure of information on climate change, awareness of risks, risk management, and strategies for addressing climate change issues. NYK considers the CDP Score as an opportunity for reaffirming its commitment to ESG, with its key strategic goal of obtaining a high rating.

(2) Setting of SPTs and measurement of improvements in the borrower's sustainability

To obtain a CDP Climate Change Score, a company must first answer the CDP's climate change questionnaire. With the primary concern about GHG reductions, the questionnaire inquires the disclosure of information on climate change, awareness of risks, risk management and strategies for addressing climate change issues. For the reduction target, it is emphasized that targets are set based on Science Based Targets (SBTs). NYK acquired SBT certification in 2018, aiming to reduce Scope 1 GHG emissions per ton-kilometer by 30% by 2030 and 50% by 2050 from the 2015 level. As of the end of December 2020, there are only two companies mainly engaged in maritime shipping in the world that have acquired SBT certification, with the initiatives for which will be the key to obtaining a high rating of the CDP Climate Change Score.

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NYK has been rated highly on the CDP Climate Change Score. However, the structure of the CDP questionnaire varies from sector to sector, and different scoring criteria and scoring category weightings are applied, making it difficult for sectors with high GHG emissions to be rated highly in general. In addition, thresholds, weightings, and questions are revised in response to social requests, etc. including those from the Task Force on Climate-related Financial Disclosures (TCFD). In addition to GHG reductions, the 2021 questionnaire is expected to include "Net zero." While many responding companies are making efforts to obtain A, it is necessary to always be "Staying Ahead" in the industry in environmental activities in order to maintain a high rating. It is not easy to maintain the high rating in the CDP Climate Change Score. These SPTs are sufficiently ambitious targets for NYK.

(3) Reporting

The result of NYK's CDP Climate Change Score is disclosed annually on the CDP website. In response, NYK will disclose the status of its SPT achievement directly to the related parties and also to the public on its website.

(4) Review

NYK has requested R&I, a third party, to check the alignment with the Sustainability Linked Loan Principles, with the approval of Shiga Bank.

1. Relationship between the borrower's strategy regarding its comprehensive social responsibility and the SPTs

'Relationship between the borrower's strategy regarding its comprehensive social responsibility and the SPTs' of the loan is in alignment with the SLLP from the perspectives of the below (1) and (2).

(1) Comprehensive Social Responsibility Strategies and SPTs

[1] Comprehensive Social Responsibility Strategies of the Borrower

Since its foundation in 1885, NYK has contributed to the development of the world economy and the improvement of people's lives through "transportation services" including maritime shipping. Its main businesses are global logistics business, centered on liner trade, air cargo and logistics, and bulk shipping business, centered on dry bulk, energy and car transportation. Under its corporate philosophy "Bringing value to life"¹ established in 2018, with the wish to be the existence bringing the value to all living things and the environment while realizing prosperous lives and daily fulfillment for people around the world, NYK engages in its daily activities with the belief that it should play a role in contributing to a sustainable society and environment in addition to delivering the essential items and services to the people that need them and to the desired places.

At present, NYK operates its business under the medium-term management plan "Staying Ahead 2022 with Digitalization & Green" announced in 2018. In order to strengthen three material issues of "Safety," "Environment" and "Human Resources" and to continuously create new value in the spirit of "half a step ahead," NYK set its basic strategies: (1) Optimize the business portfolio, (2) Secure stable-freight-rate business, and (3) Increase efficiency and create new values. This medium-term plan is characterized by placing not only establishing a stable profit structure but also tackling the environmental issues "ESG" through business activities at the core of management strategy. The logistics industry, not only maritime shipping, generally uses a large amount of fossil fuels, and it has always been an issue to reduce and improve the efficiency of its own energy consumption. In recent years, there has also been a growing social request to reduce GHG from the viewpoint of the supply chain. It has become essential for the long-term growth of the Group to place ESG at the core of management strategy.

The "Digitalization & Green" at the center of the ESG strategy aims to differentiate NYK from other companies and increase the corporate value with three pillars: (1) applying the latest digital technologies for the optimization of the entire supply chain to reduce CO2 emissions and meet social requests, (2) engaging in green businesses such as offshore wind power generation and research on next-generation energy, and (3) conducting thorough progress management.

¹ The NYK Group traces its origins back to the maritime shipping industry started by Yataro Iwasaki, the founder of the Mitsubishi Group. This philosophy reflects Iwasaki's sense of mission and spirit since the company's foundation—"If we launch a ship, the benefits will be widespread, and the resulting prosperity will be felt by many."



[Provided by NYK]

NYK has recently announced the "NYK Group ESG Story" to clarify its approach and specific efforts to integrate "ESG" into its management strategy, with (1) initiatives to create new values (safe operations, reduction of GHG emissions, challenges in the energy field, contribution to solving social issues); (2) strengthening of human resources and organizations; and (3) strengthening of the management base. In particular, under the "(3) Strengthening of the management base" NYK showed that, in addition to the conventional "financial perspectives" metrics for all employee codes of conduct, the second metrics "ESG" would be added to promote an internal awareness revolution, and that an "ESG Management Promotion Committee" would be established to confirm and evaluate the progress of ESG Story, establish company-wide policies and targets, and confirm the direction by adding external experts. By doing so, NYK will enhance its competitiveness, and pursue the creation of corporate and social values as a "Sustainable Solution Provider" that aims to solve social issues and create new values through business.

[2] Sustainability Performance Targets (SPTs)

The SPT is to maintain a high rating on the CDP Climate Change Score.

CDP is a U.K.-based NPO established in 2000 aiming to disclose information on companies' environmental activities and encourage actions. In response to requests from investors and suppliers, it distributes to companies, collects, compiles, and evaluates three types of questionnaires on climate change, water security, and forests. The Climate Change Score is an assessment given to companies that have completed the Climate Change Questionnaire among the three questionnaires, and is expressed in eight levels of A, A-, B, B-, C, C-, D, and D- from the perspectives of: (1) disclosure of environmental activities; (2) awareness of risks; (3) risk management; and (4) leadership. The CDP Climate Change Score is published on the CDP website together with the company's written response.

NYK has responded to the climate change questionnaires every year since 2010 and maintained high ratings.

Changes in the CDP Climate Change Score (NYK)

	2016	2017	2018	2019	2020
Climate Change Score	A-	A-	A	A-	A

[From the CDP website]

[3] Relationship between the Sustainability Goals and SPTs

NYK places "ESG" at the core of its management strategy, considering that obtaining the CDP Climate Change Score will enable it to comprehensively and objectively assess its ESG strategies, including those for environmental risks around it, reducing GHGs, and its governance system, and to move on to the next strategies.

With regards to the above [1], [2], and [3], NYK clearly communicated its sustainability goals established in the strategy regarding its comprehensive social responsibility and that those goals are in line with the SPTs to Shiga Bank.

(2) Prior Explanation to the Lender

NYK disclosed in December 2020 the standards that the SPTs would comply with to Shiga Bank, the lender, and provided a prior explanation.

2. Setting of SPTs and Measurement of Improvements in the Borrower's Sustainability

'Setting of SPTs and measurement of improvements in the borrower's sustainability' of the loan is in alignment with the SLLP from the perspectives of the below (1) to (4).

(1) Method of Setting SPTs

NYK and Shiga Bank negotiated the terms of the bond in light of the objectiveness of SPTs, reasonableness of the plan, and reporting, etc. to set SPTs.

(2) Details of SPTs

The number of companies obtaining the CDP Climate Change Score is increasing year by year. In 2020, 9,526 companies in the world responded to the CDP Climate Change Questionnaire. Among them, A was given to 273 companies, of which 53 were Japanese companies (as of January 26, 2021).

The CDP Score is scored based on the company's response to the Questionnaire. Companies answer the questionnaire for their relevant sector according to CDP's sector classification. The 2020 Climate Change Questionnaire has 112 questions, each of which is scored on four levels of disclosure, awareness, management, and leadership, to be assessed on achieving the thresholds successively set for each level.

The most important factor in assessing the CDP Climate Change Score is GHG reduction. For the reduction target in particular, it is emphasized that targets are set based on SBTs. NYK acquired SBT certification in 2018, aiming to reduce Scope 1² GHG emissions per ton-kilometer by 30% by 2030 and 50% by 2050 from the 2015 level³. Toward the 2030 target, NYK is tackling the "reduction" of GHG

2020 Climate Change Questionnaire - Structure



General Sector Questions (Number of questions: 112)

C0. Introduction	Company overview, reporting year, and boundary setting
C1. Governance	Treatment of climate-related issues
C2. Risks and opportunities	Details of risks and opportunities for the company
C3. Business strategy	Business strategy considerations, scenario analysis, and low-carbon transition plans
C4. Targets and performance	Reduction targets and emissions performance from reduction activities
C5. Emissions methodology	Calculation methodology for Scopes 1 and 2 emissions
C6. Emissions data	Scopes 1, 2 and 3 emissions data
C7. Emissions breakdown	Emissions breakdown by country, GHG type, business sector, and facility
C8. Energy	Energy consumption and low-carbon energy consumption
C9. Additional metrics	Production volume and related metrics by sector
C10. Verification	Verification/assurance undertaken for Scopes 1, 2 and 3 emissions
C11. Carbon pricing	Carbon tax/emission regulations, internal carbon pricing
C12. Engagement	Climate-related engagement with suppliers, customers and others
C15. Signoff	Person who made the final decision in submitting the response

[Prepared by R&I based on the information provided by CDP]

² Sources of manageable direct emissions. It is one of the international standards for calculation and disclosure of GHG emissions which are now widely used worldwide. The NYK Group mainly calculates GHG emissions from operating ships and aircrafts.

³ In general, SBT means that all companies reduce their total emissions at the same rate; however, since the actual state of emissions and the progress in reduction initiatives in the past differ depending on the business category, etc., setting targets using the Sectoral Decarbonization Approach (SDA) to the intensity is allowed for some industries.

emissions by means such as developing ship technology, including the introduction of LNG vessels, and improving vessel allocations, operations, and cargo handling efficiency through digitalization. Moreover, for the 2050 target, NYK will eliminate GHG emissions themselves by developing the next-generation energy (hydrogen and ammonia) and changing energy sources. With no less than 90% of NYK's GHG emissions currently coming from ship fuels, how these plans are implemented will be the key.

NYK has been rated highly on the CDP Climate Change Score. The CDP questionnaire varies from sector to sector in its structure, and different scoring criteria and scoring category weightings are applied, making it difficult for sectors with high GHG emissions to be rated highly in general. In addition, thresholds, weightings, and questions are revised in response to social requests, etc. including those from the TCFD. In addition to GHG reductions, the 2021 questionnaire is expected to include "Net zero." While many responding companies are making efforts to obtain A, it is necessary to always be really "Staying Ahead" in the industry in environmental activities in order to maintain a high rating. It is not easy to maintain the high rating in the CDP Climate Change Score.

SPTs relate to material issues in NYK's businesses and are ambitious and meaningful, and also are tied to improvements in NYK's sustainability in relation to the predetermined benchmarks for SPTs. SPTs will be applicable over the life of the bond and capture positive and negative impacts that NYK's business activities would have on the environment and society comprehensively, and are expected to bring considerable positive impacts in relation to sustainability as a whole.

(3) Linkage with the Terms of the Bond, etc.

Interest rate spreads applied during each interest payment period are set for three levels; i.e., CDP Score of SPTs at A or A-, B or B-, and C or lower. The terms of the bond are linked to NYK's performance against SPTs.

(4) Appropriateness of SPTs

With regards to the appropriateness of SPTs, a Second Opinion has been obtained from R&I, an independent third party. CDP is an independent third-party organization, which makes the CDP Climate Change Score of SPTs objective. It is disclosed to the public on the CDP website around every winter.

<Reference> CDP Climate Change Score

CDP is an international NPO established in London in 2000. It aims to build a truly sustainable economy by driving investors, companies and cities to measure and understand the environmental impact that their own activities inflict. In 2003, in response to the request from 35 institutional investors, CDP started collecting information using questionnaires, analyzed and assessed collected responses, and disclosed information on 245 companies. With information disclosure through CDP increasing every year, in 2020, more than 9,600 companies around the world responded, upon the requests from no less than 515 investors (Over \$106 trillion in assets under management) and no less than 155 client companies (\$4 trillion in procurement spend). CDP is very highly recognized in the market.

The questionnaires are broadly divided into three categories of climate change, water security and forests. Companies answer the questionnaire for the sector that they belong to according to CDP’s sector classification. The total number of questions on climate change in 2020 was 112. The questionnaire covers a wide range of topics, including governance, risks and opportunities, business strategies, targets and performance, Scope 1 and Scope 2 emissions and their calculation methods, energy consumption, and carbon pricing. Each question is scored at four levels of disclosure, awareness, management, and leadership, and then scores are added up for each level. For the scoring of management and leadership, weighting assigned to each scoring category is applied to determine the score at each level.

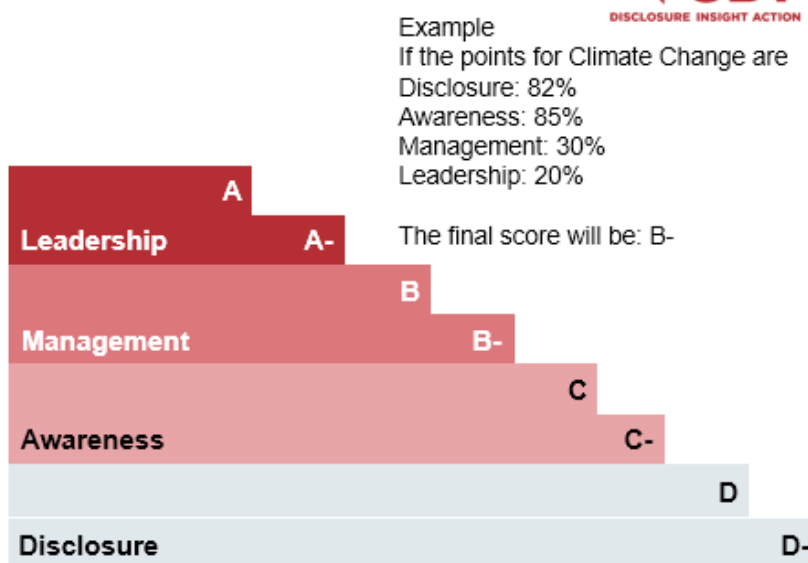
The score at each level must achieve the threshold set for each level in the order of disclosure, awareness, management, and leadership (refer to the figure below) to go up to the next level. For example, if the disclosure score is 82%, the awareness score is 85%, the management score is 30%, and the leadership score is 20%, the disclosure score is above the threshold (79%), the awareness score is also above the threshold (79%), but the management score falls under the threshold of 1 - 44%, resulting in the final score of B-.

The final rating is displayed by eight levels of A, A-, B, B-, C, C-, D, and D-. In order to obtain the highest A rating, it is necessary to meet the A List requirements⁴ in addition to achieving all of the above thresholds as well as to satisfy the requirement that there is no reputation issues. Finally, adjustments are made so that the A rating will be about 5% of the total.

CDP Points Allocation – Score Band



Climate Change	Water Security	Forests
60-100%	65-100%	65-100%
1-59%	1-64%	1-64%
45-69%	45-74%	45-74%
	1-44%	
	45-79%	
	1-44%	
	45-79%	
	1-44%	



[Prepared by R&I based on the information provided by CDP]

⁴ No significant relevant exclusions present, verification of at least 70% of both Scope 1 and Scope 2 total emissions individually, and reporting of both Scope 1 and Scope 2 total emissions, etc.

The content of questions and the weightings of scoring change according to social requests and others. The questionnaire in 2018 was drastically rearranged in response to the TCFD recommendations published in the preceding year. In 2019, the proportion of "Governance" became relatively low in the management and leadership scores, while "Energy (renewable energy)" and "GHG reduction target (SBT)" were heavily weighted, making it difficult for sectors with high GHG emissions to receive high ratings. The 2021 questionnaire is expected to include "Net zero." It is getting harder and harder to get an A rating.

The questionnaires for 2021 will be sent to companies in February, with the results to be compiled early December.

3. Reporting - Reporting to the lender and public disclosure -

'Reporting' of the loan is in alignment with the SLLP from the following perspective.

- The result of NYK's CDP Climate Change Score is disclosed annually on the CDP website. In response, NYK will disclose the status of its SPT achievement directly to the related parties and also to the public on its website. This will allow Shiga Bank to obtain the latest information regarding the status of achieving SPTs.
- NYK intends to announce that the financing is based on the SLLP. Public disclosure of information relating to SPTs will ensure transparency.

4. Review - By External Party -

'Review' of the loan is in alignment with the SLLP from the following perspective.

- NYK judged that objective assessment is necessary in relation to '1. Relationship between the borrower's strategy regarding its comprehensive social responsibility and the SPTs,' '2. Setting of SPTs and measurement of improvements in the borrower's sustainability,' and '3. Reporting' of the framework for the sustainability linked loan and requested R&I, an external party, for the review. R&I evaluated the alignment of the instrument with the SLLP to prepare a Second Opinion. Shiga Bank accepted that R&I prepares a Second Opinion.
- R&I's Second Opinion will be provided to Shiga Bank. R&I will disclose the Second Opinion on its websites as long as the loan remains outstanding. The performance data used for SPTs will be disclosed publicly through NYK's websites, etc.

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