



Second-Party Opinion

Japan Excellent, Inc.

Green Finance Framework

Evaluation Summary

Sustainalytics is of the opinion that the Japan Excellent, Inc. Green Finance Framework is credible and impactful and aligns with the four core components of the Green Bond Principles 2021 and the Green Loan Principles 2021. This assessment is based on the following:



USE OF PROCEEDS The eligible category for the use of proceeds, Green Buildings, is aligned with those recognized by the Green Bond Principles and the Green Loan Principles. Sustainalytics considers that investments in the eligible category will lead to positive environmental impacts and advance the UN Sustainable Development Goals, specifically SDG 9.



PROJECT EVALUATION / SELECTION The Sustainability Council of Japan Excellent Asset Management Co., Ltd., the asset management company of Japan Excellent, Inc., will evaluate and select projects based on the eligibility criteria and sustainability policy. Japan Excellent, Inc. has a process to identify environmental and social risks at the time of acquisition of properties. This process will be applied to all allocation decisions made under the Framework. Japan Excellent, Inc.'s processes are aligned with market practice.



MANAGEMENT OF PROCEEDS Japan Excellent, Inc. will manage the green finance proceeds using a portfolio approach and review the outstanding balance of green financing instruments to ensure that the balance does not exceed the sum of the Debts of Eligible Green Assets and the total amount of expenditures incurred for renovation works that meet the Eligibility Criteria. Sustainalytics confirmed that Japan Excellent, Inc. intends to conduct this management annually. Pending allocation, the amount equal to the unallocated funds will be held in cash or cash equivalents. This process is aligned with market practice.



REPORTING Japan Excellent, Inc. intends to disclose allocation and impact reporting for the proceeds annually on its corporate website. The report will include the statement that all proceeds have been allocated to Eligible Green Assets in addition to quantitative environmental performance indicators. Sustainalytics is of the opinion that the reporting is in line with market practice.

Evaluation date October 19, 2021

Issuer Location Tokyo, Japan¹

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Alignment with Japan's Green Bond Guidelines 2020 and Expected Elements of Green Loans under the Green Loans and Sustainability Linked Loan Guidelines 2020

Sustainalytics is of the opinion that the Japan Excellent, Inc. Green Finance Framework is in line with Japan's Green Bond Guidelines 2020 and Expected Elements of Green Loans under the Green Loans and Sustainability Linked Loan Guidelines 2020 (elements described with the word "should") developed by the Ministry of the Environment of Japan.

¹ This document is an update of the second-party opinion published June 28, 2018.

Introduction

Japan Excellent, Inc. (“JEI” or the “Investment Company”) is a Japanese real estate investment trust (J-REIT) headquartered in Tokyo. It primarily focuses on investments in office buildings across major metropolitan areas in Japan. The Investment Company was established and listed on the Tokyo Stock Exchange in 2006. JEI entrusts the management of its assets to Japan Excellent Asset Management Co., Ltd. (“JEAM”).

JEI has developed the Japan Excellent, Inc. Green Finance Framework (the “Framework”) in June 2018 and updated in October 2021. Under the Framework, JEI intends to issue green bonds and/or loans and use the proceeds to finance and/or refinance, projects that generate environmental benefits. The Framework defines eligibility criteria in the following area:

1. Green Buildings

JEI engaged Sustainalytics to review the Japan Excellent, Inc. Green Finance Framework, dated October 2021, and provide a Second-Party Opinion on the Framework’s environmental credentials and its alignment with the Green Bond Principles 2021 (GBP),² Green Loan Principles 2021 (GLP),³ Japan’s Green Bond Guidelines 2020⁴ as well as expected elements of green loans under the Green Loan and Sustainability Linked Loan Guidelines 2020⁵. This Framework has been published in a separate document.⁶

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

Sustainalytics’ Second-Party Opinion reflects Sustainalytics’ independent⁷ opinion on the alignment of the reviewed Framework with the current market standards and the extent to which the eligible project categories are credible and impactful.

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

- The Framework’s alignment with the GBP as administered by ICMA, GLP as administered by LMA, and Japan’s Green Bond Guidelines 2020 as well as expected elements of green loans under the Green Loan and Sustainability Linked Loan Guidelines 2020;
- The credibility and anticipated positive impacts of the use of proceeds; and
- The alignment of the issuer’s sustainability strategy and performance and sustainability risk management in relation to the use of proceeds.

For the use of proceeds assessment, Sustainalytics relied on its internal taxonomy, version 1.11.1, which is informed by market practice and Sustainalytics’ expertise as an ESG research provider.

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

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

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

² The Green Bond Principles are administered by the International Capital Market Association and are available at <https://www.icmagroup.org/green-social-and-sustainability-bonds/green-bond-principles-gbp/>.

³ The Green Loan Principles are administered by the Loan Market Association, Asia Pacific Loan Market Association and Loan Syndications & Trading Association and are available at <https://www.lsta.org/content/green-loan-principles/>

⁴ Ministry of the Environment, Japan, “Green Bond Guidelines, 2020”, at http://www.env.go.jp/policy/guidelines_set_version_with%20cover.pdf

⁵ Ministry of the Environment, Japan, “Green Loan and Sustainability Linked Loan Guidelines 2020”, at:

http://www.env.go.jp/policy/guidelines_set_version_with%20cover.pdf

⁶ The Japan Excellent, Inc. Green Finance Framework is available on JEI’s website at: <https://www.excellent-reit.co.jp/en/esg/green-bond.html>.

⁷ When operating multiple lines of business that serve a variety of client types, objective research is a cornerstone of Sustainalytics and ensuring analyst independence is paramount to producing objective, actionable research. Sustainalytics has therefore put in place a robust conflict management framework that specifically addresses the need for analyst independence, consistency of process, structural separation of commercial and research (and engagement) teams, data protection and systems separation. Last but not the least, analyst compensation is not directly tied to specific commercial outcomes. One of Sustainalytics’ hallmarks is integrity, another is transparency.

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

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

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

Sustainalytics' Opinion

Section 1: Sustainalytics' Opinion on the Japan Excellent, Inc. Green Finance Framework

Sustainalytics is of the opinion that the Japan Excellent, Inc. Green Finance Framework is credible and impactful, and aligns with the four core components of the GBP and GLP. Sustainalytics highlights the following elements of the Framework:

- Use of Proceeds:
 - The eligible category, Green Buildings, is recognized by the GBP and GLP as a project category with positive environmental benefits. Please refer to Section 3 for Sustainalytics' in-depth assessment of positive environmental benefits expected from the use of proceeds.
 - Regarding use of proceeds related to Green Buildings, JEI intend to allocate the proceeds to assets/projects that meet the following criteria (hereinafter, the "Eligibility Criteria A" and "Eligibility Criteria B" respectively).
 - Eligibility Criteria A:
 - A real property that has achieved one of the top three levels of DBJ Green Building Certification or CASBEE for Real Estate within three years from the payment date of green bond or the execution date of green loan
 - Eligibility Criteria B:
 - Renovation works that aim at reducing the amount of CO₂ emissions, or energy consumption by at least 20% compared to that before the renovation
 - Renovation works that aim at newly obtaining a green building certification stipulated under Eligible Criteria A or improving the level of the certification by at least one level
 - JEI intends to allocate proceeds to the acquisition or to the refinancing of loans for funding the acquisition of the properties that meet Eligibility Criteria A, which are defined as "Eligible Green Assets". While Sustainalytics considers that buildings that have achieved one of top three levels of the aforementioned third-party green building certification schemes will produce positive environmental impacts, it also recognizes that it is a market practice to, for the purpose of ensuring positive environmental impacts at a higher level, limit the scope of eligible projects to buildings that have achieved one of the top two levels of respective certification schemes. (For details of respective green building certification schemes, please refer to Appendix 3.)
 - JEI may use green bond and/or loan proceeds to finance renovation works that aim at achieving any of Eligibility Criteria B. Sustainalytics is of the opinion that JEI's eligibility criteria for renovation works, based on the thresholds and green building certifications, are in line with market practice.
 - JEI will allocate the proceeds to commercial buildings, mainly office buildings. Sustainalytics confirmed that JEI will not allocate any proceeds to industrial buildings.
- Project Evaluation and Selection:

- The Sustainability Council of JEAM, the asset management company of JEI, will evaluate and select projects based on the eligibility criteria and sustainability policy. The Council is composed of the President & CEO, the Manager of Planning and Management Division, the Manager of Real Estate Investment Division, the Compliance Officer, and head of each department of JEAM.
- JEI has a process to identify, at the time of acquiring a property, environmental and social risks including soil contamination and harmful substances used and/or stored. This process will be applied to all allocation decisions made under the Framework. Sustainalytics is of the opinion that the Group has an adequate system to manage environmental and social risks. Please refer to Section 2 for details.
- JEI's process for evaluating and selecting projects is aligned with market practice.
- Management of Proceeds:
 - The allocation of proceeds is tracked using a portfolio approach. JEAM's Finance and Accounting Department will ensure annually, using a spreadsheet, that the outstanding balance of green finance does not exceed the sum of the Debts of Eligible Green Assets (to be calculated by multiplying the total book value of Eligible Green Assets as of the end of the immediately preceding fiscal year by LTV⁸) and the total amount of expenditures incurred for renovation works that meet Eligibility Criteria B.
 - JEI has committed to allocating all green finance proceeds within 36 months after the issuance of green bonds or the execution of a green loan. Pending allocation, the amount equal to the unallocated proceeds will be held in cash or cash equivalents.
 - Sustainalytics is of the opinion that JEI's process to manage proceeds is in line with market practice.
- Reporting:
 - As long as green finance instruments are outstanding, JEI will annually disclose allocation and impact reporting for the proceeds on its website.
 - Within its allocation reporting, JEI will disclose that all proceeds were allocated to Eligible Green Assets and that the amount of outstanding green financing instruments is not in excess of the sum of Debts of Eligible Green Assets and the total amount of expenditures incurred for renovation works that meet the Eligibility Criteria, in addition to the total amount of the total book value of Eligible Green Assets, the Debts of Eligible Green Assets, and the balance of green finance as of the end of December every year.
 - Impact reporting will include, in addition to the number of certified Eligible Green Assets and the type and level of certification, quantitative indicators relating to the Eligible Green Assets (where JEI has energy control authority), such as electricity consumption, water consumption, and CO₂ emission, as well as the effect of improvement when the proceeds are used for renovation works that meet the eligibility criteria B.
 - Sustainalytics is of the opinion that the Investment Company's reporting on allocation and positive environmental impacts is in line with market practice.

Alignment with Green Bond Principles 2021 and Green Loan Principles 2021

Sustainalytics has determined that the Japan Excellent, Inc. Green Finance Framework aligns to the four core components of the GBP and GLP. For detailed information please refer to Appendix 3: Green Bond/Green Bond Programme External Review Form.

Alignment with Japan's Green Bond Guidelines 2020 and Expected Elements of Green Loans under the Green Loans and Sustainability Linked Loan Guidelines 2020

Japan's Green Bond Guidelines 2020 and Green Loans and Sustainability Linked Loan Guidelines 2020 communicate what an issuer should do to issue a credible green bond and loan. Sustainalytics assessed the alignment between the Framework and the elements described with the word "should" outlined in the Japan's Green Bond Guidelines 2020 and Expected Elements of Green Loans under the Green Loans and Sustainability Linked Loan Guidelines 2020. For detailed information please refer to Appendix 2: Alignment with Japan's

⁸ Loan to Value (LTV) is calculated by dividing the total amount of interest-bearing liabilities by total asset value.

Green Bond Guidelines 2020 as well as Expected Elements of Green Loans under the Green Loans and Sustainability Linked Loan Guidelines 2020.

Section 2: Sustainability Strategy of JEI

Contribution of framework to JEI's sustainability strategy

JEI and JEAM are committed to reducing environmental burden that may be resulted from the portfolio based on their sustainability policy.⁹ They also identified material issues in the fields of environment, society, and governance (ESG). The following three important issues are specified in the environmental area: (1) Promotion of measures against climate change through reduction of environmental burden, etc.; (2) Acquisition of environmental certification; and (3) Collaboration with tenants concerning environmental considerations.¹⁰ JEI and JEAM sets out the following policies and goals for these key environmental areas in their pursuit of sustainability through its business.

- JEI and JEAM have set a target of reducing energy, CO₂, and water use intensity by an average of 1% per year, 5% from the average of FY2015 to FY2019 over 5 years from FY2020 to FY2024 as medium-to long-term goal.¹¹
- JEI and JEAM are committed to obtaining third-party green building certifications. As of September 8, 2021, 22 of the 35 properties they own have received DBJ Green Building Certification and one property has received a CASBEE Certification for Real Estate. As for existing properties, they are also engaged in efforts to improve environmental performance through renovation works aimed at reducing energy and water consumption.¹²

Given the above-mentioned sustainability policy, targets, and initiatives, Sustainalytics is of the opinion that the Framework is consistent with JEI's and JEAM's company-wide sustainability strategy, and their intended use of proceeds will provide support for their initiatives to reduce environmental burden arising from their portfolio.

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

Sustainalytics recognizes that, while the eligible category defined by JEI in the Framework, Green Buildings, has been recognized by the GBP and GLP to have positive environmental impacts, it may lead to environmental and social risks. Major environmental and social risks associated with the use of proceeds include energy and water consumption, waste emissions, adverse effects on people's health due to exposure to harmful substances, and noise and vibration associated with renovation works. Sustainalytics highlights, as important elements of the Framework, the following measures that JEI and JEAM use to manage and mitigate potential risks:

- JEI confirmed that, when conducting due diligence on a property, it will identify potential soil pollution and examine the use and storage of harmful substances such as PCBs, asbestos, and chlorofluorocarbons, in order to reduce environmental risks and ensure safety and health. JEI also confirmed that if any harmful substance is detected, appropriate measures will be taken to control, store, and process the substance in accordance with laws and regulations. In the due diligence process, JEI ensures the aversion of environmental and social risks including soil pollution and the use and storage of harmful substances by performing in-house inspections and investigations and through the use of outside experts.¹³
- With the aim of reducing environmental load associated with the operation of its properties, JEI measures energy consumption, CO₂ emissions, water usage, and the amount of waste for all of its owned properties, and JEAM's Sustainability Council monitors the results.¹⁴

Based on the above-mentioned procedures and processes, Sustainalytics is of the opinion that JEI and JEAM has in place, adequate measures and is well positioned to manage environmental and social risks associated with the planned use of proceeds.

⁹ Japan Excellent, Inc., "Policy and Structure", at: <https://www.excellent-reit.co.jp/en/esg/>

¹⁰ Japan Excellent, Inc., "Materiality (Material Issues) and SDGs", at: <https://www.excellent-reit.co.jp/en/esg/material.html>

¹¹ Japan Excellent, Inc., "Environment", at: <https://www.excellent-reit.co.jp/en/esg/environment.html>

¹² Japan Excellent, Inc., "Environment", at: <https://www.excellent-reit.co.jp/en/esg/environment.html>

¹³ Japan Excellent, Inc., "Japan Excellent, Inc. ESG Report", at: https://www.excellent-reit.co.jp/assets/file/esg_report_en.pdf

¹⁴ Japan Excellent, Inc., "Environment", at: <https://www.excellent-reit.co.jp/en/esg/environment.html>

Section 3: Impact of Use of Proceeds

The eligible category for the use of proceeds defined by JEI in the Framework is aligned with those recognized by the GBP, GLP, Japan's Green Bond Guidelines 2020, and the expected elements of green loans under the Green Loan and Sustainability Linked Loan Guidelines 2020. Sustainalytics explains why the project category produces positive environmental impacts in Japan as follows:

Importance of green buildings

As of FY2019, the final energy consumption by buildings in Japan increased by about 20% from the level of FY1990¹⁵, and CO₂ emissions from buildings accounts for about 30% of Japan's total CO₂ emissions.^{16 17} Given the significance of buildings in Japan's energy demand and CO₂ emissions, the government enacted in 2015 the Act on the Improvement of Energy Consumption Performance of Buildings (Building Energy Efficiency Act)¹⁸, to improve buildings' energy efficiency. As part of these efforts, the government has been making it mandatory in stages to achieve the energy consumption performance standards for buildings. Furthermore, in 2020, the government submitted the Nationally Determined Contributions (NDC)¹⁹, and committed itself therein to the reduction of GHG emissions by 26% by 2030 from the level of FY2013, and set a goal of reducing CO₂ emissions from buildings by about 40% to achieve the GHG emission reduction goal for FY2030.

JEI intends to allocate the green bond or green loan proceeds to the acquisition of real properties with third-party green building certificates, as well as to the expenditures relating to the renovation works that are aimed at obtaining such certificates and improving environmental performance. Items to be evaluated under the DBJ Green Building Certification and CASBEE for Real Estate Certification, which are specified by JEI in the eligibility criteria, include energy efficiency, water use, waste discharge, and other environmental performance metrics. Given the above, Sustainalytics is of the opinion that JEI's use of proceeds will be expected to reduce environmental burden arising from buildings located in Japan and contribute to the achievement of the government's climate change goals by reducing buildings' energy consumption and CO₂ emissions.

Alignment with/contribution to SDGs

The Sustainable Development Goals (SDGs) were set in September 2015 by the United Nations General Assembly and form an agenda for achieving sustainable development by the year 2030. The bonds and loans issued under the Japan Excellent, Inc. Green Finance Framework advances the following SDG and target:

Use of Proceeds Category	SDG	SDG target
Green Buildings	9. Industry, innovation and infrastructure	9.4 By 2030, upgrade infrastructure and retrofit industries to make them sustainable, with increased resource-use efficiency and greater adoption of clean and environmentally sound technologies and industrial processes, with all countries taking action in accordance with their respective capabilities

¹⁵ Agency for Natural Resources and Energy, "FY2019 Energy Supply and Demand Report (Final Figures) (Japanese only)", at: <https://www.meti.go.jp/press/2021/04/20210413004/20210413004-1.pdf>

¹⁶ "Greenhouse Gas Emissions in Fiscal Year 2019 (Final Figures) (Japanese only)", at: <https://www.env.go.jp/press/files/jp/116118.pdf>

¹⁷ Final energy consumption by buildings and CO₂ emission were obtained by combining the residential sector's data and the commercial and other sector's data.

¹⁸ Ministry of Land, Infrastructure, Transport and Tourism, "Overview of the Building Energy Efficiency Act (Detailed Explanatory Session) (Japanese only)", at: <https://www.mlit.go.jp/common/001178846.pdf>

¹⁹ Submission of Japan's Nationally Determined Contribution", at: <https://www.env.go.jp/press/files/jp/113675.pdf>

Conclusion

JEI has developed the Japan Excellent, Inc. Green Finance Framework under which it may issue green bonds and/or loans and use the proceeds to finance projects related to Green Buildings. Sustainalytics considers that the projects funded by the green bond proceeds are expected to provide positive environmental impact.

The Framework outlines a process by which proceeds will be tracked, allocated, and managed, and commitments have been made for reporting on the allocation and impact of the use of proceeds. Furthermore, Sustainalytics believes that the Framework is aligned with the overall sustainability strategy of the Investment Company and that the green use of proceed category will contribute to the advancement of the UN Sustainable Development Goal 9. Additionally, Sustainalytics is of the opinion that JEI has adequate measures to identify, manage and mitigate environmental and social risks commonly associated with the eligible projects funded by the proceeds.

Based on the above, Sustainalytics is confident that JEI is well-positioned to issue green bonds and/or loans and that the Framework is robust, transparent, and in alignment with the four core components of the GBP, GLP, Japan's Green Bond Guidelines 2020 and expected elements of green loans under the Green Loan and Sustainability Linked Loan Guidelines 2020.

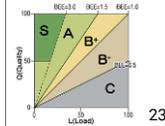
Appendices

Appendix 1: Overview of Green Building Certification Schemes

	DBJ Green Building Certification ²⁰	CASBEE Certification ²¹
Background	The Development Bank of Japan (DBJ) Green Building Certification Programme was launched by Development Bank of Japan in 2011 and is operated in conjunction with the Japan Real Estate Institute (JREI), a major appraisal firm in Japan. The certification scheme is recognized as one of Japan's major regional standards. The certification is available for office buildings, logistics, residential, and retail facilities.	The Comprehensive Assessment System for Built Environment Efficiency (CASBEE) Certification is a green building certification scheme in Japan, which a third party certifies the environmental performance of buildings. The certification scheme includes, based on types of buildings: CASBEE for Buildings, CASBEE for Real Estate, and CASBEE for Housing.
Certification levels	1 Star 2 Stars 3 Stars 4 Stars 5 Stars	C (Poor) B- (Slightly Poor) B+ (Good) A (Very Good) S (Excellent) * 4-grade evaluation for CASBEE for Real Estate excluding C rank
Areas of Assessment: Environmental Project Management	Evaluation of DBJ Green Building Certification includes construction specifications, environmental features as well as social factors.	CASBEE assesses two main factors: inside and outside the building site, which translate into Q (Built Environment Quality) and, L (Built Environment Load), respectively. * The above are not applied to CASBEE for Real Estate
Areas of Assessment: Environmental Performance of the Building	<ul style="list-style-type: none"> •Energy & Resources (Energy conservation, resource conservation, etc.) •Amenity (Convenience and comfort) •Resilience (Environmental risks, legal compliance, etc.) •Community & Diversity (Consideration for the surrounding environment and biodiversity, etc.) •Partnership (information disclosure, etc.) 	<ul style="list-style-type: none"> • Energy Efficiency • Resource efficiency • Local environment • Indoor environment * Areas for assessment of CASBEE for Real Estate are energy/GHG, water, resource, biodiversity, indoor environment
Requirements	<p>Score-based performance level.</p> <p>The assessment has a full score of 300 points and consists of 85 questions, 73 of which are regular questions and 12 of which are questions on innovative initiatives.</p> <p>JREI will conduct on the ground review of building performance on the indicators above, and a committee set in JREI will decide the result of certification rank.</p>	<p>Score-based performance level.</p> <p>CASBEE uses the BEE (Built Environment Efficiency) as its assessment indicator, which is calculated from Q (Built Environment Quality) as the numerator and L (Built Environment Load) as the denominator. Q and L are obtained through the classification and rearrangement of the four areas of assessment.</p> <p>Buildings may receive ranks ranging from C (poor) to S (excellent), in order of increasing BEE value.</p> <p>For authorization, a building must receive a report from the CASBEE Certification system, which is afterwards assessed by the local government.</p>

²⁰ Development Bank of Japan, Japan Real Estate Institute (JREI), "DBJ Green Building", at: <http://igb.jp/en/index.html>.

²¹ Institute for Building Environment and Energy Conservation, "CASBEE certification scheme (Japanese only)", at: <http://www.ibec.or.jp/CASBEE/certification/certification.html>.

		<p>* CASBEE for Real Estate does not use BEE, additional point system. Certification will not be given, if required item are not met.</p>
<p>Performance display</p>	 <p>22</p>	 <p>23</p>
<p>Qualitative considerations</p>	<p>In addition to LEED and CASBEE, DBJ Green Buildings Certification Programme is considered as one of the green building standards in Japan. According to its website, as of March 2021, 1073 properties in Japan are certified by the programme.²⁴</p>	<p>CASBEE is continuously developed based on industry-government-academia collaboration under the support of Ministry of Land, Infrastructure, Transport and Tourism. In Japan, many local governments have made CASBEE assessment results mandatory for building permits.</p>

²² Development Bank of Japan, "DBJ Green Building", at: http://www.dbj.jp/en/pdf/service/finance/g_building/gb_presentation.pdf.

²³ Institute for Building Environment and Energy Conservation, "Method of Evaluation and Built Environment Efficiency (BEE)", at: http://www.ibec.or.jp/CASBEE/CASBEE_outline/method.html.

²⁴ Development Bank of Japan, Japan Real Estate Institute (JREI), "DBJ Green Building", at: <http://igb.jp/en/index.html>

Appendix 2: Alignment with Japan’s Green Bond Guidelines 2020 and Expected Elements of Green Loans under the Green Loans and Sustainability Linked Loan Guidelines 2020

Four elements	Alignment	Sustainalytics’ comments
1. Use of Proceeds	Yes	The use of proceeds category defined by JEI in this Framework, Green Building, is recognized in Japan’s Green Bond Guidelines 2020 and Green Loans and Sustainability Linked Loan Guidelines 2020 as a project category with clear environmental benefits. The Investment Company also provides, in the Framework, explanations about its measures to manage and mitigate environmental risks associated with the eligible projects, allowing investors to access in advance. In addition, the Investment Company has confirmed to Sustainalytics that in case of refinancing Eligible Green Assets through multiple issuances of green bonds or execution of green loans, it will disclose the asset’s age, remaining useful life, and the amount of refinancing at the time of issuance whenever possible. The Investment Company also confirmed that, as stipulated by the Green Loan and Sustainability Linked Loan Guidelines 2020 as an expected element of green loans, in case of using green loans as part of multi-tranche loans, it will clearly designate green tranches to enable tracking in an appropriate manner.
2. Process for Project Evaluation and Selection	Yes	In the Framework, the Investment Company explains environmental goals that it aims to achieve through the issuance of green bonds or the execution of green loans. It also explains, in the Framework, the eligibility criteria and the process for assessing and selecting projects.
3. Management of Proceeds	Yes	JEI confirmed to Sustainalytics that, until the maturity of green bonds or green loans, JEAM’s Finance and Accounting Department will manage the proceeds and ensure, annually that the outstanding balance of green financing instruments is not in excess of the sum of the Debts of Eligible Green Assets and the total amount of expenditures incurred for renovation works that meet the Eligibility Criteria. Pending allocation, the amount equal to the unallocated proceeds will be held in cash or cash equivalents.
4. Reporting	Yes	In the Framework, JEI explained that it will provide allocation reporting and impact reporting annually until the maturity of green bonds or green loans. It also made a commitment to disclose on a timely basis in the event of material changes. In allocation reporting, JEI will disclose that all proceeds are allocated to Eligible Green Assets and that the outstanding balance of green financing instruments is not in excess of the sum of the Debts of Eligible Green Assets and the total amount of expenditures incurred for renovation works that meet the Eligibility Criteria. In addition, JEI has committed to Sustainalytics to disclosing a list and summary of the eligible green assets or renovations to which the proceeds were allocated, the amount allocated to each eligible green asset or renovation, the amount or percentage of unallocated funds, the expected timing of the allocation, and the management method. Impact reporting will include the number of certified Eligible Green Assets and the type and level of certification, the effect of improvement when the proceeds are used for renovation works that meet eligibility criteria B, and quantitative indicators including the amounts of electricity and water consumed by, and the amount of CO ₂ emitted from, Eligible Green Assets.

Appendix 3: Green Bond / Green Bond Programme - External Review Form

Section 1. Basic Information

Issuer name:	Japan Excellent, Inc.
Green Bond ISIN or Issuer Green Bond Framework Name, if applicable:	Japan Excellent, Inc. Green Finance Framework
Review provider's name:	Sustainalytics
Completion date of this form:	October 19, 2021
Publication date of review publication:	

Section 2. Review overview

SCOPE OF REVIEW

The following may be used or adapted, where appropriate, to summarise the scope of the review.

The review assessed the following elements and confirmed their alignment with the GBP:

- | | |
|--|--|
| <input checked="" type="checkbox"/> Use of Proceeds | <input checked="" type="checkbox"/> Process for Project Evaluation and Selection |
| <input checked="" type="checkbox"/> Management of Proceeds | <input checked="" type="checkbox"/> Reporting |

ROLE(S) OF REVIEW PROVIDER

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

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

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

Please refer to Evaluation Summary above.

Section 3. Detailed review

Reviewers are encouraged to provide the information below to the extent possible and use the comment section to explain the scope of their review.

1. USE OF PROCEEDS

Overall comment on section (*if applicable*):

The eligible category for the use of proceeds Green Buildings, is aligned with those recognized by the Green Bond Principles and the Green Loan Principles. Sustainalytics considers that investments in the eligible category will lead to positive environmental impacts and advance the UN Sustainable Development Goals, specifically SDG 9.

Use of proceeds categories as per GBP:

- | | |
|---|--|
| <input type="checkbox"/> Renewable energy | <input type="checkbox"/> Energy efficiency |
| <input type="checkbox"/> Pollution prevention and control | <input type="checkbox"/> Environmentally sustainable management of living natural resources and land use |
| <input type="checkbox"/> Terrestrial and aquatic biodiversity conservation | <input type="checkbox"/> Clean transportation |
| <input type="checkbox"/> Sustainable water and wastewater management | <input type="checkbox"/> Climate change adaptation |
| <input type="checkbox"/> Eco-efficient and/or circular economy adapted products, production technologies and processes | <input checked="" type="checkbox"/> Green buildings |
| <input type="checkbox"/> Unknown at issuance but currently expected to conform with GBP categories, or other eligible areas not yet stated in GBP | <input type="checkbox"/> Other (<i>please specify</i>): |

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

2. PROCESS FOR PROJECT EVALUATION AND SELECTION

Overall comment on section (if applicable):

The Sustainability Council of Japan Excellent Asset Management Co., Ltd., the asset management company of Japan Excellent, Inc., will evaluate and select projects based on the eligibility criteria and sustainability policy. Japan Excellent, Inc. has a process to identify environmental and social risks at the time of acquisition of properties. This process will be applied to all allocation decisions made under the Framework. Japan Excellent, Inc.'s processes are aligned with market practice.

Evaluation and selection

- | | |
|--|---|
| <input checked="" type="checkbox"/> Credentials on the issuer's environmental sustainability objectives | <input checked="" type="checkbox"/> Documented process to determine that projects fit within defined categories |
| <input checked="" type="checkbox"/> Defined and transparent criteria for projects eligible for Green Bond proceeds | <input checked="" type="checkbox"/> Documented process to identify and manage potential ESG risks associated with the project |
| <input checked="" type="checkbox"/> Summary criteria for project evaluation and selection publicly available | <input type="checkbox"/> Other (<i>please specify</i>): |

Information on Responsibilities and Accountability

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

3. MANAGEMENT OF PROCEEDS

Overall comment on section (if applicable):

Japan Excellent, Inc. will manage the green finance proceeds using a portfolio approach and review the outstanding balance of green financing instruments to ensure that the balance does not exceed the sum of the Debts of Eligible Green Assets and the total amount of expenditures incurred for renovation works that meet the Eligibility Criteria. Sustainalytics confirmed that Japan Excellent, Inc. intends to conduct this management annually. Pending allocation, the amount equal to the unallocated funds will be held in cash or cash equivalents. This process is aligned with market practice.

Tracking of proceeds:

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

Additional disclosure:

- Allocations to future investments only
 Allocations to both existing and future investments
- Allocation to individual disbursements
 Allocation to a portfolio of disbursements
- Disclosure of portfolio balance of unallocated proceeds
 Other (please specify):

4. REPORTING

Overall comment on section (if applicable):

Japan Excellent, Inc. intends to disclose allocation and impact reporting for the proceeds annually on its corporate website. The report will include the statement that all proceeds have been allocated to Eligible Green Assets in addition to quantitative environmental performance indicators. Sustainalytics is of the opinion that the reporting is in line with market practice.

Use of proceeds reporting:

- Project-by-project
 On a project portfolio basis

- Linkage to individual bond(s) Other (please specify):

Information reported:

- Allocated amounts Green Bond financed share of total investment
- Other (please specify): A statement that all proceeds were allocated to Eligible Green Assets and that the sum of the amount of outstanding green financing instruments and the total amount of expenditures incurred for renovation works that meet the Eligibility Criteria is not in excess of the Debts of Eligible Green Assets, in addition to the total book value of Eligible Green Assets, the Debts of Eligible Green Assets and the balance of green finance as of the end of December every year.

Frequency:

- Annual Semi-annual
- Other (please specify):

Impact reporting:

- Project-by-project On a project portfolio basis
- Linkage to individual bond(s) Other (please specify):

Information reported (expected or ex-post):

- GHG Emissions / Savings Energy Savings
- Decrease in water use Other ESG indicators (please specify): The number of certified Eligible Green Assets, the total amount of the leasable floor space of the Eligible Green Assets, electricity consumption, and water consumption, as well as the effect of improvement when the proceeds are used for renovation works that meet eligibility criteria B.

Frequency

- Annual Semi-annual
- Other (please specify):

Means of Disclosure

- | | |
|---|--|
| <input type="checkbox"/> Information published in financial report | <input type="checkbox"/> Information published in sustainability report |
| <input type="checkbox"/> Information published in ad hoc documents | <input checked="" type="checkbox"/> Other (please specify):
JEI's website |
| <input type="checkbox"/> Reporting reviewed (if yes, please specify which parts of the reporting are subject to external review): | |

Where appropriate, please specify name and date of publication in the useful links section.

USEFUL LINKS (e.g. to review provider methodology or credentials, to issuer's documentation, etc.)

SPECIFY OTHER EXTERNAL REVIEWS AVAILABLE, IF APPROPRIATE**Type(s) of Review provided:**

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

Review provider(s):**Date of publication:****ABOUT ROLE(S) OF INDEPENDENT REVIEW PROVIDERS AS DEFINED BY THE GBP**

- i. **Second-Party Opinion:** An institution with environmental expertise, that is independent from the issuer may issue a Second-Party Opinion. The institution should be independent from the issuer's adviser for its Green Bond framework, or appropriate procedures, such as information barriers, will have been implemented within the institution to ensure the independence of the Second-Party Opinion. It normally entails an assessment of the alignment with the Green Bond Principles. In particular, it can include an assessment of the issuer's overarching objectives, strategy, policy and/or processes relating to environmental sustainability, and an evaluation of the environmental features of the type of projects intended for the Use of Proceeds.
- ii. **Verification:** An issuer can obtain independent verification against a designated set of criteria, typically pertaining to business processes and/or environmental criteria. Verification may focus on alignment with internal or external standards or claims made by the issuer. Also, evaluation of the environmentally sustainable features of underlying assets may be termed verification and may reference external criteria. Assurance or attestation regarding an issuer's internal tracking method for use of proceeds, allocation of funds from Green Bond proceeds, statement of environmental impact or alignment of reporting with the GBP, may also be termed verification.
- iii. **Certification:** An issuer can have its Green Bond or associated Green Bond framework or Use of Proceeds certified against a recognised external green standard or label. A standard or label defines specific criteria, and alignment with such criteria is normally tested by qualified, accredited third parties, which may verify consistency with the certification criteria.
- iv. **Green Bond Scoring/Rating:** An issuer can have its Green Bond, associated Green Bond framework or a key feature such as Use of Proceeds evaluated or assessed by qualified third parties, such as specialised research providers or rating agencies, according to an established scoring/rating methodology. The output may include a focus on environmental performance data, the process relative to the GBP, or another benchmark, such as a 2-degree climate change scenario. Such scoring/rating is distinct from credit ratings, which may nonetheless reflect material environmental risks.

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

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

About Sustainalytics, a Morningstar Company

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

