

Kyushu Railway Company (Green Bond 2021)

Type of Engagement: Annual Review

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Introduction

In April 2021, Kyushu Railway Company (“JR Kyushu”) issued a green bond (the “Green Bond”) aimed at financing and/or refinancing projects related to Clean Transportation and Green Buildings. As of December 31, 2021 the proceeds have been allocated to five projects related to Clean Transportation and Green Buildings. In February 2022, JR Kyushu engaged Sustainalytics to review the projects funded through the Green Bond and assess whether the projects met the Use of Proceeds criteria and the Reporting commitments outlined in the Kyushu Railway Company Green Bond Framework (the “Framework”).¹

Evaluation Criteria

Sustainalytics evaluated the projects funded with proceeds from April 2021 to December 2021 based on whether the projects:

1. Met the Use of Proceeds and Eligibility Criteria outlined in the Framework; and
2. Reported on the impact indicators for each Use of Proceeds criteria outlined in the Framework.

Table 1 lists the Use of Proceeds, Eligibility Criteria, and associated impact indicators for the Use of Proceeds category to which the proceeds were allocated.

Table 1: Use of Proceeds, Eligibility Criteria, and associated impact indicators

Use of Proceeds	Eligibility Criteria		Impact indicators
Clean Transportation	Train Cars	<ul style="list-style-type: none"> • Investments in relation to manufacturing, remodeling or replacement of train cars powered by electricity • Investments in relation to manufacturing, remodeling or replacement of hybrid train cars 	<ul style="list-style-type: none"> • Overview of eligible projects • Number of train cars newly introduced in a year • Reduction in CO₂ emission through introduction of new-model train cars
	Railway-related Facilities	<ul style="list-style-type: none"> • Investments in relation to repair and replacement of railway-related facilities as measures to cope with intensifying natural disasters (torrential rainfalls, typhoons, among others), due to climate changes, that strike Kyushu area. • Investments in relation to maintenance, repair and replacement of railway-related facilities 	<ul style="list-style-type: none"> • Overview of eligible projects • Situation of damages due to natural disaster • Progress of implementation of disaster prevention work • Details of work in relation to maintenance, repair and renewal of railway-related facilities • Progress of installation of platform doors (Number of stations with platform door installation)

¹ The Kyushu Railway Company Green Bond Framework is available at:
https://www.jrkyushu.co.jp/company/ir_eng/library/greenbond/pdf/greenbond_framework_en.pdf

			<p>completed/Total number of stations)</p> <ul style="list-style-type: none"> Progress of other railway-related infrastructure that has been maintained, repaired, or upgraded, if any.
<p>Green Buildings</p>	<p>Investments in relation to construction of buildings near stations and the facilities of the Company to be obtained the green building certifications</p> <p><Eligible Certifications> LEED -BD+C (Building Design and Construction) or LEED-O+M (Building Operations and Maintenance): Gold or Premium CASBEE for Buildings (New Construction, Existing Buildings, and Renovation) or CASBEE for Real Estate: A or S Rank BELS: 4 or 5 Stars DBJ Green Building Certification: 4 or 5 Stars</p>		<ul style="list-style-type: none"> Overview of eligible projects Status of acquisition of certification (expected timing of acquisition/level of acquired certification) Reduction in annual CO₂ emission and energy consumption through green building Progress of revitalization of regions, mainly in Kyushu, through new buildings and urban development

Issuing Entity’s Responsibility

JR Kyushu is responsible for providing accurate information and documentation relating to the details of the projects that have been funded, including description of projects, amounts allocated, and project impact.

Independence and Quality Control

Sustainalytics, a leading provider of ESG and corporate governance research and ratings to investors, conducted the verification of JR Kyushu’s Green Bond Use of Proceeds. The work undertaken as part of this engagement included collection of documentation from JR Kyushu employees and review of documentation to confirm the conformance with the Framework.

Sustainalytics has relied on the information and the facts presented by JR Kyushu with respect to the Nominated Projects. Sustainalytics is not responsible nor shall it be held liable if any of the opinions, findings, or conclusions it has set forth herein are not correct due to incorrect or incomplete data provided by JR Kyushu.

Sustainalytics made all efforts to ensure the highest quality and rigor during its assessment process and enlisted its Sustainability Bonds Review Committee to provide oversight over the assessment of the review.

Conclusion

Based on the limited assurance procedures conducted,² nothing has come to Sustainalytics’ attention that causes us to believe that, in all material respects, the reviewed bond projects, funded through proceeds of JR Kyushu’s Green Bond, are not in conformance with the Use of Proceeds and Reporting Criteria outlined in the Framework.

² Sustainalytics limited assurance process includes reviewing the documentation relating to the details of the projects that have been funded, including description of projects, and project impact, which were provided by the Issuer. The Issuer is responsible for providing accurate information. Sustainalytics has not conducted on-site visits to projects.

Detailed Findings

Table 2: Detailed Findings

Eligibility Criteria	Procedure Performed	Factual Findings	Error or Exceptions Identified
Use of Proceeds Criteria	Verification of the projects funded by the Green Bond from April 2021 to December 2021 to determine if projects aligned with the Use of Proceeds Criteria outlined in the Framework and above in Table 1.	All projects reviewed complied with the Use of Proceeds criteria.	None
Reporting Criteria	Verification of the projects funded by the Green Bond from April 2021 to December 2021 to determine if impact of projects was reported in line with the impact indicators outlined in the Framework and above in Table 1. For a list of impact indicators reported please refer to Appendix 2.	All projects reviewed reported on impact indicators per Use of Proceeds criteria.	Exceptions (As the employee training center, in which the proceeds were allocated in the Green Building category, was under reconstruction as of December 31, 2021, JR Kyushu has not reported the reduction in annual CO ₂ emission through the building)

Appendices

Appendix 1: Allocation of Green Bond Proceeds

Use of Proceeds Category	Sub category	Overview of Project	Net Bond Proceeds Allocation (billion JPY)
Clean Transportation	Train Cars	<ul style="list-style-type: none"> • Manufacturing of 821 series train cars powered by electricity • Renovation of 811 series train cars powered by electricity • Manufacturing of YC1 series hybrid train cars 	11.5
	Railway-related Facilities	<ul style="list-style-type: none"> • Disaster preparedness railway work for Kyushu Shinkansen <ul style="list-style-type: none"> ○ Implemented measures against slope collapse caused by heavy rain in the area south of Shin-Yatsushiro Station on the Kyushu Shinkansen Line. 	1.0
Green Buildings	—	<ul style="list-style-type: none"> • Renovation of the employee training center <ul style="list-style-type: none"> ○ Addressed the aging of the employee training center, which has received a 5-star BELS rating, and enhanced its facilities 	0.6
Allocated Proceeds:			13.1
Unallocated Proceeds:			6.9
Total Amount of Proceeds from Green Bond Issuance:			20.0

Appendix 2: List of Project Impact

Use of Proceeds Category	Sub category	Project	Impact Indicators Reported ³	
			Overview of Eligible Projects	Other Impact Indicators
Clean Transportation	Train Cars	Manufacturing of 821 series train cars	821 series train cars consume 70% less electricity than the existing 415 series rolling stock. In March 2019, the commercial operations started between Kokura and Arao stations on the Kagoshima Main Line.	<ul style="list-style-type: none"> • Number of train cars newly introduced : 9 cars • Reduction in CO₂ emission : 885t-CO₂/year
		Renovation of 811 series train cars	811 series train cars consume 50% less electricity than the existing 415 series rolling stock. In April 2017, the commercial operations started on the Kagoshima, the Nagasaki, and the Nippo Main Line.	<ul style="list-style-type: none"> • Number of train cars newly introduced : 12 cars • Reduction in CO₂ emission : 171t-CO₂/year
		Manufacturing of YC1 series train cars	YC1 series train cars consume 20% less fuel than existing diesel trains. In March 2020, the commercial operations started between Nagasaki and Sasebo stations in Nagasaki area.	<ul style="list-style-type: none"> • Number of train cars newly introduced : 18 cars • Reduction in CO₂ emission : 572t-CO₂/year
	Railway-related Facilities	Disaster preparedness railway work for Kyushu Shinkansen	In south of Shin-Yatsushiro station on the Kyushu Shinkansen Line, as measures for slope collapses caused by heavy rain, we sprayed concrete on embankments, cut sections, and entrances of tunnels to improve the level of disaster prevention.	<ul style="list-style-type: none"> • Number of constructions : 18 areas
Green Buildings	—	Renovation of the employee training center	We are renovating the employee training center to cope with the deterioration and to improve, enrich the environment of employee education. The center will be reborn with a training building and a living building.	<ul style="list-style-type: none"> • Reduction in energy consumption : 57% reduction⁴ • Status of acquisition of certification : Awarded 5 Stars in the Building-Housing Energy-efficiency Labeling System

³ Impact Reporting by Kyushu Railway is available at:

https://www.irkyushu.co.jp/company/ir_eng/library/greenbond/pdf/211224_greenbond_reporting_en.pdf

⁴ Reduction in the design primary energy consumption (excluding other primary energy consumption) of the relevant building from the standard primary energy consumption (excluding other primary energy consumption)

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