

Transition Finance | Case Study 3: Kawasaki Kisen Kaisha, Ltd.


Case Study Overview

■ Corporate Profile

Industry	Shipping
Location	Japan
Business	One of the major shipping companies in Japan. It consists of four businesses: "dry bulk," "energy resources," "car carrier," and "logistics and coastal shipping," and is advancing a global strategy centering on Asia.

Borrower	Kawasaki Kisen Kaisha, Ltd.
Evaluation agency	Japan Credit Rating Agency, Ltd.
Arranger	Mizuho Bank, Ltd.
Transition structuring agent	Mizuho Securities Co., Ltd., Mizuho Bank, Ltd.
Amount borrowed	Approximately 110 billion yen
Contract date	September 27, 2021
KPI	KPI 1: Total GHG emissions KPI 2: CO2 emissions per tonne mile KPI 3: CDP evaluation

Emission reduction target

2030	50% improvement in CO2 emission efficiency (compared to 2008)	 international industry goals
2050	70% improvement in CO2 emission efficiency (compared to 2008) 50% reduction in total CO2 emissions *	

*Announced in November 2021 to challenge net zero GHG emissions by 2050

Transition strategy

1. Promotion by project team under direct control of president	<ul style="list-style-type: none"> Development of next-generation autonomous vessels Alternative fuel and supply research and development, etc.
2. Expanding efforts for safety, environment, and quality	<ul style="list-style-type: none"> Introduction an automatic kite system ("Seawing") CCS demonstration experiment
3. Expansion of R & D projects underway	<ul style="list-style-type: none"> LNG-fueled "Digital Flagship" Car Carrier Delivered FueLNG, LNG bunkering vessel at Ise Bay Start of CO2 free hydrogen supply chain ("HySTRA") etc.
4. Other Initiatives	<ul style="list-style-type: none"> Promote low-carbon investment by establishing internal carbon pricing (ICP) for investment decisions

Response to the four elements of the basic guidelines

Element 1	<ul style="list-style-type: none"> Transition Strategy: Environmental Vision 2050 sets targets based on scenario analysis at temperatures below 2 °C, a strategy consistent with the IMO and the Paris Agreement. Governance: The DRIVE GREEN NETWORK, which is directly linked to Executive Management Committee, was established by several cross-cutting and specialized groups. It has a strong management initiative.
Element 2	<ul style="list-style-type: none"> Of the 23 materialities identified in the company's sustainability strategy, environmental protection has been identified as one of the most important issues.
Element 3	<ul style="list-style-type: none"> The medium- to long-term target exceeds the level of the IMO. In addition, the SBT was also acquired. The transition path is consistent with the Paris Agreement. It is consistent with the Ministry of Land, Infrastructure, Transport and Tourism's roadmap, and has concrete initiatives with technical grounds for realizing the long-term strategy.
Element 4	<ul style="list-style-type: none"> Plans to invest 100 billion yen on environmental related over 5 years from FY 2021. The company discloses as much as possible about specific investment plans by theme, which is highly transparent. ICP is introduced as a basis of investment plan formulation.

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Case Study Key Points (Element 1: Transition Strategy and Governance)

Transition strategy

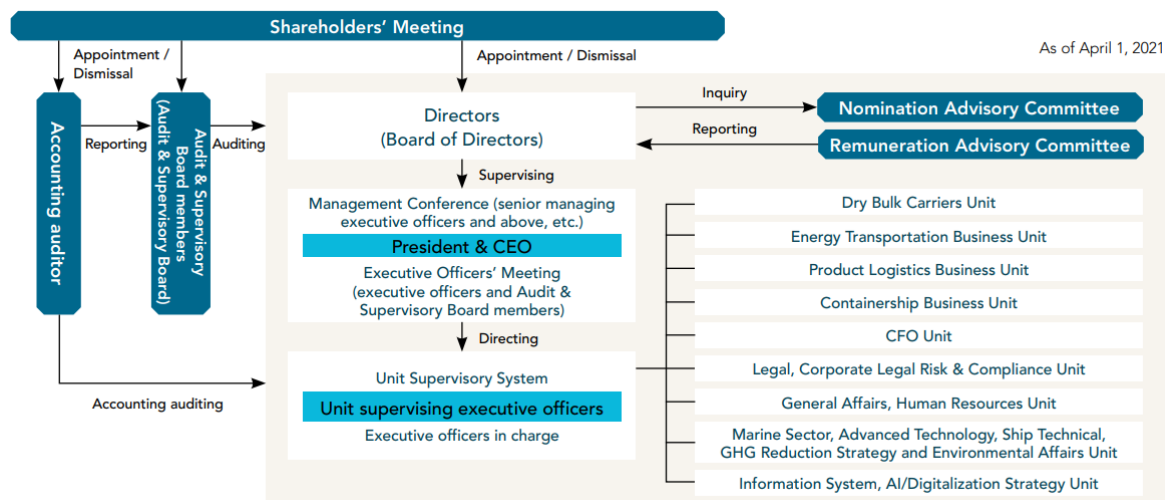
Goal	K Line	IMO
In 2030	Greenhouse gas ("GHG") emission efficiency 25% improvement compared to 2011	—
	CO ₂ emission efficiency 50% improvement compared to 2008	CO ₂ emission efficiency 40% improvement compared to 2008
By 2050	Total GHG emissions 50% reduction	Total GHG emissions 50% reduction
	CO ₂ emission efficiency 70% improvement compared to 2008	CO ₂ emission efficiency 70% improvement compared to 2008



Point

- Kawasaki Kisen Kaisha, Ltd. formulated the "K" Line Environmental Vision 2050 in 2015. Following the achievement of the goal ahead of schedule in 2019, a revision of the Environmental Vision 2050 was implemented in 2020. The company is making strategic efforts to address climate change.
- GHG emission reduction targets have been set based on scientific evidence and consistent with the Paris Agreement and international industry standards such as IMO and MLIT targets. In order to achieve these targets, the company is promoting various initiatives such as strengthening measures to improve operational efficiency and expanding the use of LNG-fueled vessels.
- In terms of governance, the company has established the Sustainability Management Committee, chaired by president, to deliberate and formulate a system for promoting sustainability throughout the group. In addition, the company has established theme-specific specialized groups that are directly linked to the Management Committee, and has built a strong governance system.

Governance structure



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Case Study Key Points (KPIs/SPTs)

KPI/SPTs

- KPI 1: Total GHG emissions
- KPI 2: CO2 emissions per tonne mile
- KPI 3: CDP evaluation

- SPT1: Total annual GHG emissions for the entire funding period (Targets for each year are set by linearly interpolating the target of 50% reduction from 2008 levels by 2050)
- SPT2: Annual CO2 emissions per ton-mile for the entire funding period (Targets for each year are set by linearly interpolating the 50% reduction target from 2008 levels by 2030.)
- SPT3: Maintain CDP rating of A- or higher

Targets for SPT1,2

[Actual and target figures for total GHG emissions in each year] (Unit: 1,000 tons)

	Base Year											Loan Due		
	2008	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2030	2050
2008-2050 Linear Plan	13,677	12,079	12,797	11,932	9,800	8,761	11,560	11,398	11,235	11,072	10,909	10,746	10,095	6,839
Reduction rate compare 2008 level	-	-11.7%	-6.4%	-12.8%	-28.3%	-35.9%	-15.5%	-16.7%	-17.9%	-19.0%	-20.2%	-21.4%	-26.2%	-50.0%

[Actual and target figures for CO₂ emissions per tonne mile in each year] (Unit: g-CO₂ per ton mile)

	Base Year											Loan Due	
	2008	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2030
2008-2030 Linear Plan	7.21	5.31	5.36	5.32	4.82	4.49	5.08	4.92	4.75	4.59	4.42	4.26	3.61
Reduction rate compare 2008 level	-	-26.4%	-25.7%	-26.2%	-33.1%	-37.7%	-29.5%	-31.8%	-34.1%	-36.4%	-38.6%	-40.9%	-50.0%

V

Point

- Three KPIs have been set: total GHG emissions, CO2 emissions per ton-mile, and CDP assessment. Ambitious SPTs have been set based on each KPI. In addition, the progress of the SPTs will be subject to annual third-party's verification to ensure objectivity.
- In the event of any significant changes to the SPTs during the loan period, the evaluation agency may conduct a review to ensure that the level of ambition and meaningfulness originally envisioned are maintained or not.

Modelability Review Committee | Summary of Results

Case Study: Kawasaki Kisen Kaisha, Ltd. ("K" LINE) Transition Link Loan

Modelability review results: Approved

This is an appropriate model case as it is a new financial product to realize the transition strategy.

Main Opinions

Transition strategy

- The company has been setting environmental targets since 2015, and reviewed its targets in 2019 based on progress; its strategic approach to addressing climate change is commendable.
- Specialized groups and committees have been set up for each theme, and a strong governance structure has been established to implement the transition strategy.
- The fact that it is actively working on the development of new technologies that contribute to a low-carbon society, such as alternative fuel technologies and onboard CO2 capture technologies, is commendable.

Other factors/Others

- Three SPTs have been set: total GHG emissions, CO2 emissions per tonne-mile, and CDP evaluation, which have ambitious targets. In addition, the progress of the SPTs is scheduled to be verified by a third party every year, which ensures objectivity.
- The company has a concrete investment plan and has introduced an internal carbon price, which is a forward-looking approach.
- As more financial institutions participate in this loan through syndicated loans, it is expected to have an impact on the expansion and spread of the transition finance market.
- In the event of any significant changes to the SPTs during the loan period, the evaluation agency may conduct a review to confirm whether the level of ambition and significance originally envisioned will be maintained or not.

Scientific basis

- The company has a medium- to long-term target that exceeds the IMO target and has been certified by SBTi.
- By setting the KPIs as total GHG emissions and emission factors, as well as CDP evaluation, the feasibility of achieving the mid- to long-term targets is enhanced.

This document focuses on the contribution of transition finance to the realization of Japan's carbon neutrality by 2050 and the Paris Agreement, and does not cover any of the risks associated with transition finance as a financial instrument. It should be noted that even in the model case of this project, there are credit risks and other risks (in the case of bonds, price fluctuation risks, liquidity risks, etc.) as in ordinary financing.