

SECOND PARTY OPINION¹

ON THE SUSTAINABILITY OF H-LINE'S "GREEN LOAN"

December 2019

SCOPE

Vigeo Eiris was commissioned to provide an independent opinion (hereafter "Second Party Opinion" or "SPO") on the sustainability credentials and management on the "Green Loan"² (the "Loan") to be issued by the special purpose companies created by H-Line (the "Holding Company") to act as the direct borrowers for the Loan ("SPCs" or "Borrower") under the Green Loan Framework (the "Framework") created by H-Line.

Our opinion is established according to Vigeo Eiris' Environmental, Social and Governance ("ESG") exclusive assessment methodology and to the latest version of the Green Loan Principles (the "GLP") developed by the EMEA Loan Market Association and the Asia Pacific Loan Market Association (edited in December 2018).

Our opinion is based on the review of the following components:

- **Holding Company:** we assessed H-line's ESG performance (in September 2019), its management of potential stakeholders-related ESG controversies and its involvement in controversial activities³.
- **Loan:** we assessed the Framework, including the coherence between the Framework and the Holding Company's sustainability strategy, the Loan' potential contribution to sustainability and their alignment with the four core components of the GLP 2018.

Our sources of information are multichannel, combining data from (i) public information gathered from public sources, press content providers and stakeholders, (ii) information from Vigeo Eiris' exclusive ESG rating database, and (iii) information provided by the Holding Company through documents and interviews conducted with some of its managers involved in the Green Loan operation, held via a telecommunication system.

We carried out our due diligence assessment from June 18th to December 5th, 2019. We consider that we were provided with access to all the appropriate documents and people solicited. The information made available enables us to establish our opinion with a reasonable⁴ level of assurance on its completeness, precision and reliability.

VIGEO EIRIS' OPINION

Vigeo Eiris is of the opinion that the Green Loan Framework of H-Line is aligned with the four core components of the Green Loan Principles 2018.

The Eligible Project to be financed by the Loan (i.e. 2 LNG dual-fuel engines ships) appears to provide a positive contribution to the prevention of air pollution (SO_x, PM, etc.) at the scale of the project. Although Liquid Natural Gas (LNG) fuel does not have the highest reduction potential compared to other alternative fuels and energy, it is one of the best available option for full scale application to avoid or reduce air pollution and GHG emissions in the global shipping industry, especially for long-distance navigation purpose. It is confirmed from Consecutive Voyage Charter contracts that for the Eligible Assets LNG will be used as the main fuel except for occasions such as engine breakdown or delay in LNG supply. H-Line also issued an official statement signed by its Chief Financial Officer in which it commits to use LNG as the main and sole fuel as long as LNG is available during the operation of the two bulk carriers.

Although LNG is regarded as a transitional fuel by industry experts, **the contribution of the Eligible Project to the energy transition and to climate change mitigation is considered limited, given the level of GHG emissions avoidance allowed by the Eligible Project compared with the IMO's 2050 targets on GHG emission reduction for the sector.**

We express a moderate assurance⁴ (our medium level of assurance) on the Holding Company's commitments and on the Green Loan' potential contribution to sustainability.

1) Holding Company (see Part I):

- ▶ We reach a moderate assurance on H-Line's capacity to integrate relevant ESG factors in its strategy, and to account on them.
- ▶ As of today, the Holding Company is not involved in stakeholders-related ESG controversies.

¹ This opinion is to be considered as the "Second Party Opinion" described in the GLP voluntary guidelines (December 2018 Edition) edited by the Loan Market Association (<https://www.lma.eu.com>).

² The "Green Loan" are to be considered as the potential loan subject to the discretion of the Holding Company. The name "Green Loan" has been decided by the Holding Company: it does not implies any opinion from Vigeo Eiris.

³ The 15 controversial activities are: Alcohol, Animal welfare, Chemicals of concern, Civilian firearms, Fossil Fuels industry, Coal, Tar sands and oil shale, Gambling, Genetic engineering, High interest rate lending, Military, Nuclear power, Pornography, Reproductive medicine and Tobacco.

⁴ Definition of Vigeo Eiris' scales of assessment (as detailed in the Methodology section).

- ▶ H-Line has a major involvement in Fossil Fuels industry, through its revenues derived from transportation of fossil fuel products (33-55% of the total revenues). H-Line is not involved in any of the other 14 controversial activities screened under our methodology.

2) Loan (see Part II):

The Holding Company has described the main characteristics of the Green Loan within a formalized Framework (the last updated version was provided to Vigeo Eiris on December 5th, 2019). In addition, H-Line has committed to make this document accessible to the lender in line with good market practices.

We are of the opinion that the Framework is coherent with H-Line's sustainability strategy, with its main sector's sustainability issues, and it contributes to achieve its sustainable development commitments.

Use of Proceeds

- ▶ The net proceeds of the the Loan will exclusively finance, in part, the shipbuilding of two LNG dual-fuel bulk carriers to be delivered to H-Line between Q4 2021 and Q1 2022 ("Eligible Project"). The Eligible Project are formalized and disclosed in the Framework, and considered overall clearly defined.
- ▶ The Eligible Project is intended to contribute to two main environmental objectives (pollution prevention and control, and climate change mitigation). These objectives are formalized in the Framework and are considered clearly defined but partially relevant.
- ▶ The Eligible Project is considered to provide overall clear environmental benefits. H-Line has committed to assess and, where feasible, quantify the expected environmental benefits of the Loan issued. H-Line has provided quantitative estimation of potential environmental benefits of the Eligible Project with the assumption of 100% LNG usage.
- ▶ The Eligible Project is likely to contribute to two United Nations' Sustainable Development Goals ("SDGs"), namely: Goal 9. Industry, Innovation and Infrastructure, and Goal 13. Climate Action.
- ▶ The Holding Company has transparently communicated that these Green Loan are put in place to finance the shipbuilding costs of the two LNG dual-fuel capsized bulk carrier to be delivered between Q4 2021 and Q1 2022, with no refinancing involved.

Process for Project Evaluation and Selection

- ▶ The governance and process for the evaluation and selection of the Eligible Project are formalized in the Framework. We consider that the process is reasonably structured, transparent and overall relevant.
The process relies on explicit eligibility criteria, relevant to the environmental objectives defined.
The identification and management of the material environmental and social risks associated with the Eligible Project are considered to be overall good.

Management of Proceeds

- ▶ The rules for the management of proceeds are clearly defined and will be verified. We consider that they would enable a documented and transparent allocation process.

Reporting

- ▶ The reporting process and commitments appear to be overall good, covering both the funds allocation and the environmental benefits of the Eligible Project, but the key methodology and assumptions for calculation are not transparent.
- ▶ The selected reporting indicators related to the funds allocation and environmental benefits are relevant.

In addition, H-Line has committed that its Green Loan is supported by one external review:

- A pre-agreement consultant review: the hereby Second Party Opinion delivered by Vigeo Eiris, covering all the features of the Loan, to be made publically available on H-Line's website⁵ (subject to H-Line and the Lender's agreement) after the loan agreement signature.

An area for improvement is to have an annual verification by a third-party auditor, covering the allocation of proceeds and the environmental benefits, at least until the Loan's full allocation and in case of material change.

This Second Party Opinion is based on the review of the Framework and commitments of H-Line Shipping, according to Vigeo Eiris' ESG exclusive assessment methodology and to the latest version of the Green Loan Principles (December 2018).

December 5th, 2019

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Disclaimer

Transparency on the relation between Vigeo Eiris and H-Line: Vigeo Eiris has not carried out any audit mission nor consultancy activity for H-Line Shipping Co. Ltd (H-Line). No established relationship (financial or other) exists between H-Line and Vigeo Eiris.

This opinion aims at providing an independent opinion on the sustainability credentials and management of the intended Loan, based on the information which has been made available to Vigeo Eiris. Vigeo Eiris has neither interviewed stakeholders out of H-Line's employees, nor performed on-site audit nor other test to check the accuracy of the information. The accuracy, comprehensiveness and trustworthiness of the information collected are a responsibility of H-Line. Providing this opinion does not mean that Vigeo Eiris certifies the effectiveness, the excellence or the irreversibility of the assets to be financed by the Loan. H-Line is fully responsible for attesting the compliance with its commitments defined in its policies, for their implementation and their reporting. The opinion delivered by Vigeo Eiris neither focuses on the financial performance of the Loan, nor on the effective allocation of its proceeds. Vigeo Eiris is not liable for the induced consequences when third parties use this opinion either to make investments decisions or to make any kind of business transaction.

Restriction on distribution and use of this Second Party Opinion: the report is provided by Vigeo Eiris to H-Line and can only be used by H-Line. The distribution and publication of the final SPO are at the discretion of H-Line, submitted to Vigeo Eiris approval.

⁵ <http://www.h-lineshipping.com/eng/>

DETAILED RESULTS

Part I. HOLDING COMPANY

H-Line Shipping Co., Ltd. is a private company in South Korea that provides marine transportation services, and also ship leasing service. It is specialized in bulk and LNG transportation with the long-term contracts.

Integration of ESG factors in H-Line's commitments and strategy

We reach a moderate assurance on H-Line's capacity to integrate relevant ESG factors in its strategy, and to account on them.

Domain	Comments	Opinion
Environment	We reach a moderate assurance on H-Line's capacity to integrate relevant environmental factors in its strategy. The Company has defined reduction targets for waste generation, air pollutant emissions, water and natural resources consumption. In addition, H-Line has set up a target for the reduction of greenhouse gas emissions per unit load, by 30% by 2030 and by 50% by 2050 compared to 2015 levels.	Reasonable
	The Company takes into account pollution prevention throughout the life-cycles of its ships.	Moderate
	The Company commits to part of the sector stakes concerning the management of local pollution. However, H-Line does not include environmental factors in its supply chain management policy.	Weak
Social	We reach a moderate assurance on H-Line's capacity to integrate relevant social factors in its strategy. The Company has set up a "zero accident" target in its SHEQ policy and Safety Charter, covering crisis management and the general safety procedures of its ships and its employees.	Reasonable
	The Company has issued a formalised commitment to freedom of association and the right to collective bargaining covering all its responsibilities. Nevertheless, the Company lacks of significant commitments regarding the respect of human rights and the prevention of discrimination in its activities.	Moderate
	The company has made a formalised commitment to ensuring its employees health and safety that covers the management of working hours. However, H-Line lacks of formalized commitment on the quality of its remuneration systems, managing customer relations responsively and of specific targets related to customer satisfaction. In addition, the Company has not developed a supply chain management scheme including social factors. The Company has not provided policies to improve socioeconomical development.	Weak
Governance	We reach a weak assurance on H-Line's capacity to integrate Governance factors in its strategy. Regarding the Board of directors, the roles of Chairman and CEO are separated, the majority of the Board members are non-executives directors. Regular meetings are held and the attendance rate stood at 100%. However, the Company remains unclear on the personal skills of the Board and on the integration of CSR issues in meetings.	Reasonable
	H-Line has disclosed a Anti- Corruption and Integrity Regulation policy and has stated complying with the Korea Fair Trade Commission on the prevention of anti-competitive practices.	Moderate
	Nonetheless, the Company has not set up an Audit Committee and the role of the internal auditor does not seem to cover CSR issues. There is no significant reporting on CSR issues nor external audit to assess it. The Company remains globally silent on its executives remuneration policy and on ensuring transparency and integrity in its influence strategies and practices.	Weak

This evaluation is based on the documents provided by H-Line Shipping to Vigeo-Eiris. These documents are non-confidential but are not necessarily publicly disclosed.

Management of stakeholder-related ESG controversies

As of today, no stakeholders-related controversy on ESG factors was identified for H-Line.

Involvement in controversial activities

Regarding the 15 controversial activities analysed by Vigeo Eiris, H-Line has a major involvement in Fossil Fuels industry:

- H-Line is involved in fossil fuels transport (captured as fossil fuels industry, midstream). Since the company does not disclose revenues, we have done our revenue estimation based on the number of vessels operated by the company and on its clients, some of them being heavily involved in coal. Based on this information, our revenue estimation is 33-50%, leading to a major involvement in this activity.

H-Line is not involved in any of the other 14 controversial activities screened under Vigeo Eiris methodology, namely: Alcohol, Animal welfare, Chemicals of concern, Civilian firearms, Coal, Tar sands and oil shale, Gambling, Genetic engineering, High interest rate lending, Military, Nuclear Power, Pornography, Reproductive Medicine and Tobacco

The controversial activities research provides screening on companies to identify involvement in business activities that are subject to philosophical or moral beliefs. The information does not suggest any approval or disapproval on their content from Vigeo Eiris.

Part II. LOAN

Coherence of the Loan

Context note: According to the International Chamber of Shipping (ICS), the international shipping industry is responsible for the carriage of around 90% of world trade and has a lower impact in terms of GHG emissions per ton of freight transported compared to other transport solutions. However, according to WWF, it is accepted that whilst shipping is relatively safe and clean compared with other transport modes, the industry does have a significant impact on the environment⁶. In particular, the sector is energy intensive, and is responsible for large amounts of greenhouse gas (GHG) emissions (around 2-3% of the world's GHG emissions).

The main sustainability challenges of the shipping industry are the energy efficiency, the reduction of emissions related to energy use, the eco-design strategy to reduce environmental impacts of the vessels and the integration of environmental and social factors in the supply chain.

The industry's efforts to reduce emissions related to energy use in the short term has been rather limited at sector level, due to few technological options available for full scale application to replace Heavy Fuel Oil (HFO). However, in April 2018, the International Maritime Organization (IMO) adopted an initial strategy for the reduction of GHG emissions from ships, with the targets of reducing the total annual GHG emissions by at least 50% by 2050 and reducing the average carbon intensity by 70% in 2050, compared to 2008. Besides, the IMO will start to implement a 0.5% sulphur cap on marine fuel from 1st January 2020.

LNG fuel is considered to be one of the viable options for the sector to meet IMO's 2020 regulations. However, its contribution towards IMO's 2050 targets in reducing GHG emissions is considered limited. According to IMO's 2016 study '*Studies on the feasibility and use of LNG as a fuel for shipping*', the CO₂ reduction potential of switching from marine diesel oil (MDO) to LNG is about 15%. In addition, according to the same IMO's study, the use of LNG significantly eliminates SO_x emissions and particulate matters, and halves the amount of NO_x emissions. International Chamber of Shipping (ICS) concluded in its 2018 report that the greater use of LNG, along with biofuels, "*may well form part of the interim solution, supplemented by renewable sources such as wind and solar*" to reduce GHG emissions from ships⁷.

We are of the opinion that the proposed Loan is coherent with H-Line's main sector sustainability issues and that it contributes to achieve its sustainable development commitments.

H-Line appears to acknowledge its role in providing solutions to support society's transition to a low carbon and sustainable economy. It has developed services to minimize its impact on air pollution and climate change.

H-Line has formalised a commitment to environmental protection, through its *Company Policy* (July 1st, 2018).

H-Line, through its ship manager, is committed to operate its fleet of vessels in a manner that minimizes the environmental impact of its activities, by setting a detailed annual Environmental Management Plan which includes detailed objectives from waste reduction to reduction of air and GHG emissions. H-Line is also committed to comply with all environmental laws and regulations applicable to the maritime industry.

⁶ https://www.wwf.at/de/view/files/download/showDownload/?tool=12&feld=download&sprach_connect=2395, page 1

⁷ <http://www.ics-shipping.org/docs/default-source/key-issues-2018/developing-zero-co2-fuels.pdf?sfvrsn=0>, page 1

In addition, H-Line has set long-term targets of reducing GHG emissions per unit load of its entire fleet by 30% by 2030 and by 50% by 2050 compared to 2015 (base year) and have formalised procedures to monitor and manage LNG leakages and their negative environmental impacts.

By creating a framework to govern the two Loan to finance the shipbuilding of two LNG dual-fuel bulk carriers, the Holding Company coherently aligns with its sustainability strategy and commitments, and addresses one of the main sector issues in terms of environmental responsibility, namely air and water pollution prevention. In addition, the Eligible Project is considered to only partially address the topic of climate change mitigation.

Use of proceeds

The net proceeds of the two separate Loan will exclusively finance, in part, the Eligible Project, namely: the shipbuilding of two LNG dual-fuel bulk carriers which will be delivered to H-Line between Q4 2021 and Q1 2022. The Eligible Project is formalized and disclosed in the Framework, and considered overall clearly defined.

The Eligible Project is intended to contribute to two main environmental objectives: pollution prevention and control, and climate change mitigation. These objectives are formalized in the Framework and considered clearly defined and partially relevant.

The Eligible Project is considered to provide overall clear environmental benefits. H-Line has committed to assess and, where feasible, quantify the expected environmental benefits of the Loan issued. H-Line has provided quantitative estimation of potential environmental benefits of the Eligible Project with the assumption of 100% LNG usage.

The Holding Company has transparently communicated that these Green Loan is put in place to finance the shipbuilding costs of the two new LNG dual-fuel capsized bulk carrier to be delivered between between Q4 2021 and Q1 2022, with no refinancing involved.

H-Line’s Green Loan Framework includes one loan agreement.

Two special purpose companies (SPCs) are created for these vessels and act as the direct Borrowers for the Loan. H-Line is the owner of the 2 SPCs and the bareboat charterer of these 2 Vessels (see table below).

Vessel No.	SPC as director borrower	Owner & Bareboat Charterer	Lender	Shipbuilder
8037	HL JOURNEY 4 S.A.	H-Line Shipping Co., Ltd.	BNP Paribas, Korea Development Bank	Hyundai Samho Heavy Industries Co., Ltd.
8038	HL JOURNEY 5 S.A.			

The proceeds of the Loan is expected to cover 75% of the shipbuilding contract (“SBC”) price, and the remaining 25% will be financed by H-Line’s own credits, subordinated loan, and subsidy provided by the South Korean government.

- The subsidy is provided through KOBC, which is a public corporation that has integrated the policy financial institutions which administer the marine transport funds. According to its website, KOBC provides *"subsidies for newbuilding and replacement with eco-friendly and high efficiency ships after the early abolition of old ships" "in order to cope with environmental regulations and strengthen national competitiveness"*.

The main environmental characteristics of the Eligible Project, as well as the intended environmental objectives and expected environmental benefits, are summarized in the table below:

H-Line's Green Loan Framework			Vigeo Eiris' Analysis
Eligible Category	Definition and eligibility criteria	Environmental objectives and expected benefits	
Pollution prevention and control	Purchase of LNG dual-fuel capesize bulk carriers, defined as the shipbuilding of 2 new LNG dual-fuel bulk carriers, which will be delivered to H-Line between 2021 and 2022	<p>Air pollution prevention</p> <p>---</p> <ul style="list-style-type: none"> - Reduce SOx emissions to less than 0.5% mass by mass, compared to vessels using heavy fuel oil (HFO), in line with IMO 2020 regulation - Reduce NO_x emissions, compared to vessels using heavy fuel oil (HFO) <p>Climate change mitigation</p> <p>---</p> <ul style="list-style-type: none"> - Reduce/avoid CO₂ emissions, compared to vessels using heavy fuel oil (HFO) 	<p>The <u>definition</u> of the Eligible Category and Project is overall clear.</p> <ul style="list-style-type: none"> - According to the Consecutive Voyage Contract (CVC) for the vessels, LNG will be used as the main fuel. However, there might still be occasions such as engine breakdown or delay in LNG supply, when alternative fuels will have to be used. - H-Line issued an official statement signed by Chief Financial Officer on August 26th, 2019, in which H-Line commits to use LNG as the main and sole fuel as long as LNG is available during the operation of the two LNG dual-fuel capesize bulk carriers. Thus, it is confirmed that there is clear commitment to use LNG as the primary fuel by the ships. <p>The Eligible Project is intended to contribute to two <u>main environmental objectives</u> (air pollution prevention, and climate change mitigation), which is considered clearly defined but partially relevant:</p> <ul style="list-style-type: none"> - <u>Air pollution prevention</u>: Fossil fuels is an important source of other atmospheric emissions of pollutants and particles. The International Maritime Organisation (IMO) will start to implement a 0.5% sulphur cap on marine fuel from January 1st, 2020. Therefore the "air pollution prevention" objective claimed by the Holding Company is relevant. - <u>Climate change mitigation</u>: According to International Transport Forum (ITF), considering the industrial and market needs and technology state-of-the-art, LNG is part of the appropriate technological solutions to transition to a low-carbon activity as of today in the shipping industry, compared with other alternative solutions. However, while individual measures – including alternative fuels such as LNG – can deliver a significant reduction on CO₂ emissions, it is unlikely that it would be sufficient to achieve long-term objectives such as IMO target of reducing the shipping sector's GHG emissions by at least 50% by 2050 compared with 2008 levels⁸. Furthermore, handling and combustion of LNG involves the release of unburnt methane during bunkering and use phase as well as upstream in the fuel production, processing and transmission, which diminish the environmental benefits regarding climate change mitigation (methane being a very potent GHG). Considering the potentially limited or negative impacts of methane regarding GHG emissions, LNG is regarded as a transitional fuel by industry experts (e.g. European Commission) but will not be sufficient on its own for the decarbonisation of the sector in the long term. Therefore the "climate change mitigation" objective highlighted by the Holding Company is partially relevant.

⁸ According to studies done by IMO (2016) and industry coalition such as SEALNG, the GHG emission reduction potential of LNG compared to conventional oil-based fuels ranges from 10-25%.

H-Line's Green Loan Framework			Vigeo Eiris' Analysis
Eligible Category	Definition and eligibility criteria	Environmental objectives and expected benefits	
			<p>The Eligible Project is considered to provide overall clear <u>environmental benefits</u>. H-Line has committed to assess and, where feasible, quantify the expected environmental benefits of the Loan.</p> <p><u>SOx emissions:</u></p> <ul style="list-style-type: none"> - The use of LNG instead of HFO is expected to avoid SOx emissions by 100% in case of fully running on LNG, which would be a clear environmental benefit. - H-Line officially committed to use LNG as the main and sole fuel as long as LNG is available during the operation of the two LNG dual-fuel capesize bulk carriers (see above). Thus, there is a clear commitment to use LNG as the primary fuel by the ships and to deliver the associated environmental benefits regarding SOx and microparticules emissions. <p><u>Reduction of SOx and NOx emissions:</u></p> <ul style="list-style-type: none"> - The use of LNG instead of low-sulphur fuel (IMO 2020 compliant) is expected to avoid SOx emissions by nearly 100% in case of fully running on LNG, delivering a clear environmental benefit. - The use of LNG instead of low-sulphur fuel (IMO 2020 compliant) is expected to reduce NOx emissions by 80%, which is in line with general reduction potential (up to 85% if fully running on LNG⁹), delivering a clear environmental benefit. H-Line also claims that an additional 12% reduction may be achieved if the Exhaust Gas Recirculation system and the Selective Catalytic Reduction system are retrofitted. <p><u>Reduction of GHG emissions:</u></p> <ul style="list-style-type: none"> - H-Line expects that in case of fully running the ships on LNG, it will reduce their GHG emissions by 23% compared to vessels using heavy fuel oil (HFO), contributing to H-Line corporate's long-term target of GHG emissions reduction per unit load of its entire fleet by 30% by 2030 and by 50% by 2050 compared to 2015 (base year). It would also contribute to IMO's targets of GHG emissions reduction by 2050 compared to 2008. Thus there is clear commitment to use LNG as the primary fuel by the ships and to deliver the associated environmental benefits regarding GHG emissions. - However, such avoidance of GHG emissions would still be considered not sufficient to meet IMO's 2050 target of reducing the sector's GHG emissions by at least 50% compared with 2008 levels.

⁹ http://production.prestogo.com/fileroot7/gallery/dnvgl/files/original/124feddb807045969b3071a55f73c80b/124feddb807045969b3071a55f73c80b_low.pdf, page 33

In addition, the Eligible Project is likely to contribute to 2 of the United Nations’ Sustainable Development Goals (“SDGs”), namely: SDG 9. Industry, innovation and infrastructure and partially SDG 13: Climate action.

Eligible Project	UN SDGs identified	UN SDGs targets
LNG dual-fuel capesize bulk carriers	SDG 9. Industry, Innovation and Infrastructure	9.4
	SDG 13. Climate Action	NA



The UN SDG 9 consists in building resilient infrastructure, promoting sustainable industrialization and fostering innovation. More precisely, UN SDG 9 targets include to greater adopt clean and environmentally sound technologies.

- 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

By using the Loan proceeds to finance and refinance Eligible Project, H-Line would contribute to the UN SDG 9, with regards to the above-mentioned target.



The UN SDG 13 consists in taking urgent action to combat climate change and its impacts. The transportation sector plays a key role in investing in systems, institutions and technology to reduce, mitigate or adapt to climate-induced change.

By using the Green Loan proceeds to finance LNG dual-fuel capesize bulk carriers, H-Line would partially contribute to the UN SDG 13.

Process for Project Evaluation and Selection

The governance and the process for the evaluation and selection of the Eligible Project are formalized in the Framework. We consider that the process is reasonably structured, transparent and overall relevant.

The process for evaluation and selection of Eligible Project is clearly defined.

The evaluation and selection of Eligible Project is based on relevant internal expertise, with well-defined roles and responsibilities:

- The Eligible Project were evaluated and selected by H-Line’s Maritime Quality Team (with internal/external technical experts) based on the objective to reduce SO_x emissions to comply with the IMO’s 2020 regulation. The Maritime Quality Team is under Maritime Division (SM), which is one of H-Line’s four divisions and reports directly to the CEO.
- The Board of Directors of H-Line is responsible to discuss and decide on the financing of LNG dual-fuel capesize bulk carriers. The Board of Directors of H-Line granted the final approval on ship financing arrangement on May 31st, 2019 for the two vessels (vessel no. 8037 and 8038).
- The structure of the financing follows the traditional ship financing structure and is detailed in the Framework.
- A list of eco-friendly technologies are requested to the shipbuilder Hyundai Samho Heavy Industries Co., Ltd. to be installed on the 2 vessels. The technical specification of the vessels includes rules and regulations that the vessels need to comply, which includes several international conventions related to controlling and managing environmental impacts of ships. Thus, relevant environmental and compliance issues were integrated during the decision-making process.

An area for improvement includes to detail what are the internal and/or external expertise mobilized during the decision-making process for the selection of the Eligible Project to be financed.

The traceability and verification of the selection and evaluation is overall ensured throughout the process:

- The minutes of two Board of Directors meetings for the discussion and decision of the Eligible Project, held on December 3rd, 2018 and May 31st, 2019, respectively, are checked and confirmed.

The selection process relies on explicit eligibility criteria, relevant to the environmental objectives of the Eligible Project.

- The selection is based on the Eligible Categories and Project defined in the Use of Proceeds section of the Framework.

The identification and management of the material environmental and social risks associated with the Eligible Project are considered to be overall good.

H-Line has detailed internal risk management policies and procedures covering most environmental and social risks associated with the Eligible Project. These internal procedures apply to all the fleet owned by H-Line, including the 2 LNG dual-fuel capesize bulk carriers.

- Environmental management: H-Line follows ISO 14001 certification standards and implements an internal environmental management system. H-Line has obtained several general and industry-specific certificates including ISM CODE, ISPS CODE, MLC 2006, ISO 9001, ISO 14001. H-Line's internal manuals and procedure documents are considered comprehensive, covering a broad range of issues from the mitigation of environmental impacts from its activities to pollution prevention.
- Energy efficiency: H-Line has established a Shipping Energy Efficiency Management Plan (SEEMP), which covers detailed monitoring and reporting requirements and procedures related to the operation of the ships.
- Pollution prevention and control: H-Line has assessed the alignment of the project with IMO's 2020 objectives concerning Sulphur emissions. In addition H-Line's internal *Environmental Management Plan* set procedures to monitor and manage environmental risks to meet the company's overall objective. There are also internal procedures on environmental damage/pollution control, which covers oil spill, dumping of garbage or hazard materials. Regarding the specific case of LNG leakages, H-Line has emergency response guideline for the unloading of LNG vessels which covers the situation of LNG leakage both on the ship and at the pier. A system appears to be in place to identify potential leakages of LNG and to take relevant mitigation actions. Moreover, H-Line's internal document shows that it will conduct emergency response drill for LNG leakage every 6 months and for tank leakage every 3 months.
- End-of-life and decommissioning: H-Line requested the shipbuilder to install eco-friendly technologies on the ships such as using anti-fouling paints and installing propulsion improving devices and LED light, etc. These requirements are attached to the shipbuilding contract. With regards to disposal and end-of-life related environmental impacts of the ships, it is stated in the technical specification of the eligible vessels that inventory of hazardous materials for ship's recycling will be issued by the shipbuilder in accordance with IMO Res. MEPC.269(68). In addition, the shipbuilder is expected to comply with the *Hong Kong International Convention for the Safe and Environmentally Sound Recycling of Ships ("the Hong Kong Convention", 2009)*. Moreover, H-Line has committed in an official statement that all decommissioned ships will be recycled in accordance with applicable local regulations as well as the standards of the Hong Kong Convention (2009).
- Health and safety: H-Line has created its own Safety Charter with its 10-point safety pledge. Internal procedure are established with clear instruction given in documents such as 'Safety Management' and 'Safety/Health Risk Assessment'. H-Line has also obtained K-OHSMS 18001-2007 Certificate of Approval on 01/06/2018, which is a South Korea's standard for occupational health and safety management systems. H-Line has an internal training system for its employee on issues related to health and safety and reporting requirement. According to the internal document on Shipboard Safety Committee Control, training review and planning is done monthly.
- Human rights and human resources: H-LINE has established its Subcontractor Evaluation Criteria for seafarer recruitment agencies which covers mainly social and governance aspects including human rights and legality of labour contract, etc. The contracted recruitment company has obtained its Recruitment and Placement of Sea Farers Agency's License and recently received its annual verification letter in November 2018.

Management of proceeds

The rules for the management of proceeds are clearly defined and will be verified. We consider that they would enable a documented and transparent allocation process.

The allocation and management of the proceeds are overall clearly defined:

- The Holding Company has committed that the Proceeds will be allocated in SPC / Borrowers' accounts.
- The proceeds of the Loan account for 75% of the shipbuilding contract ("SBC") price and will only be used towards the financing of the shipbuilding cost. The remaining 25% of the SBC will be financed by H-Line's own credits, including approximately KRW 2.9 billion of subsidy from the South Korean government as a result of scrapping old vessels and ordering the new LNG fueled vessels in 2019.
- Payments relating to the SBC are via instalment schedules based on project milestones:
 - o H-Line will make the first payment through its Special purpose companies (SPCs), established for each LNG dual-fuel capsized bulk carrier, by paying as per the bareboat charter hire purchase agreement (BBCHP) to the shipyard; and then
 - o the SPCs will make the rest of the payments indicated in the SBC by borrowing from the Lender via instalment schedules of project milestones under the Loan Agreement ("LA") and SBC.
 - o The expected delivery of the 2 LNG dual-fuel capsized bulk carriers are between 2021 and 2022.
- The Loan Agreement for Eligible Project clearly states that drawdowns can only be obtained for the purpose of assisting H-Line in financing the Eligible Project.

Traceability and verification of both the tracking method and of the allocation of the proceeds are ensured throughout the process :

- The traceability is ensured by the Lender and facilitated by the traditional shipping financing structure, where the drawdown on Loan will follow the shipbuilding timeline.
- H-Line issues a formal Utilisation Request to the Lender whenever drawdown from the Loan is needed. The Utilisation Request letters will be provided as evidence of loan drawdown. Examples of such Utilisation Request Letters issued by the SPCs of two similar vessels purchased by H-Line are checked and confirmed that such letter refers to the specific vessels and conditions specified in the Loan Agreement.
- Internal audit process will track and monitor the net proceeds allocation and management.
- The Lender will ensure and verify the allocation of the Eligible Project Portfolio's proceeds.

Monitoring & Reporting

The reporting process and commitments appear to be overall good, covering both the funds allocation and the environmental benefits of the Eligible Project, but their key methodology and assumptions for calculation are not transparent.

The processes for monitoring, data collection, consolidation and reporting are clearly defined by H-Line in internal documentation. An area for improvement is to formalise these processes in more details in the Framework.

The process is structured and based on relevant internal expertise and involves relevant departments of H-Line:

- As mentioned above, the allocation of loan proceeds will be monitored and recorded by the Lender and facilitated by the fact that the Loan follows the traditional shipping financing structure, where the drawdown on Loan will follow the shipbuilding timeline.
- H-Line's Shipboard Safety Committee will be responsible for the monitoring and reporting of environmental benefits associated with the Eligible Project. Its role and relevant procedures are specified in H-Line's internal manual and safety procedures on management review.
- Internal documents such as "*Environmental Management Plan*", "*Performance Record of Environmental/Safety Objective*", "*Environmental Impact Evaluation*" and "*Achievement of Environmental Goal*" are in place to provide clear guidance and system for monitoring and reporting.
- Data records are verified through internal audits. However, there is no clear evidence that data will be verified by external audits.

H-Line commits to report on the Loan on an annual basis as long as the Loan is outstanding and when requested by the Lender, on:

- Management of proceeds: the selected reporting indicators related to the funds allocation are relevant.

Reporting indicators
<ul style="list-style-type: none"> - Total amount allocated from the Green Loan towards the Eligible Project, during the year. - Vessels' shipbuilding schedule and instalment evidence linked to the Eligible Project. - Total amount of unallocated funds towards the Eligible Project, during the year.

- Environmental benefits: the selected reporting environmental indicators appear to be relevant

Eligible Project	Environmental benefits indicators
Pollution prevention and control (purchase of 2 dual-fuel engines ships)	<ul style="list-style-type: none"> - Annual reduction of SO_x emissions compared to HFO vessels as baseline - Annual reduction of NO_x emissions compared to HFO vessels as baseline - Annual reduction of CO₂ emissions compared to HFO vessels as baseline

H-Line has also committed to report on:

- Share of LNG consumption vs. LSFO consumption of the dual fuel vessels;
- Any material ESG controversies and other material developments relating to the Loan and to the Eligible projects.

We observe that H-Line has not committed that the key methodologies and assumptions used to calculate the benefits of Eligible Project will be made publically available. Moreover, there is no clear evidence that the *ex-ante* factors used and the calculation of SO_x and CO₂ emission will be periodically reviewed and verified by an external auditor.

An area for improvement includes to have an independent external reviewer to verify the reported information on the environmental benefits measured.

METHODOLOGY

In Vigeo Eiris' view, Environmental, Social and Governance (ESG) factors are intertwined and complementary. As such they cannot be separated in the assessment of ESG management in any organization, activity or transaction. In this sense, Vigeo Eiris writes an opinion on the Holding Company's Corporate Social Responsibility as an organization, and on the objectives, management and reporting of the assets to be financed by this transaction.

Vigeo Eiris' methodology for the definition and assessment of the corporate's ESG performance is based on criteria aligned with public international standards, in compliance with the ISO 26000 guidelines, and is organized in 6 domains: Environment, Human Resources, Human Rights, Community Involvement, Business Behaviour and Corporate Governance. Our evaluation framework of the material ESG issues have been adapted, based on our generic Transport & Logistics' ESG assessment frameworks and on specific issues considering the Holding Company's business activity.

Our ESG research and rating procedures are subject to internal quality control at three levels (analysts, heads of cluster sectors, and internal review by the audit department for second party opinions) complemented by a final review and validation by the Direction of Methods. Our Second Party Opinion is also subject to internal quality control at three levels (consultants in charge of the mission, Production Manager, and final review and validation by the Direction of Sustainable Finance and/or the Direction of Methods. A right of complaint and recourse is guaranteed to all companies under our review, following three levels: first, the team linked to the company, then the Direction of Methods, and finally Vigeo Eiris' Scientific Council.

All employees are signatories of Vigeo Eiris' Code of Ethics, and all the consultants have also signed its add-on covering financial rules of confidentiality.

Part I. THE HOLDING COMPANY

The ESG performance of the Holding Company has not been assessed following the complete process of rating and benchmark developed by Vigeo Eiris. In this SPO, the assessment has been limited to the integration of ESG factors in the Holding Company's commitments and strategy, i.e. the content, visibility and ownership of its ESG policies.

Integration of ESG factors in the Holding Company's commitments and strategy

H-Line's integration of ESG factors in the Holding Company's commitments and strategy has been assessed by Vigeo Eiris on the basis of its:

- Leadership: relevance of the commitments (content, visibility and ownership).

Management of stakeholder-related ESG controversies

A controversy is an information, a flow of information, or a contradictory opinion that is public, documented and traceable, allegation against the Holding Company on corporate responsibility issues. Such allegations can relate to tangible facts, be an interpretation of these facts, or constitute an allegation on unproven facts.

Vigeo Eiris reviewed information provided by press content providers and stakeholders (partnership with Factiva Dow Jones: access to the content of 28,500 publications worldwide from reference financial newspapers to sector-focused magazines, local publications or Non-Government Organizations). Information gathered from these sources is considered as long as they are public, documented and traceable.

Vigeo Eiris provides an opinion on companies' controversies risks mitigation based on the analysis of 3 factors:

- **Frequency**: reflects for each ESG challenge the number of controversies faced. At corporate level, this factor reflects on the overall number of controversies faced and scope of ESG issues impacted (scale: Isolated, Occasional, Frequent, Persistent).
- **Severity**: the more a controversy will relate to stakeholders' fundamental interests, will prove actual corporate responsibility in its occurrence, and will have adverse impacts for stakeholders and the company, the highest its severity. Severity assigned at corporate level will reflect the highest severity of all cases faced by the company (scale: Minor, Significant, High, Critical).
- **Responsiveness**: ability demonstrated by the Holding Company to dialogue with its stakeholders in a risk management perspective and based on explanatory, preventative, remediating or corrective measures. At corporate level, this factor will reflect the overall responsiveness of the company for all cases faced (scale: Proactive, Remediate, Reactive, Non- Communicative).

The impact of a controversy on a company's reputation reduces with time, depending on the severity of the event and the company's responsiveness to this event. Conventionally, Vigeo Eiris' controversy database covers any controversy with Minor or Significant severity during 24 months after the last event registered and during 48 months for High and Critical controversies.

Involvement in controversial activities

15 controversial activities have been analysed following 30 parameters to verify if the company is involved in any of them. The company's level of involvement (Major, Minor, No) in a controversial activity is based on:

- An estimation of the revenues derived from controversial products or services.
- The precise nature of the controversial products or services provided by the company.

Part II. LOAN

The Holding Company's Framework has been assessed according to Vigeo Eiris' methodology based on international standards and sector guidelines applying in terms of ESG management and assessment, and according to the core components of the Green Loan Principles (2018).

Use of proceeds

The use of proceeds guidelines is defined to ensure that the funds raised are used to finance and/or refinance Eligible Green, Social or Sustainability Projects. Vigeo Eiris evaluates the definition of the Eligible Projects, and the relevance and preciseness of the associated environmental and/or social objectives. The expected environmental and/or social benefits are evaluated based on their assessment and quantification. Vigeo Eiris also evaluates the potential contribution of the Eligible Projects to the United Nations Sustainable Development Goals.

Process for evaluation and selection

The evaluation and selection process has been assessed by Vigeo Eiris regarding its transparency, governance and relevance. The eligibility criteria have been assessed regarding their explicitness and relevance vs. the intended objectives of the Eligible Projects. The identification and management of the ESG risks associated with the Eligible Projects are analysed based on material issues considered in Vigeo Eiris' ESG assessment methodology based on international standards and sector guidelines applying in terms of ESG management and assessment.

Management of proceeds


The rules for the management of proceeds and the allocation process are evaluated by Vigeo Eiris regarding their transparency, coherence and efficiency.

Reporting

Monitoring process and commitments, Reporting commitments, reporting indicators and methodologies are defined by the Holding Company to enable a transparent reporting on the proceeds allocation and tracking, on the sustainable benefits (output and impact indicators) and on the responsible management of the Eligible Projects financed by the issuance. Vigeo Eiris has evaluated the reporting framework regarding its transparency, exhaustiveness and relevance.

VIGEO EIRIS' ASSESSMENT SCALES

Performance evaluation		Level of assurance	
Advanced	Advanced commitment; strong evidence of command over the issues dedicated to achieving the objective of social responsibility. Reasonable level of risk management and using innovative methods to anticipate emerging risks.	Reasonable	Able to convincingly conform to the prescribed principles and objectives of the evaluation framework
Good	Convincing commitment; significant and consistent evidence of command over the issues. Reasonable level of risk management.	Moderate	Compatibility or partial convergence with the prescribed principles and objectives of the evaluation framework
Limited	Commitment to the objective of social responsibility has been initiated or partially achieved; fragmentary evidence of command over the issues. Limited to weak level of risk management.	Weak	Lack or unawareness of, or incompatibility with the prescribed principles and objectives of the evaluation framework
Weak	Commitment to social responsibility is non-tangible; no evidence of command over the issues. Level of insurance of risk management is weak to very weak.		



Vigeo Eiris is an independent international provider of environmental, social and governance (ESG) research and services for investors and public & private organizations. We undertake risk assessments and evaluate the level of integration of sustainability factors within the strategy and operations of organizations.

Vigeo Eiris offers a wide range of services:

- ▶ **For investors:** decision making support covering all sustainable and ethical investment approaches (including ratings, databases, sector analyses, portfolio analyses, structured products, indices and more).
- ▶ **For companies & organizations:** supporting the integration of ESG criteria into business functions and strategic operations (including sustainable Loan, corporate ratings, CSR evaluations and more).

Vigeo Eiris is committed to delivering MOL products and services with high added value: a result of research and analysis that adheres to the strictest quality standards. Our methodology is reviewed by an independent scientific council and all our production processes, from information collection to service delivery, are documented and audited. Vigeo Eiris has chosen to certify all its processes to the latest ISO 9001 standard. Vigeo Eiris is an approved verifier for CBI (Climate Loan Initiative). Vigeo Eiris' research is referenced in several international scientific publications.

With a team of more than 240 experts of 28 different nationalities, Vigeo Eiris is present in Paris, London, Brussels, Milan, Montreal, Hong Kong, Casablanca, Rabat and Santiago.

The Vigeo Eiris Global Network, comprising 4 exclusive research partners, is present in Brazil, Germany, Israel and Japan.

For more information: www.vigeo-eiris.com