

Sustainability-Linked Financing Framework

June 2023



Klaveness
Combination Carriers

About Klaveness Combination Carriers (KCC)

Specialization in shipping has created a lot of inefficiencies. KCC's combination carriers solve these inefficiencies by consecutively switching between dry and wet cargo shipments with minimum ballast between the laden voyages.

Klaveness Combination Carriers ("KCC") is a leading global owner and operator of unique and energy efficient combination carrier vessels. KCC has been an owner and operator since the 1950s, and over this period the company has developed and refined vessel design, equipment, operational procedures and crew training to provide customers with the most efficient and environmentally friendly, high-quality shipping services.

The company currently operates a fleet of 16 vessels: Eight CABU¹ vessels and eight CLEANBU² vessels. These vessels switch between transporting wet and dry bulk cargo and are deemed the most emissions efficient vessels of their kind. The vessels ship tanker cargoes into dry bulk export hubs such as Australia and South America and ship dry bulk cargoes on the return leg. The fleet and the efficient trading pattern make for the most environmentally friendly transportation system in the dry bulk and tanker deep sea shipping segments with the lowest carbon emission per ton transported cargo.

Compared to standard dry bulk and tanker vessels, KCC delivers:

1. Lower carbon emissions for the same transport work:

The KCC fleet's carbon intensity for 2022, with 83% on-hire days in combination trade and 12% in ballast, was 25% below that of standard dry bulk and tanker vessels³ in the same trades. The KCC fleet's potential carbon intensity, with 100% on-hire days in combination trade, is estimated to be 30-40% below that of standard dry bulk and product tanker vessels in the same trades.

2. Lower earnings volatility:

Diversified market exposure as the vessels transport both dry bulk and tanker products and partly short- to long-term freight contract base.

3. Premium earnings:

Higher asset utilization through having two laden legs, which gives a higher number of revenue days compared to standard vessels and through positive correlation to bunker prices as the vessel are priced as standard vessels. Potential future costs of carbon emissions would be calculated into the market pricing of freight, including the ballast and repositioning leg. Such a scenario would be beneficial for KCC, having a far lower repositioning cost.

The first CABUs were introduced in 2001, replacing Klaveness' PROBO (product bulk) combination carriers which successfully serviced the Australian alumina industry since their delivery in 1988-89. After their introduction, the CABUs have built a convincing operational track record with minimum downtime and have had around 800 estimated switches from dry to wet cargoes. The CABU business is built on strong customer relationship with high retention rate and high contract coverage.

Through delivery of the next generation of combination carriers (2019-2021), the CLEANBUs, KCC expanded its service into the clean petroleum product markets and is continuously adding new trading patterns, customers, types of cargoes and terminals.

KCC has strong commitments regarding the integration of ESG into its business. This includes both the day-to-day operations of the company and to the Board of Directors' long-term strategic planning and decision making. A natural part of this is to link financing to Sustainability-related KPIs.

¹ Definition: "Caustic Soda-bulk carrier"

² Definition: "Clean Petroleum Product-bulk carrier"

³ Calculated based on standard vessels (Panamax/Kamsarmax dry, MR-tankers and LR1-tankers) making the same transportation work in the same trades as performed by KCC's CABU and CLEANBU vessels in the relevant period. Weighted average EEOI for the individual trades performed. There is a degree of uncertainty related to the benchmark values as these are estimated using data from Baltic Exchange and AXS Marine. Carbon intensity is measured using the Energy Efficiency Operational Index (EEOI), as defined by IMO: Grams CO2 emitted per transported ton cargo per nautical mile (both fuel consumption at sea and in port included). A voyage is defined in accordance with the Sea Cargo Charter, e.g. a voyage is considered to start at the point of discharge of the previous cargo and continue to the point of discharge of the cargo for the voyage under consideration. IMO also defines a voyage as "[...] the period between a departure from a port to the departure from the next port.", according to MEPC.1/Circ.684 - "GUIDELINES FOR VOLUNTARY USE OF THE SHIP ENERGY EFFICIENCY OPERATIONAL INDICATOR (EEOI)".

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Approach to Sustainability

1. Sustainability Strategy

KCC offers today the lowest carbon emission solution in deep-sea dry bulk and product tanker shipping in current and targeted trades. Customers in KCC’s main trades can cut emissions from their ocean freight by 30-40% by just replacing standard vessels with KCC’s combination carriers⁴. KCC is determined to substantially improve further the carbon efficiency advantage by delivering large reductions in KCC’s carbon footprint over the coming years. KCC has advanced well in the work to identify, test and start implementing energy efficiency measures across its fleet with focus on hull resistance and propeller and hull effectiveness.

To fund this energy efficiency program, KCC successfully raised USD 25 million in equity in November 2021.

Emissions & energy efficiency

KCC is actively working to improve carbon intensity, measured by the Energy Efficiency Operational Indicator (EEOI), and the CO₂ emissions of KCC’s fleet, expressed as an average of all the vessels’ emissions divided by vessel-years, excluding the time the vessel is still in drydock but including the CO₂ emissions from the vessel during the dry dock. KCC’s ambitions for the two areas are as follows:

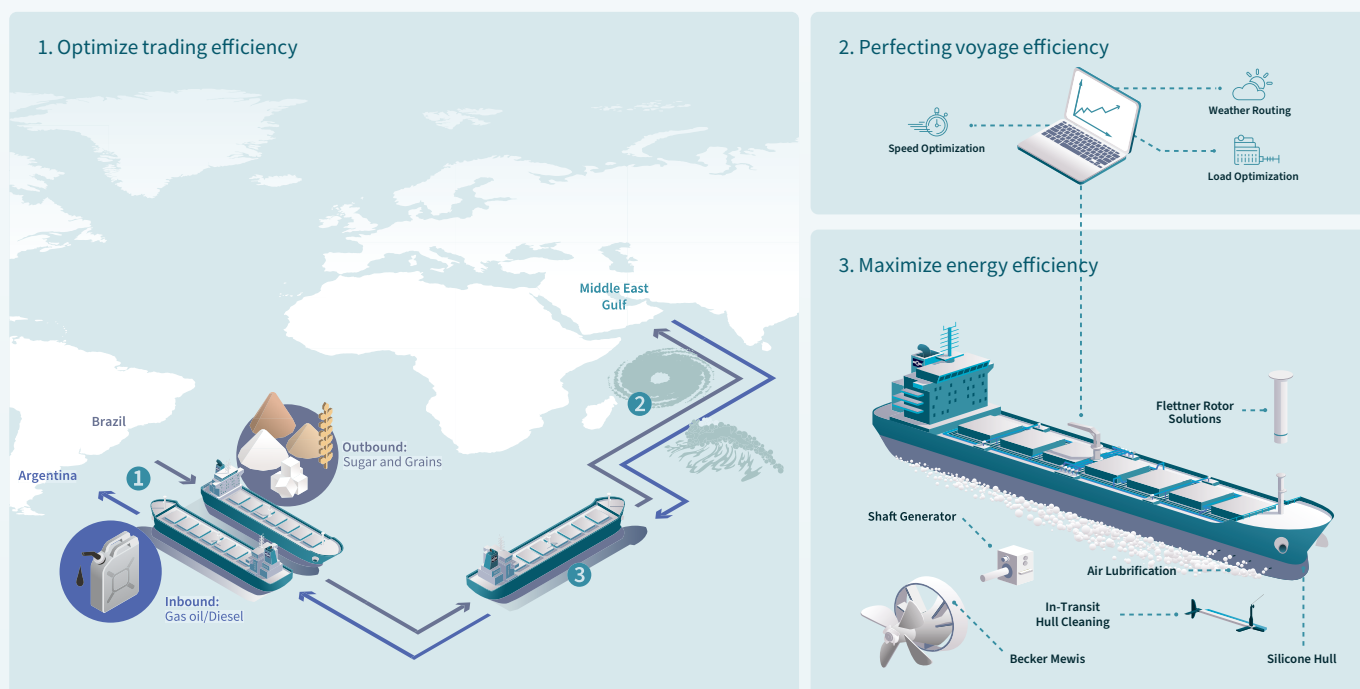
Carbon intensity (EEOI)

Reduce the carbon intensity by 30% within 2026 compared to a 2018 baseline

Average CO₂ emissions per vessel year⁵

Ambition to reach net zero-emission operations within 2050 (thus well ahead of IMO’s current ambition to “reduce the total annual GHG emissions [from international shipping] by at least 50% by 2050 compared to 2008 whilst pursuing efforts towards phasing them out”)⁶

KCC has divided its decarbonization initiatives into three categories:



⁴ See footnote 3.

⁵ Scope 1 and 2 with regards to vessels in operation / propelling vessels

⁶ Initial IMO GHG Strategy, Resolution MEPC.304(72), RE (imo.org)

Optimize trading efficiency

Customer collaboration is key.

KCC's Sustainability-linked contract framework is developed to strengthen co-operation with customers to deliver on decarbonization targets through:

- a) Improving quality and actionable insights of emission reporting.
- b) Joint initiatives to improve efficiency.
- c) Joint carbon emission reduction targets.
- d) Carbon pricing mechanism making freight payments dependent on carbon emission performance.

KCC co-operates closely with all customers to reduce emissions other than through the sustainability-linked contract framework, among others to:

- a) Increase cargo in-take
- b) Reduce speed
- c) Reduce waiting time in port

KCC has implemented several internal rules and tools to optimize decisions, among others:

- a) Internal shadow carbon pricing into all chartering decisions involving long ballasting.
- b) All voyage planning will assume a service speed on maximum 12.5 knots.

Perfecting voyage efficiency

KCC invests in better decision support systems onboard vessels and crew training to ensure the crew has the best tools and knowledge to improve the efficiency of any part of the voyage. The onboard vessel performance systems will also supply shore organizations access to key vessel data to better assist the fleet with implementation of energy efficiency measures and optimization of daily operation.

Improve energy efficiency

KCC invests in the following identified key solutions:

Reduce hull resistance:

Silicone antifouling, air lubrication system, welding seam fearing, hull cleaning drones.

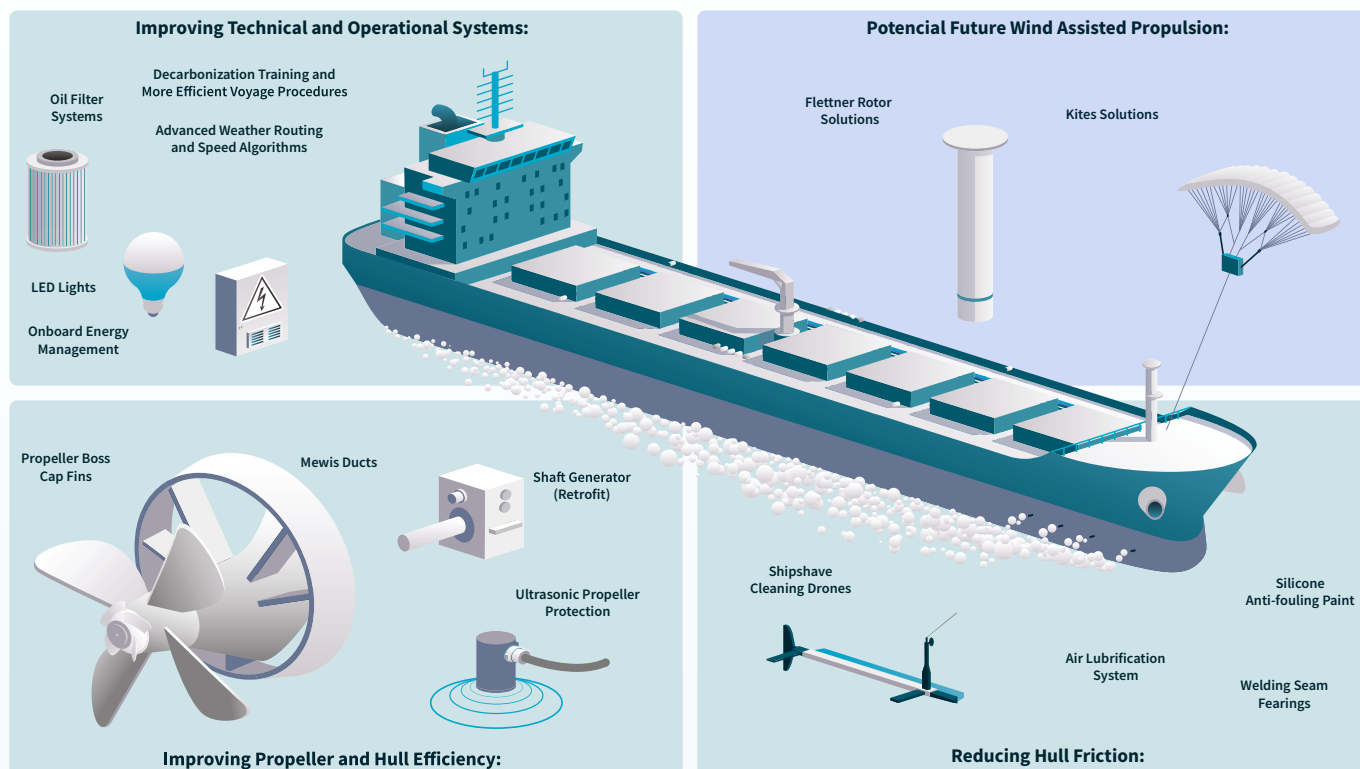
Improve propeller and hull effectiveness:

Mewis ducts, ultrasonic propeller protection and propeller boss cap fin retrofit.

Optimize the vessels' energy utilization and evaluate alternative energy generation:

Shaft generator retrofit, LED flood lights and potentially wind assisted propulsion, solar panels, shore power and battery hybrid systems.





In November 2021, KCC raised USD 25 million in equity dedicated to fund energy efficiency investments on the existing vessels. In parallel with costly and complex measures as the installation of the air lubrication system and shaft generator approved by the Board of Directors for two vessels in March 2022, the Board of Directors has given the management a mandate to invest up to USD 2.5 million per year in energy efficiency improvement initiatives. Additional mandates are given on a case-by-case basis.

The fleet’s EEOI declined by 9% between 2018 and 2022, from 7.6 to 6.9. Recent improvements can be attributed to a more energy efficient fleet with the introduction of the CLEANBUs in the period 2019-2021, in parallel with introduction of several technical and voyage related energy effi-

ciency efforts. These initiatives were gradually piloted and implemented from 2020, with ongoing roll outs scheduled. In terms of technical solutions, initiatives such as premium hull fouling and welding fairing, more frequent dry-docking policy, pre propeller ducts, ultrasonic propeller protection, LED lights and testing of in transit hull cleaning robots can be mentioned as some of the technical measures that improved the EEOI over 2021 and 2022.

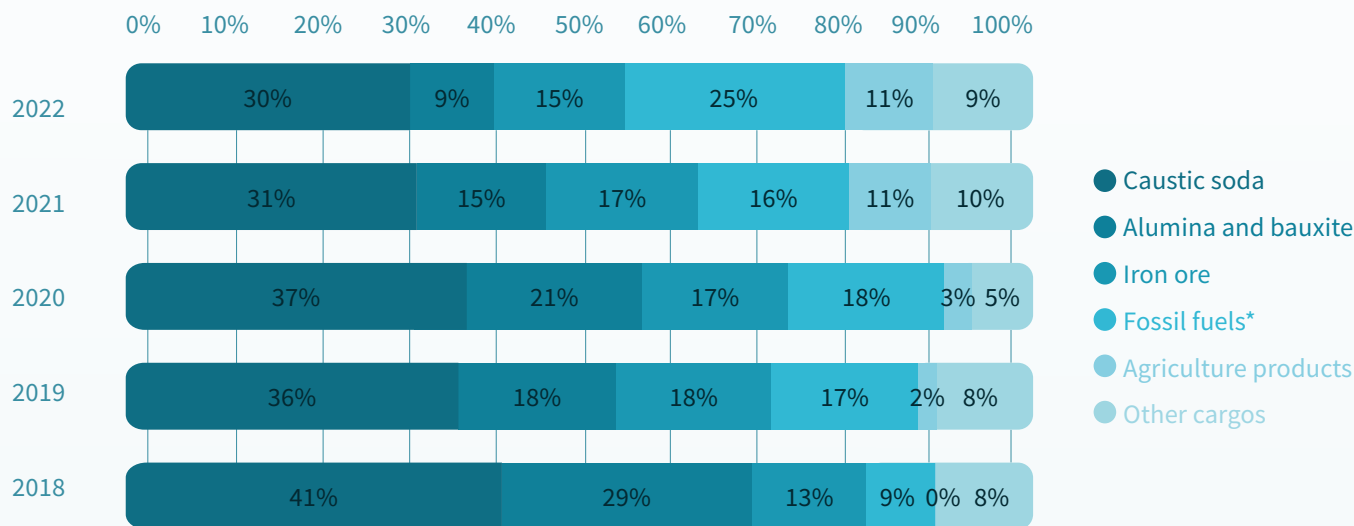
In addition, voyage efficiency efforts such as improved weather routing advisory, optimal trim and improved heat management plans have also provided positive effect in EEOI.

Table 1: KCC’s carbon intensity and absolute emissions

Year	2018	2019	2020	2021	2022
EEOI (KCC)	7.6	7.9	7.4	7.4	6.9
Average CO ₂ /vessel	20,800	19,900	20,700	18,800	17,900

Transported cargo

Split of Cargo transported



*Fossil fuels include gasoil, coal, gasoline and jet fuel and other CPP. Naphta and condensate to the petrochemical industry included in other cargo

KCC’s CABU and CLEANBU vessels mainly transport Clean Petroleum Products (CPP) or Caustic Soda Solution (CSS) from refineries and production plants located in the Middle East/India, Far East or US Gulf to end users or distributors in Australia and South America, the world’s main export hubs of dry bulk commodities. On the return voyage the combination carriers transport dry bulk commodities including alumina, bauxite, grains, salt, iron ore and coal. In 2022, the aluminum/alumina industry through the transportation of caustic soda solution (CSS), bauxite and alumina accounted

for 39% of transported volumes in metric tons (MT). KCC had six coal shipments in 2022 (6%), and total fossil fuel shipments including clean petroleum products and coal accounted for 25%⁷. Iron ore shipments for mining companies or steel plants accounted for 15%. While the impact of a low-carbon future with a lower demand for transportation of fossil fuels has been identified as one of KCC’s main long-term risks, KCC is less dependent on transportation of hydrocarbons than competitors, and KCC has an ambition to increase transportation of non-fossil cargos.



⁷ Fossil fuels include gasoil, coal, gasoline and jet fuel and other CPP. Naphta and condensate to the petrochemical industry are included in other cargo.

Safety

Safety is priority number one for KCC and the ship manager Klaveness Ship Management AS (KSM), and the goal is that no one shall be injured doing work for KCC/KSM. There are inherent safety and security risks related to operations at sea. These must always be managed carefully to safeguard crew, vessels, cargo, and environment.

KCC together with KSM, focus on building and developing the safety culture both at sea and on shore. To maintain safe and reliable operations and to foster a strong safety culture, focus in 2022 has been on the following actions and initiatives:

- Deliver by the safety mantra, “KLASS” (Klaveness Always Safe and Secure), in all parts of our operation
- “Always wear Proper Personal Protective Equipment Campaign” to ensure compliance with the Proper Personal Protection Equipment Policy
- “Stop Work for Safety Campaign” based on the “Stop Work Policy” empowering crew with the responsibility and obligation to stop work if perceived unsafe condition or operation. In a “Stop Work” situation, safety barriers will be re-evaluated, and work resumed when conditions are safe
- “Safe Mooring and Unmooring Campaign” to remind crew about risks involved and highlighting safety precautions during such operations
- High management attention on learnings from SIRE (Ship Inspection Report Program) vetting inspections
- “Safe Access to the Vessel Campaign” based on vetting observations. Topics on requirements and alternatives of safe access were evaluated and discussed during safety meetings onboard the vessels
- Enhanced safety awareness and risk understanding through training, experience sharing and seminars
- “Be a Buddy Policy” introduced to develop a positive and respectful work culture
- KPI monitoring shared with all employees ashore and onshore, management and the Board of Directors to improve safety
- Investment in top safety equipment and where necessary, making physical modifications to enhance safety on the vessels
- Investment in digital tools to avoid high risk operation (e.g. remote inspections of cargo holds using 3D camera)

Transparency & reporting

Ensuring high level of corporate governance secures predictability and transparency for all stakeholders. Environment, social and governance (ESG) are therefore central in KCC’s strategy. KCC is committed to transparency and information sharing with respect to its ESG performance, and key environmental KPIs are reported on a quarterly basis. Further reporting is made in KCC’s annual ESG Performance Report⁸, including total greenhouse gas emissions. The KPIs are report in accordance with the GRI Standards while total greenhouse gas emissions are reported based on Greenhouse Gas Protocol (GHG). KCC report on climate risk through TCFD’s recommendations. KCC believe long term success requires willingness to take serious action and being at the forefront when it comes to ESG challenges and opportunities.



⁸ The annual Sustainability Report renamed to ESG Performance Report from 2022 and onwards.

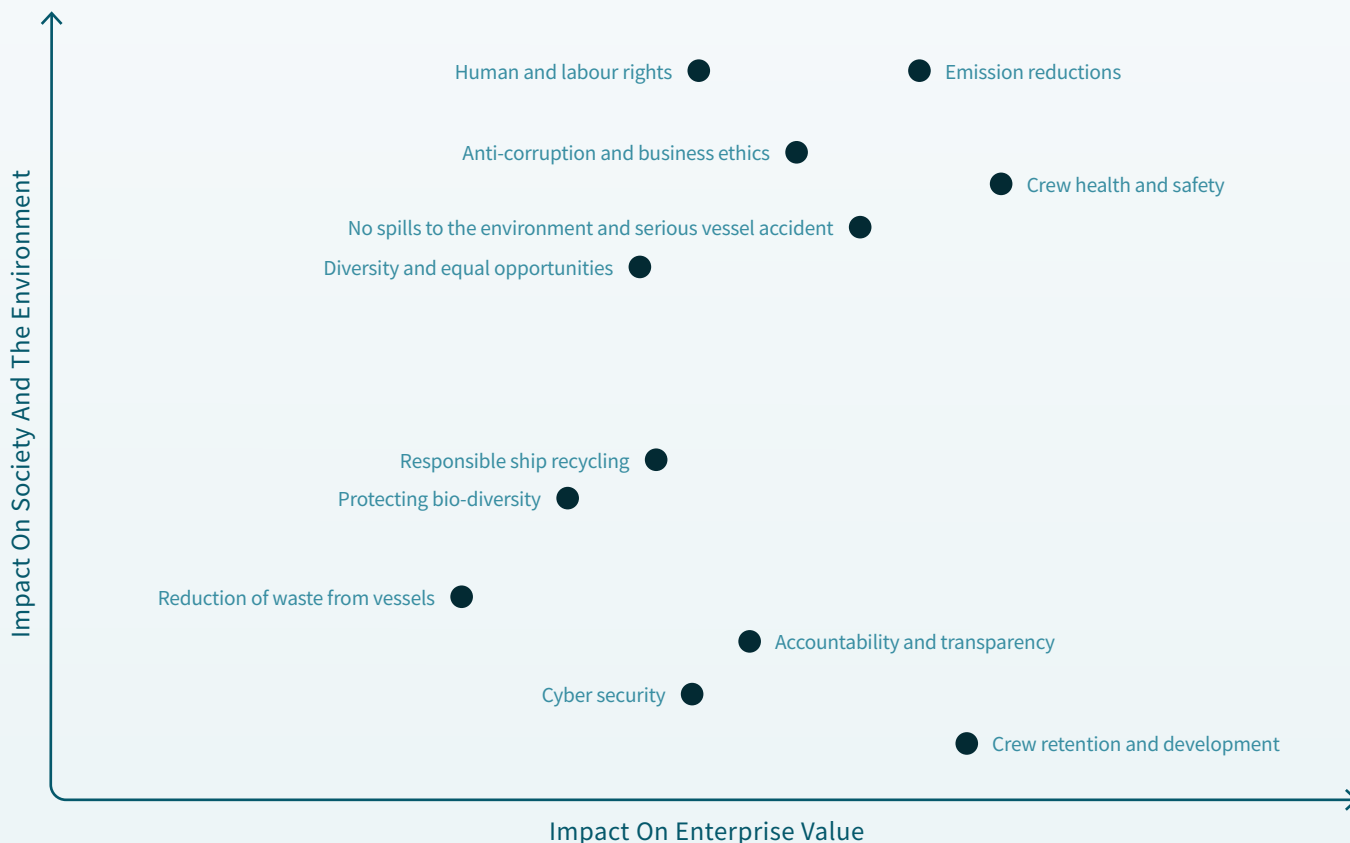
2. Materiality

We have identified and mapped a list of sustainability topics covering all our material sustainability areas based on information from stakeholders and peer disclosure benchmarking.

KCC applies the principle of double materiality in determining how sustainability topics may constitute responsibilities or risks, enabling KCC to understand and report those topics where KCC has significant responsibility to mitigate potential negative impact on society or to the environment and where topics may pose significant risk to the business. The different sustainability topics are ranked in terms of impact to the market, environment and people (outwards) and financial materiality in influencing business value (inwards).



Materiality Matrix 2022



3. Governance

Sustainability is an integral part of KCC's overall strategy and all business activities from daily operations to discussions and decisions made on Board level. The Board of Directors ensures that appropriate goals and strategies are adopted, that the adopted strategies are implemented in practice, and that the results achieved are subject to measurement and follow-up. The Board of Directors considers sustainability-related issues when reviewing and guiding KCC's strategy and business plans, action plans and major capital expenditures. Moreover, the Board of Directors considers sustainability-related issues in the monitoring, implementation, and performance of strategic objectives. The five-years strategy plan for 2021-2025 was resolved by the Board of Directors in November 2020 and is reviewed and adjusted on an annual basis. Some of the main building blocks in this strategy period are built on risks and opportunities related to decarbonization. KCC published its first Environmental Policy and Strategy for the period 2020-2050 in January 2020, including short- and long-term ambitions approved by the Board of Directors. This environmental strategy has been reviewed and an updated strategy is published on KCC's website.

Key performance indicators (KPIs) have been defined for material sustainability topics. Ambitions, performance, and action plans are reviewed and reported to the Management team and to the Board of Directors and sustainability topics are assessed and monitored as part of the company's overall risk review which is discussed with the Audit Committee (AC) and the Board of Directors several times every year.

The Audit Committee has increased its focus on non-financial reporting through 2022. It ensures that objectives, metrics, and policies related to ESG are appropriate, reported transparently and reviewed regularly in line with statutory requirements.

Further information on corporate governance can be found in the Board of Directors' Corporate Governance Report for 2022 and on KCC's website. The below table is an overview of governance for climate-related risks and opportunities in line with the Task Force on Climate-related Financial Disclosures (TCFD) requirements.

Governance description

Board of Directors (BoD)

- Review, discusses with management, and approves the strategy and business plans including ESG topics and management of climate-related risks and opportunities
- Reviews, approves, and monitors specific short-term goals and ambitions and monitors implementation and performance of objectives including climate-related ambitions and targets
- Approves and oversees the environmental policy and strategy
- Approves the risk management policy

Audit Committee of the BoD

- Monitors and oversees the risk management policy and framework
- Discusses with management the quarterly risk review, including climate-related risks
- Together with the administration plans and follow-up internal audits, including audit of environmental KPIs and other climate-related reporting

Chief Executive Officer

- Main responsible for developing and implementing the general strategy and the environmental policy and strategy
- Main responsible for managing climate-related risks and opportunities and reporting these to the Board of Directors
- Main responsible for making sure the service providers (with focus on ship management, commercial operations, and project development) adapts relevant targets and ambitions

Chief Financial Officer

- Main responsible for risk review framework and policy, performing risk reviews and for establishing mitigation plans, including for climate-related risks and opportunities

Membership in the maritime Anti-Corruption Network (MACN)

Torvald Klaveness was one of the founding members of the Maritime Anti-Corruption Network (MACN) in 2011. Since then it has grown to include over 140 member companies. MACN is a mission driven not for profit organization established by the maritime industry to tackle corruption in the maritime industry.

Committed to Decarbonizing the Shipping Industry

Together with some of the world’s largest energy, agriculture, mining, and commodity trading companies KCC committed itself to assessing and disclosing the climate alignment of our shipping activities in October 2020. A necessary step towards reducing the global footprint of our industry.

The Sea Cargo Charter (SCC) provides a global framework to bring climate considerations into chartering decisions, to favor climate-aligned transportation and it establishes a common baseline to quantitatively assess and disclose whether shipping activities are aligned with adopted climate goals. KCC is committed to doing our part in making the world a better place for future generations.



Other partnerships



Norges Rederiforbund
Norwegian Shipowners' Association





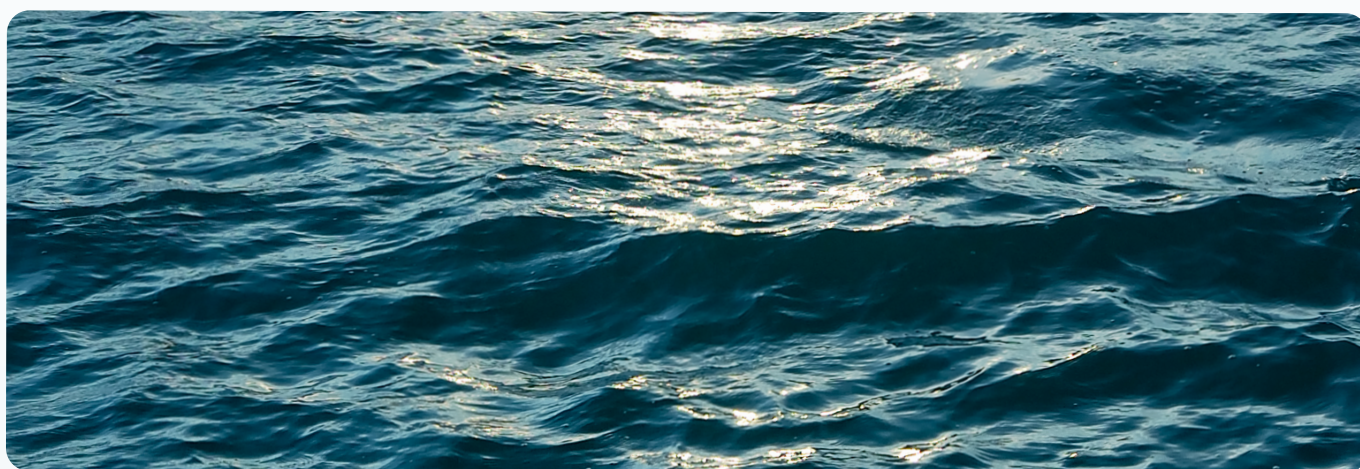
Sustainability-Linked Financing Framework

With its fleet of combination carriers, KCC is uniquely positioned to deliver cost effective carbon emission reductions to its customers and to be leaders in shipping decarbonization. KCC believes that linking financing to sustainability performance will further cement its position as a leader in low carbon shipping. KCC is the sole global provider of combination carriers which provide sustainability benefits due to efficiency, thus offering a “win-win” between profitability and environmental performance.

This Sustainability-Linked Financing Framework (the “Framework”) has been developed in accordance with the

Sustainability-Linked Bond Principles (SLBP), established by the International Capital Markets Association (ICMA) in June 2020 and the Sustainability-Linked Loan Principles issued and subsequently updated by the Loan Market Association (LMA) and the APLMA and LSTA in February 2023. KCC may under this framework issue different Sustainability-Linked Securities, including but not limited to bonds and loans.

DNV has provided a Second Party Opinion on this Sustainability-Linked Financing Framework, which will be made publicly available at KCC’s website.



1. Selection of Key Performance Indicators (KPI)

Shipping is the bedrock of global trade, accounting for approximately 90% of the world's transported goods. It also accounts for 2-3% of global greenhouse gas (“GHG”) emissions. Decarbonization is therefore widely recognized as the biggest and most pressuring challenge within the industry, and significant measures are required to sufficiently reduce the industry’s GHG emissions and become aligned with the Paris agreement. Decarbonization and energy efficiency are important to KCC. KCC therefore has

an ambition to substantially reduce its carbon footprint in the next decade. To emphasize our efforts within energy efficiency, trading efficiency and voyage efficiency we have chosen carbon intensity, measured as Energy Efficiency Operational Indicator (“EEOI”), as the KPI within this Sustainability-Linked Financing Framework. KCC believes that EEOI is the best indicator as it incorporates the sum of all decarbonization efforts, also including actual cargo carried.

Key Performance Indicator: Energy Efficiency Operational Indicator (EEOI)

KCC has published an annual ESG Performance Report since 2019, which covers environmental, social, and governance related topics. KCC is reporting according to the GRI-standards and to some extent the TCFD. Furthermore, the last two years KCC has submitted response to CDP and received a score in the category “Climate change”. With the base in the GRI-standard KCC is reporting on scope 1, 2 and 3 emissions. In addition to reporting both CO₂ emissions and CO₂e emissions, which incorporates all GHG emissions converted to CO₂ equivalents, KCC also reports on SOx, NOx, VOC and PM emissions. While absolute measurements are important, they do not account for the utilization, size or growth. Therefore, an intensity based KPI focusing on the average efficiency of the fleet has been chosen for this framework. KCC has chosen the well-known EEOI measurement as the KPI for this framework as it is a transparent and standardized way of displaying KCC’s improvements regarding CO₂ emissions.

EEOI is a metric developed by the International Maritime Organization (“IMO”) to allow stakeholders to monitor the carbon intensity of their shipping activities. The EEOI is calculated as the total carbon emissions in a given time period per unit of tonne-miles. Variations in the index are mainly due to three factors; (1) the technical efficiency of the ship, (2) the amount of cargo transported per unit of time, and (3) variations of speed. The EEOI is widely recognized as a carbon intensity metric as it takes into consideration both fuel consumption and fleet utilization. The Sea Cargo Charter relies specifically on the EEOI as the carbon intensity metric because it produces the closest measure of the vessel’s true carbon intensity in operation, to a high level of granularity. This level of granularity makes the EEOI preferable to alternative carbon intensity metrics such as the Annual Efficiency Ratio (AER), which only considers the deadweight and assumes the ship is at maximum capacity.

KPI Calculation Methodology

The EEOI shall be computed on a last twelve months (“LTM”) basis and shall apply to the full operated fleet⁹, including all owned and long-term financed vessels. Both CO₂ emissions from fuel consumption at sea and in port are included.

EEOI is defined by IMO and represents grams CO₂ emitted per metric ton of transported cargo per nautical mile for a period of time.

In line with the IMO’s Guidelines for voluntary use of the ship Energy Efficiency Operational Indicator (EEOI) from August 2009, KCC uses the following formula for calculating average fleet EEOI:

$$\text{Average EEOI} = \frac{\sum_i \sum_j (FC_{ij} \times C_{Fj})}{\sum_i (m_{\text{cargo},i} \times D_i)}$$

Where:

- i is the voyage number
- j is the fuel type
- FC_{ij} is the mass of consumed fuel j on voyage i
- C_{Fj} is the fuel mass to CO₂ mass conversion factor for fuel j
- $M_{\text{cargo},i}$ is cargo carried on voyage i (metric tons)
- D_i is the distance in nautical miles corresponding to the cargo carried on voyage i

The EEOI of the full operated fleet is calculated as the sum of CO₂ emissions from all vessels and all voyages in a given year ($FC_{ij} \times C_{Fj}$) divided by the total transport work performed by all vessels during all voyages in a given year ($m_{\text{cargo},i} \times D_i$).

The KPI data set will to the extent possible be the same as used for IMO DCS reporting, but also including actual carried cargo, distance sailed with the various amount of cargo and the resulting transport work.

A list of vessels in the full operated fleet will be displayed in the annual Sustainability-Linked Financing Report and made public on KCC’s website.

⁹ As per the composition of the fleet at any future observation date (taking into account new vessels and/or exits).

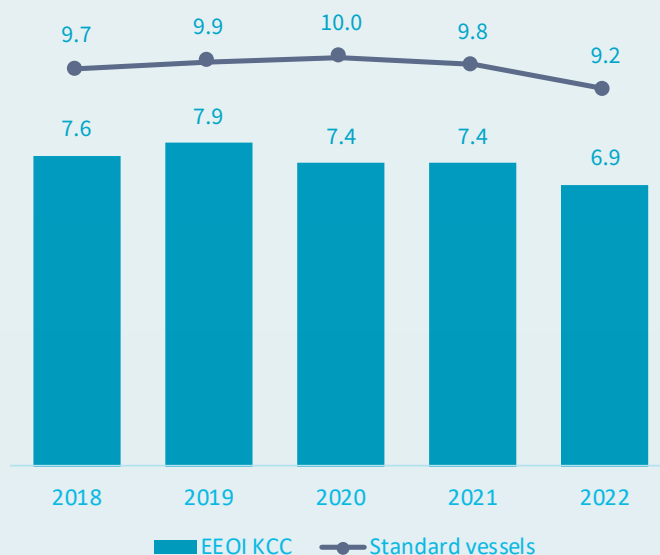
2. Calibration of Sustainability Performance Targets (SPTs)

An advantageous starting point

KCC has selected 2018 as a base year for the emissions reduction targets, as this was the first year with a fully delivered CABU fleet. This year was also selected due to its data quality, and it was a representative year in terms of fleet utilization and trades. Furthermore, 2018 serves as the base year for KCC’s environmental KPI’s, which are reported quarterly and annually in KCC’s ESG Performance Report and reporting to carbon disclosure project (CDP), as well as serving as base year in KCC’s Environmental Strategy to 2050.

From 2018 to 2022 the EEOI has fallen from 7.6 to 6.9. The main source of improvement has been as mentioned the delivery of new and more fuel-efficient vessels with greater carrying capacity, the installation of energy saving devices, higher drydocking frequency and voyage efficiency measures. Environmental regulations and the decarbonization strategy and opportunities have been key drivers behind this work. Moreover, the EEOI performance was in 2022 ~25% better than what standard tonnage in KCC’s trades would have performed in the same period doing the same transportation work.¹⁰

Figure 1: KCC EEOI versus standardtonnage benchmark¹¹



¹⁰ Our fleet’s carbon intensity for 2022, with 83% on-hire days in combination trade and 12% in ballast, was 25% below that of standard dry bulk and product tanker vessels in the same trades. Calculated based on standard vessels (Panamax/Kamsarmax dry, MR-tankers and LR1-tankers) making the same transportation work in the same trades as performed by KCC’s CABU and CLEANBU vessels in the relevant period. Weighted average EEOI for the individual trades performed. There is a degree of uncertainty related to the benchmark values as these are estimated using data from Baltic Exchange and AXS Marine.

¹¹ The EEOI and % ballast for “Benchmark standard vessels” are calculated based on standard vessels (Panamax/Kamsarmax dry bulk vessels, MR-tankers and LR1-tankers) making the same transportation work in the same trades as performed by KCC’s CABU and CLEANBU vessels in the given period. The EEOI for “Benchmark standard vessels” is calculated as the weighted average of EEOI for the individual trades performed. There is a degree of uncertainty related to the benchmark values as these are estimated using data from Baltic Exchange and AXS Marine.

KCC’s SPT Trajectory

KCC has developed ambitious environmental targets to reduce the carbon intensity from 7.6 in 2018 to 5.3 by year-end 2026 and further to 4.1 by year-end of 2030, which implies a 46% reduction by year-end 2030 compared to 2018. The targets have been developed bottom-up based on a set of measures identified in the Company’s Revised Environmental Strategy, including significant investments in energy efficiency devices as well as trading and voyage improvements. See more details under "Strategy to achieve the SPTs".



IMO and Sea Cargo Charter decarbonization trajectories

There is currently no dedicated trajectory for combination carriers in Sea Cargo Charter (“SCC”), but the trajectories for product tankers and bulk carriers have similar reductions and are thus comparable in terms of reduction percentages. For reference, the combination carrier reference line stated in IMO’s AER guidelines is between the bulk carrier and tanker reference line, slightly closer to bulk carriers.

The trajectory established by SCC is based on historical carbon intensity data related to the Fourth IMO Greenhouse

Gas Study. The SCC trajectory is consistent with the policies and ambitions of IMO, including its ambition of achieving at least 50% reduction in total annual GHG emissions by 2050 compared to 2008 levels.

Under a demand scenario from the Fourth IMO Greenhouse Gas Study, this represents an 81% reduction in global carbon intensity by 2050 compared to 2008, which is more ambitious than the IMO Intensity Targets¹². The targets KCC has set for the EEOI reductions are more ambitious than the SCC trajectory.

Table 2: KCC’s SPT and EEOI Trajectory for 2019¹³

Trajectory	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
SPT: reduction in % vs 2018*		3.9 %	-2.6 %	-2.6 %	-9.2 %	-9.2 %	-16.2 %	-23.2 %	-30.3 %	-34.2 %	-38.2 %	-42.1 %	-46.1 %
Annual KPI levels	7.6	7.9	7.4	7.4	6.9	6.9	6.4	5.8	5.3	5.0	4.7	4.4	4.1
SCC trajectory (bulk carriers and product tankers)		-2 %	-5 %	-7 %	-9 %	-11 %	-14 %	-16 %	-18 %	-20 %	-23 %	-25 %	-27 %

*Each annual target reduction in % vs 2018 could be designated as SPTs in the security documentation of a financial instrument.

¹² <https://www.imo.org/en/OurWork/Environment/Pages/Fourth-IMO-Greenhouse-Gas-Study-2020.aspx>

¹³ The baseline and subsequent years’ EEOI performance has been verified by an external party. See ESG Performance Report for more detail.

Figure 1: KCC EEOI trajectory

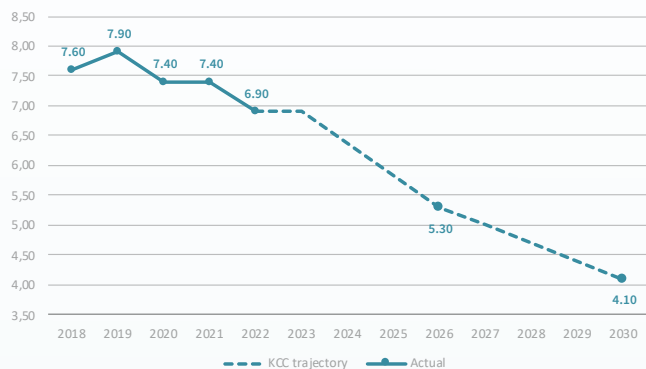
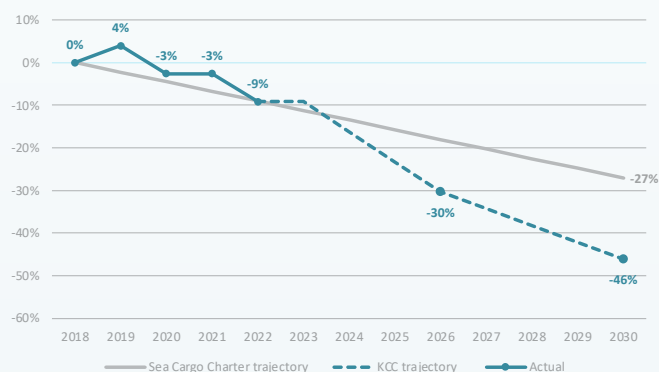


Figure 2: KCC’s SPT trajectory compared to decarbonization Sea Cargo Charter decarbonization trajectory¹⁴



Each Sustainability-Linked Instrument issued under this framework will in its instrument-specific documentation refer to one or several of the target levels and dates of the SPT Trajectory, where such targets and dates will be designated as SPT(s) linked to a Trigger Event (which is further described under section 3 – Instrument Characteristics. Mid-year SPT(s) may be calculated using linear interpolation between the annual targets in the SPT Trajectory.

As long as any instruments are outstanding under this framework, the KPI performance will be measured and assessed annually against every target and target date outlined in the SPT Trajectory (the Target Observation Date), regardless of whether such target and target date is designated as an SPT in the instrument specific documentation. Such KPI performance will be reported and verified as outlined under section 4 and 5 – Reporting and Verification.

¹⁴ Calculated in accordance with Sea Cargo Charter Technical Note version 2.2 August 2022. The percentage reduction is based on the trajectory for both Bulkers and Tankers.

Strategy to achieve the SPTs

The KCC EEOI trajectory is based on the company's environmental strategy with specific plans to cut emissions. The strategy is divided into the period 2023-2026 and 2027-2030.

2023-2026:

Cut carbon emissions intensity by more than 20% by maximizing efficiency in every part of KCC's business.

Optimize trading efficiency – expected to have ~6% positive EEOI effect from 2022 to 2026

- Maximize cargo intake
- Maximize loaded voyages/minimize ballast through optimizing combination trading efficiency and trading patterns
- Minimize waiting time in ports
- Avoid high speed voyages through better scheduling and better cooperation with customers

Improve energy efficiency – planned energy efficiency investments estimated to have ~9%-point positive EEOI effect from 2022 to 2026

KCC invests in its vessels to:

- Reduce hull resistance (antifouling, air lubrication system, welding seam fearing, hull cleaning drones and efforts on proactively avoiding potential fouling through actions on idling vessels)
- Improve propeller and hull effectiveness (mewis ducts, ultrasonic propeller protection and propeller boss cap fin retrofit)
- Optimize the vessels' energy utilization and evaluate alternative energy generation (shaft generator, LED flood lights, wind assisted propulsion, solar panels, shore power and battery hybrid systems)

Perfecting voyage efficiency- expected to have ~7% point positive EEOI effect from 2022 to 2026

- KCC invests in better decision support systems onboard vessels and crew training to ensure the crew has the best tools and knowledge to improve weather routing, ensure optimal trim, constant load and optimal use of energy consumers onboard the vessel
- KCC has dedicated onshore resources using data from the vessels, generated through digitalization of the vessels, to attain insight in vessel performance. Based on this, KCC implements actions to improve the performance of the vessels and make proactive actions based on the technical condition and the planned operations

2027-2030:

Fleet renewal and innovation

- Fleet renewal will replace the 2001-2002 built CABU's
- Replace part of the VLSFO consumption with biofuels¹⁵
- Substantial additional efficiency improvements, with wind assisted propulsion being the largest single contributor, expected to be rolled out over the fleet. We also expect further general development in anti fouling, weather routing and improved vessel scheduling.
- Develop and introduce zero emissions vessels within 2030

¹⁵ KCC references the Tank-to-Wake measurement in EEOI calculations. Note that biofuels may therefore not contribute to our EEOI reduction target as they do not have a CO2 reduction impact in a Tank-to-Wake perspective, only in a Well-to-Wake perspective.

External risks to achieving the SPTs

Technology

There is still high uncertainty related to future propulsion technology and which zero-emission fuels will fully decarbonize deep-sea shipping. The risk of impairment is mainly linked to KCC's 11 vessels built from 2016-2021 for which new propulsion technology and the emergence of zero-emission fuels might lead to lower vessel values and impairment in the longer term (10+ years) when new technology matures.

Furthermore, there is a risk in the effects and further energy efficiency gains achievable from all of the smaller and larger investments both ongoing and planned for the fleet. Several are proven and well known, however wind assisted propulsion and development of smarter weather routing and vessel scheduling tools are still under development.

Policy and legal

Introduction of new global and/or regional environmental regulations poses a risk, as future regulations might give the industry the wrong incentives when it comes to improving efficiency of the operations and trading to reduce fuel consumption. If future carbon taxes are based on fuel consumption per deadweight (theoretical intake) and not per ton cargo transported, the regulations will not incentivize the industry to reduce fuel consumption by improving efficiency.

Changes to commodity flows and trade routes

Larger changes in the wet and dry cargo commodity flows, either making the direct wet/dry round voyages or triangular trading less available, would result in a reduction of available cargoes into the next loading region and increase the ballast percentage. As cargo quantity is how we measure transport work, such a change in trade pattern and cargo flows would reduce the percentage of steaming days with cargo onboard and thus the EEOL.



3. Instrument Characteristics

The financial and structural characteristics of any Sustainability-Linked Instrument issued under this Framework will be specified in its corresponding instrument documentation, including the potential changes to the financial and/or structural characteristics which may follow post any Trigger Event(s).

Trigger Events

The occurrence of any of the following events (the Trigger Events) may¹⁶ trigger a change in the financial and/or structural characteristic of the relevant instrument as described below (Changes to the Securities Characteristics).

- KCC's KPI performance does not meet the applicable SPT(s) for the relevant Target Observation Date(s), as reported on or before the Reporting End Date(s) following the applicable Reference Period or
- KCC's reporting does not meet the requirements as set out in the Reporting section of this Framework for each year up until and including the last Target Observation Date, or
- The verification (as per the Verification section of this Framework) of the KPI performance has not been provided and made public by the time of the Reporting End Date each year up until and including the last Target Observation Date

The Target Observation Date is defined as any date when KPI performance is observed and if applicable measured against a relevant target in the SPT Trajectory or a designated SPT.

The Reporting End Date for any relevant Reference Period shall be outlined in the instrument specific documentation. The Reference Period sets out the twelve-month period up until and including the Target Observation Date for which the KPI performance is observed.

Further details regarding Trigger Events and the potential impact on the financial and/or structural characteristics of any relevant security will be described in the respective instrument documentation.



Changes in instrument characteristics

The occurrence of a Trigger Event may result in changes to the financial and/or structural securities characteristics. Such changes will be described in the relevant securities documentation.

Fallback mechanisms

The KPIs and SPTs set out in this Framework will remain applicable throughout the tenor of any instrument issued under the Framework, regardless of any changes to KCC's sustainability strategy and ambitions. This includes any changes relating to the company's general sustainability targets and ambitions or changes in applicable benchmarks or industry standards. Any changes to the underlying input variables in the EEOI calculation will change the baseline year and the subsequent yearly EEOI measurement on a pro-forma basis¹⁷. Any new or updated Sustainability-Linked Financing Framework, in relation with any subsequent capital markets transactions, shall not have any implications on the securities issued under this Framework.

¹⁶ The use of "may" acknowledges that there may be situations in which a Trigger Event does not result in a change in the instrument characteristics. For example, if a Trigger Event leads to an increased margin, a subsequent Trigger Event could lead to the instrument remaining unchanged at the increased margin.

¹⁷ The SPT, measured in percentage, will remain the same even though the input variables in the EEOI changes.

4. Reporting

In order to provide investors, lenders and other stakeholders with adequate information about KCC's implementation of the sustainability strategy in general, the progress made on the KPI, and the achievement or not of the SPT(s) set out in this Framework and in any instrument specific documentation, KCC will provide relevant reporting.

The reporting shall be made publicly available on an annual basis, separately or as part of KCC's annual ESG Performance Report, (the "Progress Report"). The Progress Report shall be published on the company website no later than by the Reporting End Date.

The Progress Report will i.a. form the basis for evaluating the impact on the instrument characteristics as outlined in section Instrument characteristics. The Progress Report will contain all the relevant information needed to assess the progress towards the SPT(s) (and for the Target Observation Date(s), if any changes to the instrument characteristics are to be made) including but not limited to:

- The performance of the KPI (EEOI level), as per the relevant Reference Period and when applicable, as per the Target Observation Date(s) including the calculation methodology and baselines where relevant;
- When relevant, information about pro-forma adjusted baseline, if any, due to change in input factors in the calculation of EEOI
- A verification report relative to the KPI performance, outlining the performance against the SPT(s) and the related impact, and timing of such impact, on the securities characteristics; and
- Information on any updates to KCC's sustainability strategy and/or governance with an impact on the KPI and SPT(s).
- An overview of outstanding Sustainability-Linked Instruments relevant under this framework

Where feasible and possible the Progress Report will also include:

- Qualitative and/or quantitative explanations of the main factors, including M&A activities and changes to the organization, contributing to the performance of the KPI;
- Updates on new or proposed regulations from regulatory bodies, such as but not limited to the IMO, Sea Cargo Charter or Paris Agreement aligned targets, relevant to the KPI and the SPT(s).

In addition to the public reporting, KCC may also report non-publicly directly to lenders and counterparts when necessary.

5. Verification

In order to provide transparency to investors and lenders and ensure alignment with the Sustainability-Linked Bond Principles and the Sustainability-Linked Loan Principles as well as best market practice, KCC will obtain the external reviews listed below.

Verification

KCC will ensure an external and independent verification by a qualified external reviewer with relevant expertise, as outlined in ICMA's 2022 Guidelines for Green, Social, Sustainability and Sustainability-Linked Bonds External Reviews. The external reviewer shall verify the actual KPI performance relative to the targets (including the relevant SPT(s)) in the SPT Trajectory. The verification shall be conducted with limited assurance by the external reviewer. KCC has the discretion to change the external reviewer subject to fulfilling the requirements set out herein.

The verification shall be made public together with KCC's Progress Report on the company's website no later than the Reporting End Date as set out in section "Instrument Characteristics" and specified in the instrument specific documentation. The verification, together with the Progress Report, will form the basis for evaluating any change in the financial characteristics of any securities issued under this Framework. Failure to provide the ex-post verification before the Reporting End Date shall result in an automatic adjustment in the financial characteristics as outlined in the instrument specific documentation.

Second Party Opinion

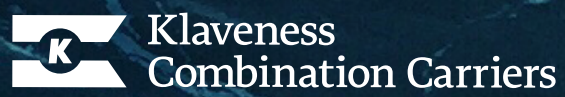
KCC has engaged DNV as an external reviewer to provide an independent, ex-ante Second Party Opinion on KCC's Sustainability-Linked Financing Framework. The Second Party Opinion confirms the Framework's alignment with the Sustainability-Linked Bond Principles (June 2020) set out by ICMA and the Sustainability-Linked Loan Principles (February 2023) set out by LMA, APLMA and LSTA. The Second Party Opinion will be made publicly available on the company's website.

Appendix

Appendix

List of vessels as of June 2023

Name	Type	Built	Yard	DWT
Barcarena	CABU	March 2001	Oshima, Japan	72 562
Banastar	CABU	October 2001	Oshima, Japan	72 562
Bangor	CABU	October 2002	Oshima, Japan	72 562
Bantry	CABU	August 2005	Oshima, Japan	72 562
Bakkedal	CABU	August 2007	Oshima, Japan	72 562
Balboa	CABU	September 2016	Ouhua Zhejiang, China	80 345
Baffin	CABU	December 2016	Ouhua Zhejiang, China	80 235
Ballard	CABU	May 2017	Ouhua Zhejiang, China	80 500
Baru	CLEANBU	January 2019	YZJ, China	82 425
Barracuda	CLEANBU	July 2019	YZJ, China	82 396
Barramundi	CLEANBU	September 2019	YZJ, China	82 447
Baleen	CLEANBU	August 2020	YZJ, China	82 374
Bangus	CLEANBU	October 2020	YZJ, China	82 389
Baiacu	CLEANBU	January 2021	YZJ, China	82 397
Bass	CLEANBU	March 2021	YZJ, China	82 383
Balzani	CLEANBU	May 2021	YZJ, China	82 393



**Klaveness
Combination Carriers**

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