



## SECOND PARTY OPINION

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**TOHO GAS CO., LTD.**

**GREEN/TRANSITION FINANCE FRAMEWORK**

Prepared by: DNV Business Assurance Japan K.K.

Location: Kobe, Japan

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### Revision history

Revision number	Date of issue	Remarks
0	21 <sup>st</sup> October 2022	Initial

### Disclaimer

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<sup>1</sup> DNV Code of Conduct is available from DNV website ([www.DNV.com](http://www.DNV.com))

## Executive Summary

Over almost 100 years since its establishment in 1922, Toho Gas Group has been an energy company with strong roots in the local communities. In response to changes in the business environment, Toho Gas Group has converted the energy resources used for city gas, expanded usage applications, and achieved growth and development together with the local communities. Toho Gas Group has achieved the growth of the city gas business as well as LPG business operations developed since 1959. In addition, the Group is working to expand the scope of business by taking initiatives such as entering into the retail electricity business in 2016.

Amid the recently heightening sense of crisis with respect to global warming, in July 2021, Toho Gas Co., Ltd. (hereafter, "Toho Gas") has formulated the "Toho Gas Group 2050 Carbon Neutrality Initiative." Toho Gas Group will continue to contribute to realizing a sustainable society and to the further development of the region through clean energy systems.

Toho Gas has decided to utilize green finance and transition finance in order to achieve carbon neutrality in 2050 in its entire value chain, including customer locations, and has formulated the "Toho Gas Green/Transition Finance Framework" (hereinafter, the "Framework").

The Framework is structured as a comprehensive framework that includes the following elements necessary for the implementation of finance:

- Green Finance (green bond and loan)
- Transition Finance (transition bond and loan with specific use of proceeds)

DNV Business Assurance Japan K.K. (hereinafter, "DNV"), as an external reviewer, evaluated the eligibility of the framework.

Specifically, DNV provided the eligibility evaluation for frameworks (principles, guidelines, etc.) against the following handbook, principle and guidelines which are widely recognized:

- Climate Transition Finance Handbook (CTFH), International Capital Markets Association (ICMA), 2020
- Basic Guidelines on Climate Transition Finance (CTFBG), Financial Services Agency, Ministry of Economy, Trade and Industry, Ministry of the Environment, 2021
- Green Bond Principles (GBP), International Capital Markets Association (ICMA), 2021
- Green Bond Guidelines (GBGLs), Ministry of the Environment, 2022
- Green Loan Principles (GLP), Loan Market Association (LMA) and others, 2021
- Green Loan Guidelines (GLGLs), Ministry of the Environment, 2022

The following is a summary of the assessment results for each common element indicated in the above frameworks.

## <CTF eligibility assessment results>

DNV has confirmed the following from the documentation and information provided by Toho Gas. CTF-1 to CTF-4 below are findings and opinions of DNV against the four common elements (disclosure elements) of the CTFH and CTFBG as criteria for the Climate Transition Finance.

### CTF-1. Fundraiser's climate transition strategy and governance:

The transition strategy of the fundraiser Toho Gas is set forth in the "Toho Gas Group 2050 Carbon Neutrality Initiative," which sets out a realization image and scenario for achieving the targets. This is in line with the targets and pathways set out in the "Technology Roadmap for "Transition Finance" in Gas Sector" (The Ministry of Economy, Trade and Industry), the "Transition Roadmap for Power Sector" (Agency for Natural Resources and Energy), and the Carbon Neutral Challenge 2050 (The Japan Gas Association). In addition, Toho Gas's Transition Strategy will contribute to the realization of supply-side and demand-side carbon neutrality as a key initiative presented in various plans and strategies for decarbonization in Japan.

In terms of governance related to implementation of the Transition Strategy, an internal structure in the entire Toho Gas Group, including the Group Environmental Preservation Board, and information disclosure process based on TCFD<sup>\*1</sup> have been established. These are disclosed in the frameworks and other documents and meet the disclosure elements of CTF-1.

\*1: Task Force on Climate-related Financial Disclosures

### CTF-2. Business model environmental materiality:

The environmental materiality of Toho Gas's business model is identified by extracting individual issues with reference to the GRI Standards<sup>\*2</sup>, evaluating from the viewpoints of economic and social value, and going through the Management Committee and the Board of Directors. Each materiality is disclosed in the "Integrated Report 2022" with the relevant SDGs tied to it, and one of the materialities is the promotion of carbon neutrality. In addition, the Toho Gas Group Medium-Term Management Plan 2022-2025 includes the promotion of carbon neutrality as one of the four themes to be addressed during the period of the medium-term plan (FY2022 - FY2025). The response to climate change is closely linked to the management strategy and business activities of Toho Gas Group. In addition, efforts to address environmental materiality include not only emissions reductions from their own business activities, but also activities that contribute to Scope 3 emissions reductions and those of other companies.

In accordance with the TCFD Guidance, Toho Gas has selected less than 2°C scenario and less than 4°C scenario as external scenarios to identify risks and opportunities, taking into account time horizons such as short-to-medium-term and medium-to-long-term, and grasp the impact of these scenarios. These are disclosed in the frameworks and other documents and meet the disclosure elements of CTF-2.

\*2: Global Reporting Initiative (an international standard providing ESG-related reporting, management and analysis tools)

### **CTF-3. Climate transition strategy to be science-based including targets and pathways:**

Toho Gas's Transition Strategy is defined by science-based targets and pathways. Specifically, it is consistent with the targets and pathways set out in the "Transition Roadmap in the Gas Sector" (The Ministry of Economy, Trade and Industry), the "Transition Roadmap in the Power Sector" (Agency for Natural Resources and Energy), and the Carbon Neutral Challenge 2050 (The Japan Gas Association). In addition to reducing CO<sub>2</sub> emissions from the company's own activities, long-term and medium-term targets that take into account Scope 3 and reduction contributions are indexed and quantified, and the process of achieving these targets is clarified. As the targets of the Ministry of Economy, Trade and Industry and the Agency for Natural Resources and Energy were formulated to be consistent with the Paris Agreement, Toho Gas's Transition Strategy can also be judged as science-based.

Toho Gas has set a long-term target for 2050 of carbon neutrality in its entire value chain, including customer locations, and a medium-term target for 2030 of 3 million tonnes of CO<sub>2</sub> reduction contribution (compared to FY2020), a gas carbon neutrality rate of at least 5%, and 500,000 kW of renewable energy sources handled.

As a pathway to achieving the target, Toho Gas aims to build an energy system that contributes to carbon neutrality, based on gas (city gas and LPG), hydrogen, and electricity. These are disclosed in the frameworks and other documents and meet the disclosure elements of CTF-3.

### **CTF-4. Implementation transparency:**

To address climate change-related risks and opportunities, including the implementation of the Transition Strategy, Toho Gas aims for a 1:1 ratio of core projects to strategic projects out of the JPY 230 billion of investments in the medium-term management plan period covering FY2022 - FY2025, which includes projects implemented with green/transition finance.

DNV has confirmed that the investments required to implement the Transition Strategy will be carried out in accordance with the appropriate timeline, based on the internal management system and processes, taking into account CTF-1 to CTF-3. These are disclosed in the frameworks and other documents and meet the disclosure elements of CTF-4.

**<GBP/GLP eligibility assessment results>**

DNV has confirmed the following from the documentation and information provided by Toho Gas. GBP/GLP-1 to GBP/GLP-4 below are findings and opinions of DNV against the four elements common to GBP and GLP (including GBGLs and GLGLs) required for green finance and transition finance with specific use of proceeds.

**GBP/GLP-1. Use of Proceeds:**

The proceeds raised by Toho Gas through green/transition finance will be allocated to new investment and refinancing for existing investments as R&D, capital investments, investments and loans, and other related expenditure regarding green/transition eligible projects, focusing on the initiatives of gas (city gas and LPG), hydrogen, and electricity as described in the realization image of carbon neutrality in 2050. DNV has confirmed that these projects are consistent with the elements of CTF-1 to CTF-4. Each project has been evaluated by Toho Gas as having clear environmental benefits on the transition strategy and is expected to contribute directly and indirectly to the SDGs.

Table-1 Toho Gas Green/Transition Finance Project Overview

Eligible Project		Project Overview
Business Category	Type of Initiative	
Gas	Reductions of carbon and decarbonization at customer locations	
	Fuel conversion to gas	Expenditure and investment in supporting fuel conversion from coal and petroleum to city gas
	Creation of gas supply chain	Capital investment in extending or maintaining gas pipelines
	Gas-related energy savings	Capital investment in cogeneration, installation of high-efficiency gas appliances, and regional heating and cooling
	Carbon recycling*	
	CCUS	R&D or capital investment in separation, recovery, utilization, and storage of CO <sub>2</sub>
	Decarbonization of gas itself*	
	Methanation	R&D or capital investment in the practical implementation of methanation technology
	Carbon neutral LNG	Expenditure and investment in the procurement and supply of carbon neutral LNG
	Biogas (Renewable energy)	R&D or capital investment in biogas introduction
Hydrogen	Mobility applications*	

	Hydrogen station	Capital investment in the development of hydrogen stations
	Further application expansion*	
	Hydrogen combustion equipment, etc.	R&D related to hydrogen combustion, mixed-combustion with city gas, etc.
	Distributed energy systems	Capital investment in the construction of smart towns combining various technologies, such as hydrogen and renewable energy
	Supply chain creation*	
	Hydrogen production, CCUS	R&D or capital investment in hydrogen production and carbon recycling through natural gas reforming, etc.
	Local hydrogen network	R&D or capital investment in hydrogen pipeline supply through local networks
Electricity	Reductions of carbon and decarbonization at customer locations*	
	Distributed energy systems, renewable energy, clean transportation	R&D or capital investment in the promotion of various distributed energy resources, including solar power generation, storage batteries, and electric vehicles, and their integration and control using digital technology
	Decarbonization of power sources*	
	Renewable energy	Capital investment / investment and loan for the development of renewable energy sources such as solar power, biomass, wind (including offshore wind), and small hydropower Investment and loan for new regional power companies

\*: Projects that could be used for green finance as well as transition finance

Alignment of the above eligible projects with the SDGs:



\*The relevance to the SDGs is based on Green, Social and Sustainability Bonds: A High-Level Mapping to the Sustainable Development Goals published by ICMA, which sets out the Green Bond Principles. It is complementary upon the issuance of green bonds etc. and is not directly associated as a financing objective.

**GBP/GLP-2. Process for Project Evaluation and Selection:**

Toho Gas confirms that the green/transition projects meet the GBP/GLP-1 eligible project categories, and that they do not conflict with the exclusion criteria set out in the Framework in advance. Specifically, the Finance Department takes the lead in selecting eligible projects after consulting with the Corporate Planning Department and the CSR/Environment Department to assess the environmental benefits of each project, with the Finance Officer making the final decision. It is also confirmed that all nominated eligible projects have been addressed to reduce environmental and social risks.

**GBP/GLP-3. Management of Proceeds:**

Toho Gas's Finance Department will track the proceeds raised as green/transition finance on an annual basis using an internal management system and proceeds allocation control chart to ensure that an amount equal to the amount raised is allocated to one of the eligible projects, and to report the allocation status to the Finance Officer. Unallocated proceeds will be managed in cash or cash equivalents and will be allocated within approximately three years of financing.

**GBP/GLP-4. Reporting:**

Toho Gas plans to disclose the allocation status of the proceeds raised on its website until the full amount has been allocated. The disclosure will include the amount of allocated proceeds, the estimated unallocated amount, the estimated time of allocation, and the estimated amount or percentage of proceeds allocated to refinancing. In addition, the environmental benefits of the project subject for allocation will be disclosed on the website as long as reasonably practicable for the period from the implementation of financing to the completion of redemption or repayment. In the event of material changes to the projects subject for the use of proceeds, even after the allocation of the proceeds is completed, such changes and the status of unallocated proceeds will be promptly disclosed on the website.



## **I. Introduction**

### **i. About the Fundraiser**

Over almost 100 years since its establishment in 1922, Toho Gas Group has been an energy company with strong roots in the local communities. In response to changes in the business environment, Toho Gas Group has converted the energy resources used for city gas, expanded usage applications, and achieved growth and development together with the local communities. Toho Gas Group has achieved the growth of the city gas business as well as LPG business operations developed since 1959. In addition, the Group is working to expand the scope of business by taking initiatives such as entering into the retail electricity business in 2016.

### **ii. Fundraiser's initiatives for ESG/SDGs**

With regard to highly-important social issues, Toho Gas Group identifies individual issues with reference to the GRI Standards, an international standard for sustainability information disclosure, and in conjunction with the examination of the Toho Gas Group Vision and Medium-Term Management Plan, based on the expectations of stakeholders, etc. Subsequently, the extracted individual issues are evaluated from the two viewpoints of economic and social value, and after exchanging opinions with the relevant agencies, the new materialities were identified in August 2022 through the Management Committee and the Board of Directors, and the relevant SDGs are tied to them.

Materiality	Action Issues	Related SDGs
Promote carbon neutrality	<ul style="list-style-type: none"> <li>● Reductions of carbon and decarbonization at gas customer locations</li> <li>● Contribute to the reduction in CO<sub>2</sub> emissions from society as a whole</li> <li>● Develop technologies to decarbonize gas itself</li> <li>● Establish a foundation to expand the use of hydrogen</li> <li>● Low-carbonize/decarbonize electricity</li> </ul>	   
Provide various kinds of energy and services	<ul style="list-style-type: none"> <li>● Development into a Total Energy Provider</li> <li>● Expansion of domestic and overseas energy-related business</li> <li>● Provide value through services that enrich life and services that support business</li> </ul>	  
Supply safe, secure and stable energy	<ul style="list-style-type: none"> <li>● Advancing security measures and disaster measures</li> <li>● Stable procurement at a reasonable price</li> </ul>	   
Contribute to the region through the resolution of social issues	<ul style="list-style-type: none"> <li>● Strengthen initiatives for coexistence with local communities</li> <li>● Promotion of CSR procurement</li> <li>● Promoting resource recycling</li> <li>● Biodiversity conservation</li> </ul>	         
Improve work satisfaction and ease of work and promote diversity	<ul style="list-style-type: none"> <li>● Human resource management</li> <li>● Diversity and inclusion</li> <li>● Realizing flexible workstyles</li> <li>● Safety and health management</li> </ul>	    
Strengthen compliance and governance	<ul style="list-style-type: none"> <li>● Promote risk management and strengthen information security</li> <li>● Compliance promotion</li> </ul>	

Figure-1 Materiality and relevant SDGs

### iii. Fundraiser's environmental initiatives

Toho Gas formulated the “Toho Gas Group 2050 Carbon Neutrality Initiative” in July 2021, aiming to accelerate efforts to reduce carbon and even achieve decarbonization at customer locations, and achieve technical innovation for utilizing hydrogen and in carbon recycling, and to connect to future decarbonization of gas itself. Through combinations of diverse means, including decarbonization in electrical power sources and the like, Toho Gas is tackling the challenge of achieving carbon neutrality in the entire value chain, including customer locations, in 2050.

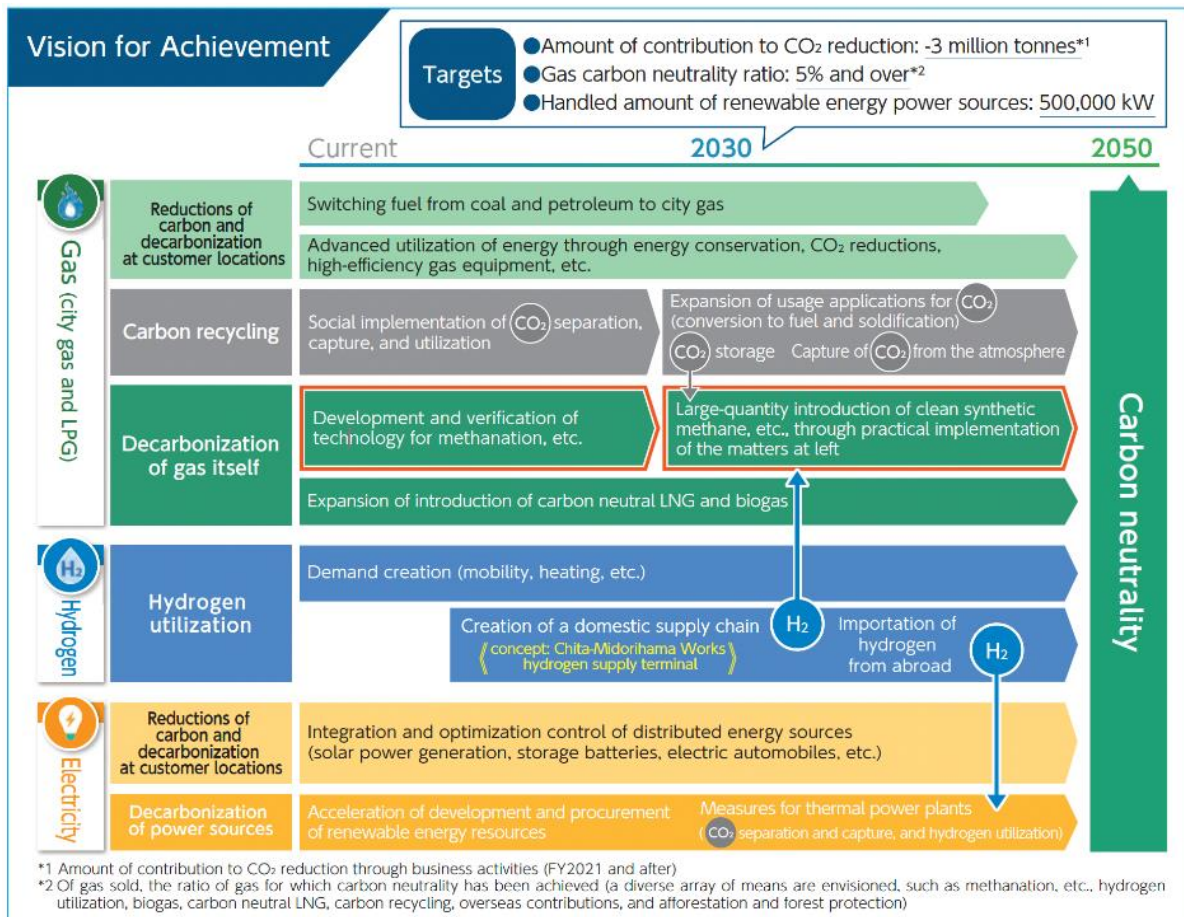


Figure-2 Realization image of carbon neutrality

To achieve carbon neutrality, innovative technical development is a requirement, and tremendous time and costs become necessary to overcome this. Consequently, Toho Gas aims to make a smooth transition to carbon neutrality by first steadily pressing ahead with reducing carbon and decarbonization using established technology and achieving decarbonization of gas itself in the future.

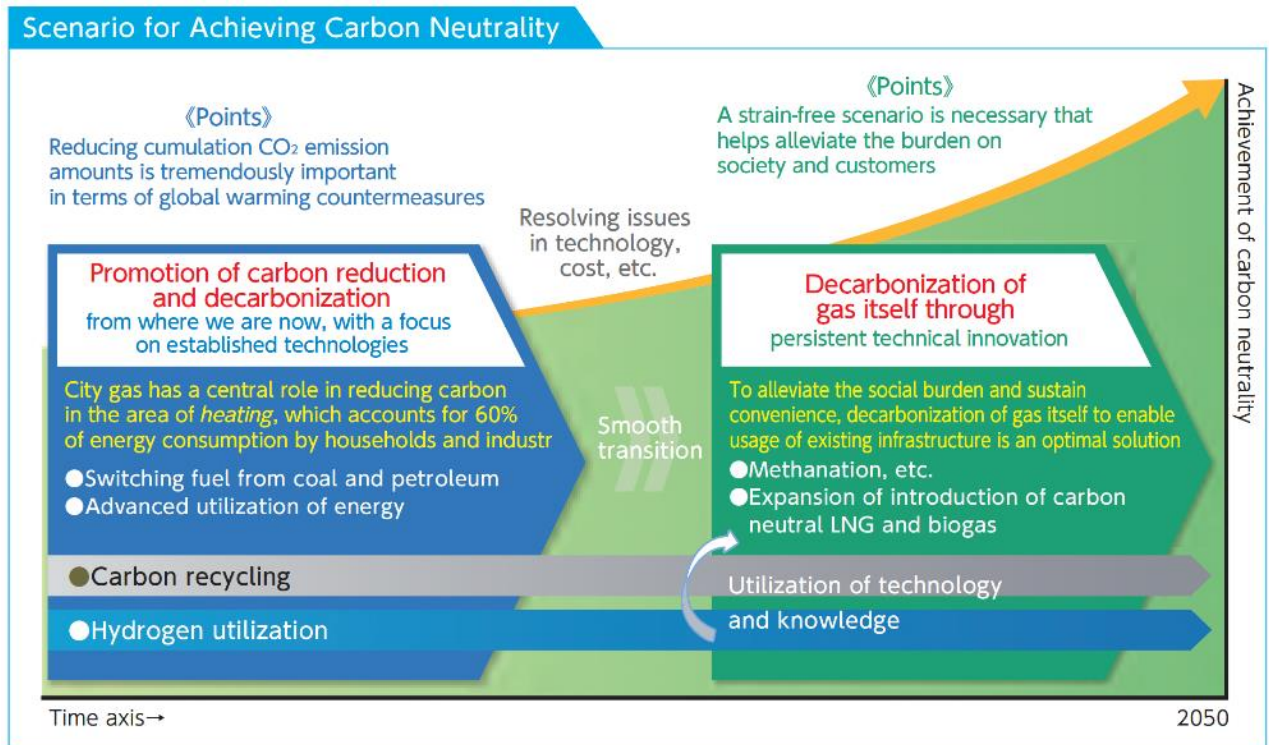




Figure-3 Scenario for achieving carbon neutrality

Toho Gas participates in the external initiatives listed in Table-2 to strengthen its ESG efforts.

Table-2 Toho Gas’s participation in external initiatives and efforts

External Initiatives		Toho Gas’s Efforts
UN Global Compact		In May 2020, Toho Gas Group signed and joined the “UN Global Compact” proposed by the United Nations. The UN Global Compact is a voluntary initiative in which individual companies and organizations participate in the creation of a global framework to act as good members of society and achieve sustainable growth by exercising responsible and creative leadership.
Task Force on Climate-related Financial Disclosures (TCFD)		In April 2020, Toho Gas Group expressed its support for the TCFD (Task Force on Climate-related Financial Disclosures), which recommends analyzing the risks and opportunities posed by climate change to business and disclosing information about them. At the same time, the Group joined the TCFD Consortium, which was established as a forum for discussion among companies and financial institutions that support the TCFD.

<p>The Japan Business Federation (Keidanren) Challenge Zero</p>	 <p>Challenge Zero</p>	<p>Toho Gas Group participates in the Japan Business Federation’s “Challenge Zero” initiative to develop technologies for a future decarbonized society.</p> <p>Challenge Zero communicates the challenge of the business community to innovate net zero carbon technologies (including transition technologies), actively implement and disseminate them, and actively invest in or offer loans to companies working on these technologies, in order to encourage innovation towards the realization of a decarbonized society.</p>
<p>Keidanren Carbon Neutral Action Plan</p>		<p>As a member company of the Japan Gas Association, Toho Gas is promoting various initiatives to address reduction of greenhouse gas emissions in order to achieve the targets of the city gas industry.</p>
<p>Keidanren Declaration of Biodiversity and Action Policy</p>		<p>In July 2020, Toho Gas endorsed the Keidanren Declaration of Biodiversity and Action Policy. Toho Gas's endeavors are congruent with this declaration and action policy, and Toho Gas will continue to devote effort accordingly.</p>
<p>Keidanren Committee on Nature Conservation</p>		<p>Toho Gas Group has been a member of the Keidanren Committee on Nature Conservation since FY2014. Through the committee, The Group is providing aid for nature conservation activities by environmental NGOs in Indonesia and elsewhere around the world.</p>

#### **iv. About the Green/Transition Finance Framework**

In order to promote the environmental initiatives, set out in the “Toho Gas Group 2050 Carbon Neutrality Initiative,” Toho Gas has issued transition finance for transition activities to realize the Carbon Neutral Challenge 2050<sup>\*1</sup> set out by the Japan Gas Association (JGA) and the sector-specific technology roadmap<sup>\*2\*3</sup> set out by the Ministry of Economy, Trade and Industry (METI). Also, Toho Gas engaged in dialogue with investors and a wide range of marked participants and has established the Toho Gas Green/Transition Finance Framework in order to carry out funds for in a manner that conform to the internationally recognized frameworks.

The frameworks which this Framework specifically refers to are described in (3) of Section II below.

\*1: Japan Gas Association: Carbon Neutral Challenge 2050 on 24th November 2020

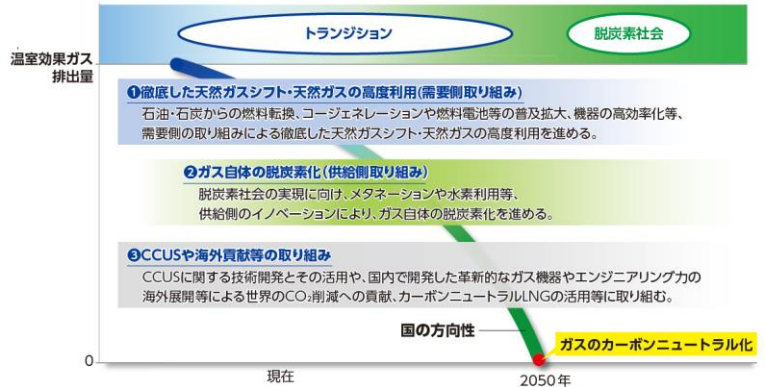
\*2: Ministry of Economy, Trade and Industry (METI): Technology roadmap in the gas sector on "Transition Finance" on February 2022

\*3: Agency for Natural Resources and Energy: Technology roadmap in the power sector on "Transition Finance" on February 2022

**v. Fundraiser’s transition strategy for decarbonization**

**(1) Strategies by sector (industry) at the international/national/regional level**

Figure-4 shows the scenarios for gas carbon neutrality set out in the "Carbon Neutral Challenge 2050" developed by the Japan Gas Association in November 2020. Figure-5 shows the technology roadmap by sector (gas) of the Ministry of Economy, Trade and Industry (METI).



The Japan Gas Association's scenario (Figure-4)/the METI's technology roadmap by sector (gas) (Figure-5) and Toho Gas's realization image of carbon neutrality (Figure-2) are well aligned, and it is designed to reduce CO<sub>2</sub> emissions throughout the entire gas supply chain, including demand-side, supply-side, CO<sub>2</sub> capture and decarbonization of the gas itself through methanation.

Toho Gas has set a gas carbon neutralization rate of at least 5% as one of its medium-term targets for 2030, which is consistent with the targets of the Carbon Neutral Challenge 2050 Action Plan of the Japan Gas Association.

Fuel conversion from coal and oil to natural gas is one of the main ways contributing to the reduction of CO<sub>2</sub> emissions in society as a whole in the gas sector and is widely recognized as a typical transition project. According to METI's technology roadmap in the gas sector, the progress of fuel conversion in society as a whole will lead to an increase in gas demand (consumption and sales) for gas utilities, which in turn will lead to an increase in supply-side (gas utility) CO<sub>2</sub> emissions (increase in Scope 3) in the short to medium term (Figure-6).

In other words, while Toho Gas is working to reduce CO<sub>2</sub> emissions in its gas business through the introduction of high-efficiency gas appliances and other measures (Figure-7), its Scope 3 CO<sub>2</sub> emissions are expected to increase due to the relatively large amount of natural gas supplied for fuel conversion. Toho Gas is committed to reduce CO<sub>2</sub> emissions for society as a whole through the supply of gas for fuel conversion, etc. (contributing to the reduction of CO<sub>2</sub> emissions), and the voluntary reduction of CO<sub>2</sub> emissions through the introduction of high-efficiency gas appliances, etc. (the introduction of technologies and

Figure-4 Scenarios for achieving gas carbon neutral (Japan Gas Association)

- ① **Shift to natural gas and advanced use of natural gas (demand side)**
  - Conversion from coal and oil to natural gas
  - Introducing cogeneration, fuel cell
  - Introducing high efficient equipment
- ② **Decarbonization of Gas (supply side)**
  - Synthetic Methane and hydrogen utilization
  - Decarbonization of Gas by innovation by supplier
- ③ **CCUS and overseas contribution**
  - R&D and installation of CCUS.
  - Expand innovative gas technology and engineering to global, use of carbon neutral LNG

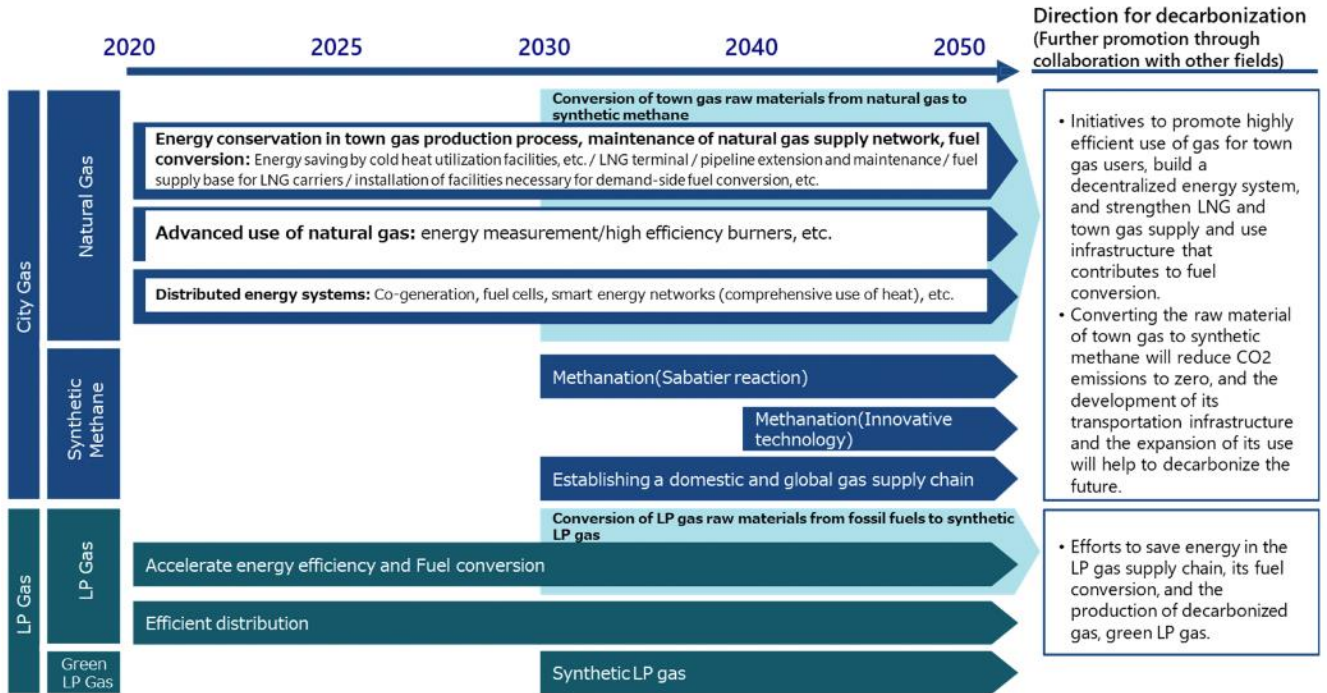
equipment that will contribute to the reduction of the supply of low-carbon gas in the future) will also contribute to the reduction of Scope 3.

Furthermore, Toho Gas has set out to evolve as an energy provider and is actively working on expanding its electricity services in addition to its gas business as a diverse energy supply. Toho Gas recognizes the importance of building a system for supplying electricity from renewable energy sources until the technology necessary to achieve a decarbonized society is established, and is promoting the introduction of renewable energy sources, which is the green power infrastructure necessary for the future supply of green gas body energy through methanation, etc.

The acceleration of the development and procurement of renewable energy sources shown by Toho Gas in its image of achieving carbon neutrality, and the amount of renewable energy sources handled (500,000 kW) as a 2030 target are considered to be closely related to the renewable energies in the Agency for Natural Resources and Energy's Transition Roadmap in the power sector (Figure-8).



### 3. Carbon neutral technology pathway | ②-1 Technical roadmap (City Gas and LP Gas)



### 3. Carbon neutral technology path | ②-1 Technical roadmap (common technology)

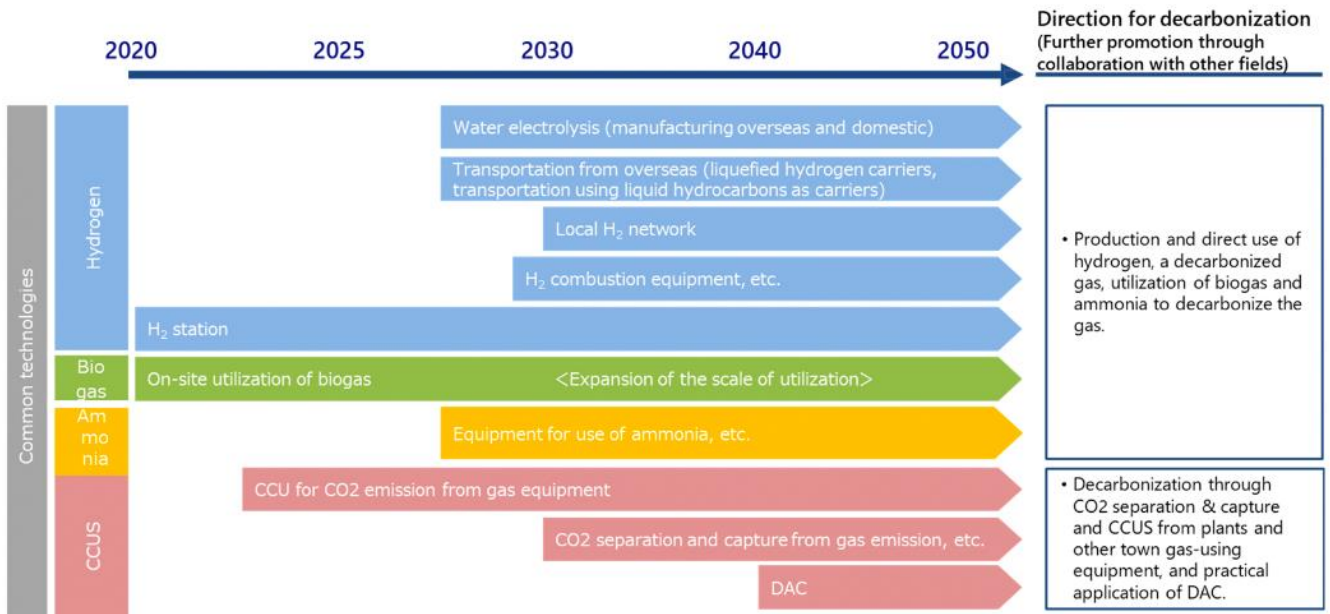


Figure-5 Ministry of Economy, Trade and Industry Technology roadmap in the gas sector (city gas, LP gas, common technologies)

Technology roadmap in the gas sector on "Transition Finance" (METI, February 2022)

Provisional translation by DNV based on the Japanese version

**Image of avoided emissions through fuel conversion to natural gas**

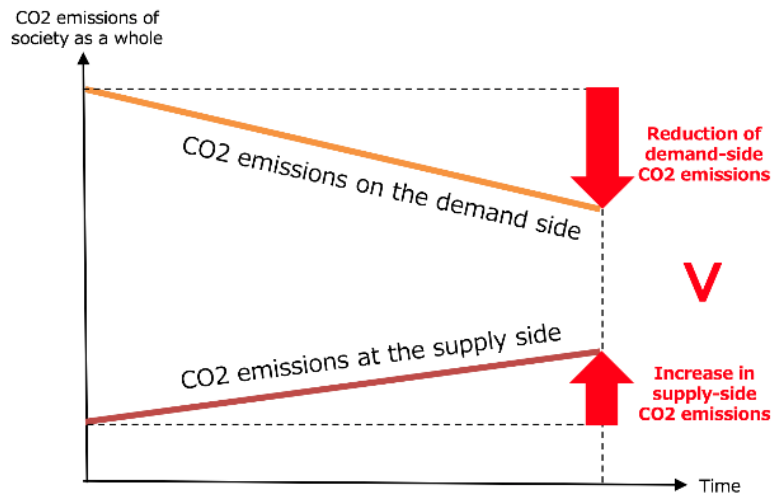


Figure-6 Ministry of Economy, Trade and Industry Technology roadmap in the gas sector (avoided CO<sub>2</sub> emissions on demand side)

Technology roadmap in the gas sector on "Transition Finance" (METI, February 2022)

**2. Overview of Gas Industry (Common) | (Reference) Development and expansion of high-efficiency gas cogeneration**

- The introduction of a **highly efficient gas cogeneration system** will not only contribute to **reducing carbon emissions during the transition period**, but will also contribute to **resilience and renewable energy coordination**.

**Transition of fuel cell power generation efficiency**

Source: Tokyo Gas and Osaka Gas website  
\*Power generation efficiency is based on LHV s

**Development of high-efficiency gas engines**

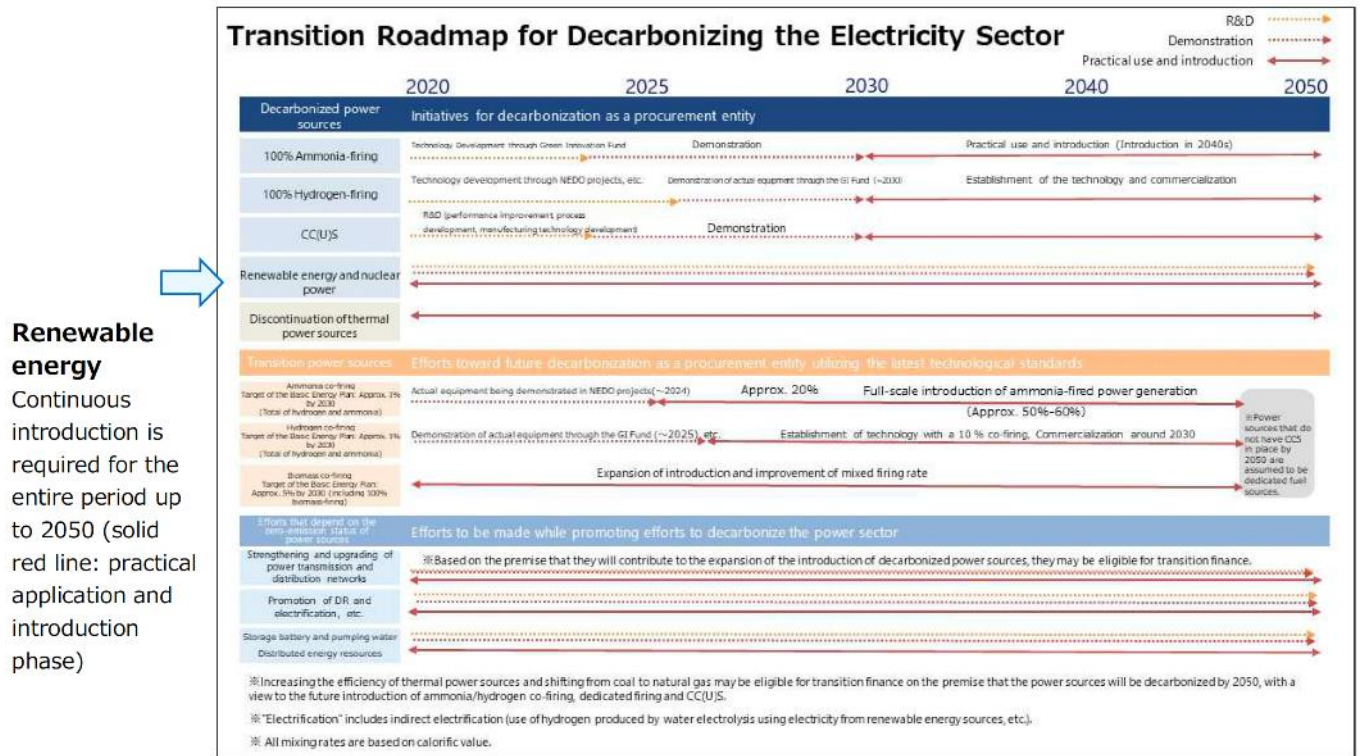
The SGP M 450, jointly developed by Mitsubishi Heavy Industries Engine & Turbocharger Co., Ltd. and Toho Gas Co., Ltd., is characterized not only by its high power generation efficiency but also by its short start-up and shutdown times. Startup time is 40 seconds, stopping time is as short as 3 minutes including cooling time, and performance as BOS adjustment force is high.

<p>■ Performance</p> <p>Power generation output: 450 kW</p> <p>Power generation efficiency: 42%</p> <p>Overall efficiency: 81.5%</p>	<p>■ Awards received</p> <p>2016 Agency of Natural Resources and Energy Director-General's Award for Outstanding Energy-Saving Equipment;</p> <p>2015 Cogeneration Award Special Award;</p> <p>2018 Japan Gas Association Technology Award</p>
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SGP M 450 Source: Toho Gas Co., Ltd. Website

Figure-7 Ministry of Economy, Trade and Industry Technology roadmap in the gas sector (development and expansion of high-efficiency gas cogeneration)

Technology roadmap in the gas sector on "Transition Finance" (METI, February 2022)



**Renewable energy**  
Continuous introduction is required for the entire period up to 2050 (solid red line: practical application and introduction phase)

Figure-8 Transition roadmap for decarbonizing the electricity sector (Agency for Natural Resources and Energy, Electric Infrastructure Division, February 2022)

**(2) Fundraiser’s transition strategy**

Toho Gas has formulated the "Toho Gas Group 2050 Carbon Neutrality Initiative" and the "Toho Gas Group Medium-Term Management Plan 2022-2025" as a medium- to long-term strategy for transitions and has disclosed the following medium-term targets for FY2025 and up to 2030 and long-term targets for 2050.

Table-3 Toho Gas transition targets

<b>Medium-term targets</b>	<p><b>Targets up to FY2025</b></p> <p>CO<sub>2</sub> emission reduction contribution: ▲1 million tonnes (compared to FY2020)</p> <p>Renewable energy sources handled: 250,000 kW</p> <p><b>Targets up to 2030</b></p> <p>CO<sub>2</sub> emission reduction contribution: ▲3 million tonnes<sup>*1</sup> (compared to FY2020)</p> <p>Gas carbon neutralization rate: At least 5%<sup>*2</sup></p> <p>Renewable energy sources handled: 500,000 kW</p>
<b>Long-term targets</b>	<p><b>Targets for 2050</b></p> <p>Carbon neutrality of the entire supply chain, including customer locations</p>

\*1: Contribution to CO<sub>2</sub> reduction through business activities (from FY2021)

\*2: Percentage of gas sold that is carbon neutral (assuming various means such as methanation, etc., hydrogen use, biogas, carbon neutral LNG, carbon recycling, overseas contributions, afforestation and forest protection, etc.)

In order to achieve the above targets, Toho Gas aims to build an energy system that contributes to carbon neutrality, based on gas (city gas and LPG), hydrogen, and electricity. The future energy system that Toho Gas envisions based on these three types of energy is shown in Figure-9.

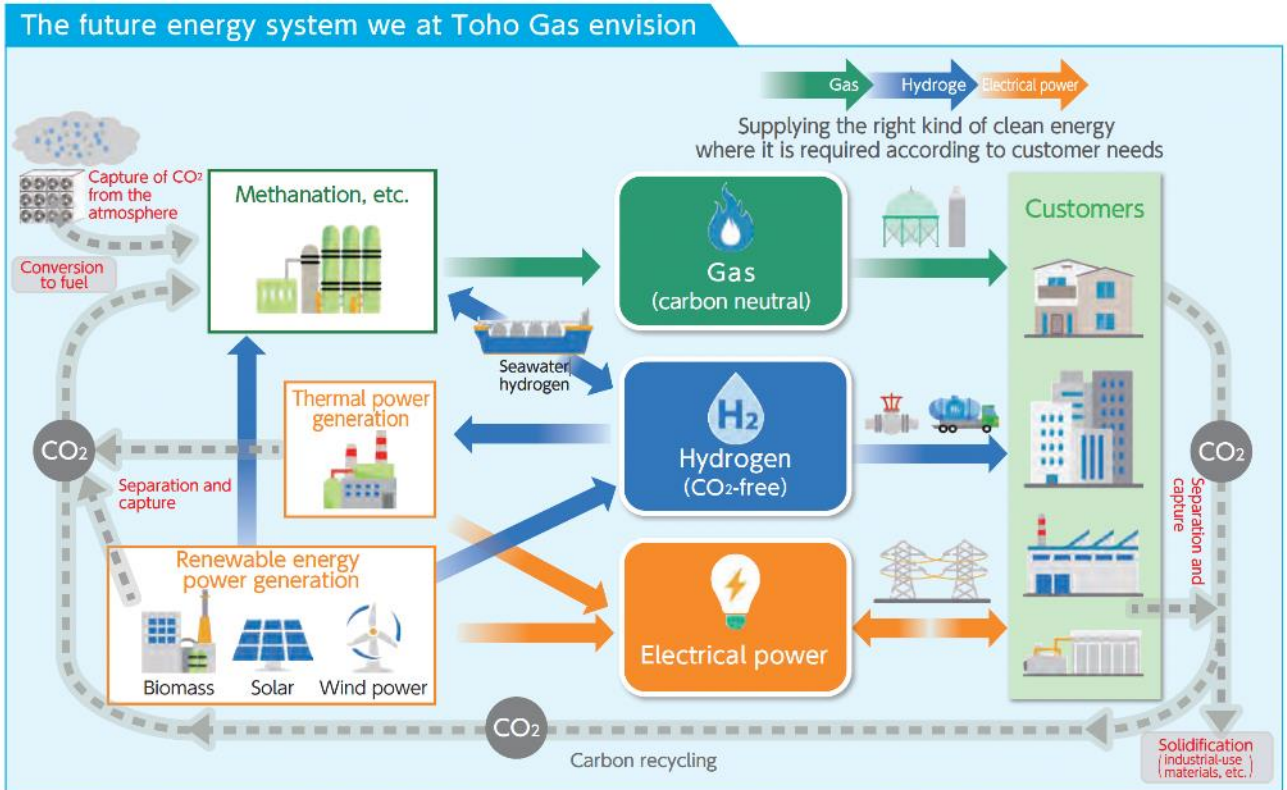


Figure-9 The future energy system Toho Gas envisions

Toho Gas' specific efforts to build an energy system that contributes to carbon neutrality are as follows.

(i) Gas

- Reductions of carbon and decarbonization at customer locations

The Chubu area is a prominent industrial region, and because coal and petroleum are both still heavily used in high-temperature thermal applications, switching the fuel type from these to environmentally friendly city gas accelerated reductions in carbon. Further, in conjunction with such conventional efforts as energy conservation and advanced utilization of energy, Toho Gas is also promoting such new initiatives as carbon recycling and hydrogen, supporting carbon reduction and decarbonization at customers in a thoroughgoing way.

- Carbon recycling

Toho Gas was quick to turn attention to technical development for CO<sub>2</sub> separation and capture and will continue to enhance its technical capabilities from the perspective of CO<sub>2</sub> utilization (conversion to fuel and solidification) and storage. As a means of carbon reduction that can be carried out right now, Toho Gas is socially implementing carbon recycling to separate, capture, and utilize CO<sub>2</sub> at customer locations, and in the future,

Toho Gas will also take up such challenges as direct capture from the atmosphere and expanding usage applications.

● Decarbonization of gas itself

Aiming for the practical implementation of methanation technology and the like and the large-quantity introduction of clean synthetic methane and similar substances, through broad-based alliances Toho Gas is devoting effort to such matters as verification geared toward resolving such issues as greater high efficiency and lower costs. For carbon neutral LNG and biogas for which the start of introduction has already been completed, Toho Gas will work to further expand the amounts handles and achieve decarbonization of gas itself through diverse means.

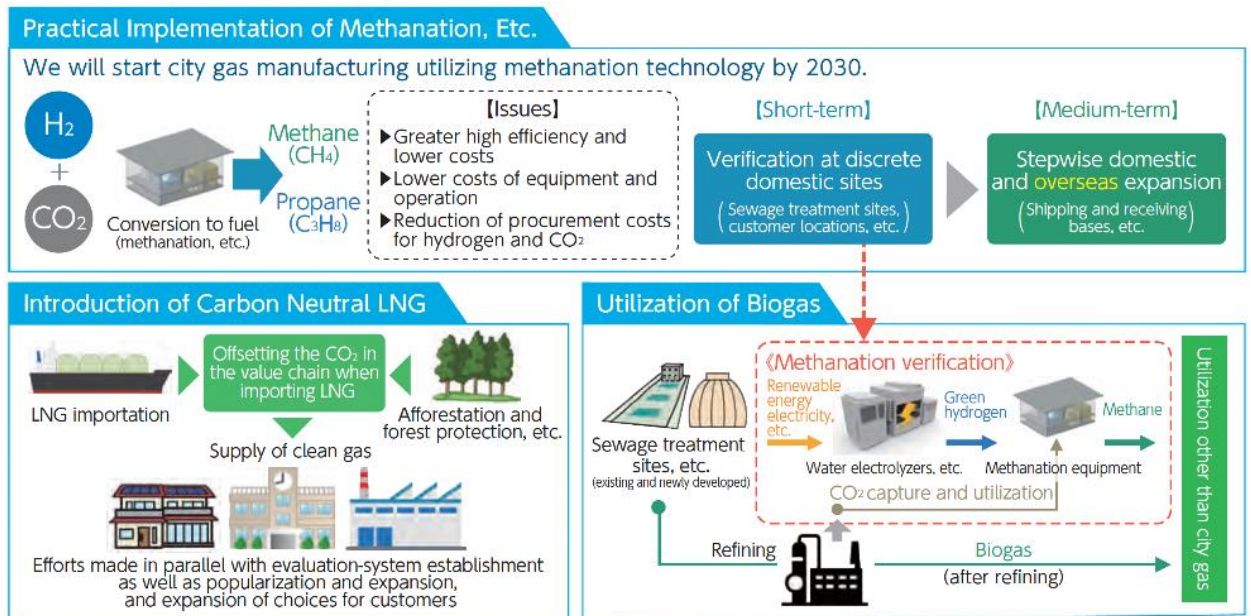


Figure-10 Decarbonization of gas itself

(ii) Hydrogen

● Demand creation: Mobility applications

In the Chubu area, the utilization of hydrogen as a mobility application is progressing, and to help drive the spread of fuel cell automobiles, Toho Gas has been proactively endeavoring to prepare hydrogen stations. Along with continuing to work expand hydrogen station facilities and reduce costs, Toho Gas will press on with expanding infrastructure by also making full use of cross-sectional frameworks in the industry to move toward expanding vehicle types and application to include industrial vehicles, transport vehicles, and others.

● Demand creation: Further expansion of applications

Toho Gas has even heretofore been devoting effort to the development of technology relating to hydrogen combustion and of mixed-combustion technology for city gas and hydrogen. Through further technical development, Toho Gas will turn its efforts toward application expansion and practical implementation for the areas of heating and the like. Also, in the phase II development for "Minato AQULS" that is now under discussion, Toho Gas is delineating a plan for the practical implementation of hydrogen technology.

The "Decarbonized Compact City Model for Redevelopment Areas (proposal name)" in Minato AQULS has been selected as the Ministry of the Environment's 1st Decarbonization Leading Region. Nagoya City and Minato AQULS will work together to decarbonize the area by maximizing the use of renewable energy and introducing advanced technologies, and to develop a regional decarbonization model that will contribute to solving regional problems and improving the attractiveness of the area and the quality of life of its inhabitants.

● Supply chain creation

To accommodate the vigorous hydrogen utilization needs of the Chubu region, Toho Gas is driving the spread and expansion of hydrogen in the Chubu region through the early actualization of a planned change to a hydrogen supply terminal at the Chita-Midorihamama Factory and the creation of a hydrogen supply chain.

Planned Change to Hydrogen Supply Terminal at the Chita-Midorihama Works

- ① Combine hydrogen manufacturing in Japan by reforming natural gas, carbon recycling technology, and other feasible technologies and use what we have to provide means to accommodate growing need for hydrogen at an early date
- ② Perform transportation to demand locations using tank trucks, etc., together with also taking up the challenge of pipeline supply via local network
- ③ Aim to become a receiving terminal for hydrogen imported from abroad

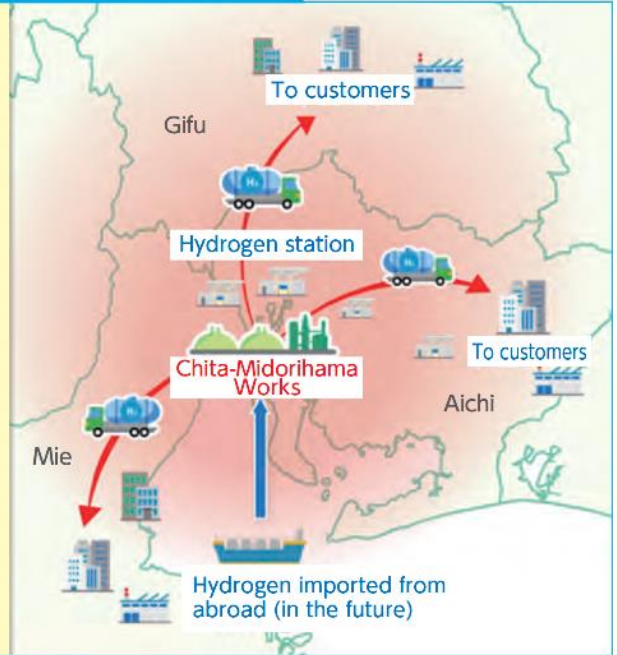
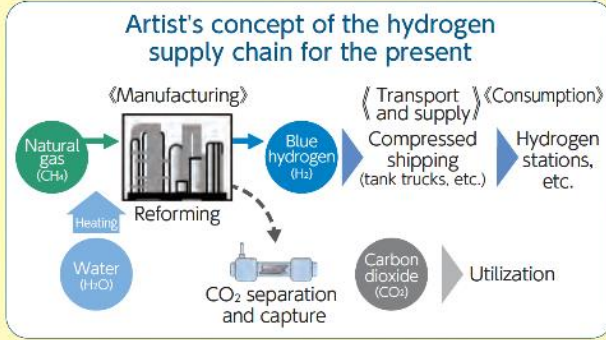


Figure-11 Creation of hydrogen supply chain



(iii) Electricity

- Reductions of carbon and decarbonization at customer locations

Together with encouraging the popularization of diverse distributed energy sources, including solar power generation, storage batteries, electric automobiles, and more, by integrating in the controlling these utilizing digital technology and achieving mutual flexibility for electricity and environmental values, Toho Gas aims to offer services that achieve both creating of advantages for customers and efficient energy usage.

- Decarbonization of electrical power sources

With an eye to decarbonizing its own power sources, Toho Gas is devoting effort to the development and procurement of renewable energy power sourced and to their diversification. Through cooperation with local governments and other entities and such means as regional electricity business, Toho Gas is endeavoring to utilize latent renewable energy resources in local regions and contribute to resolving local issues through local production and local distribution of energy and strengthened resilience.

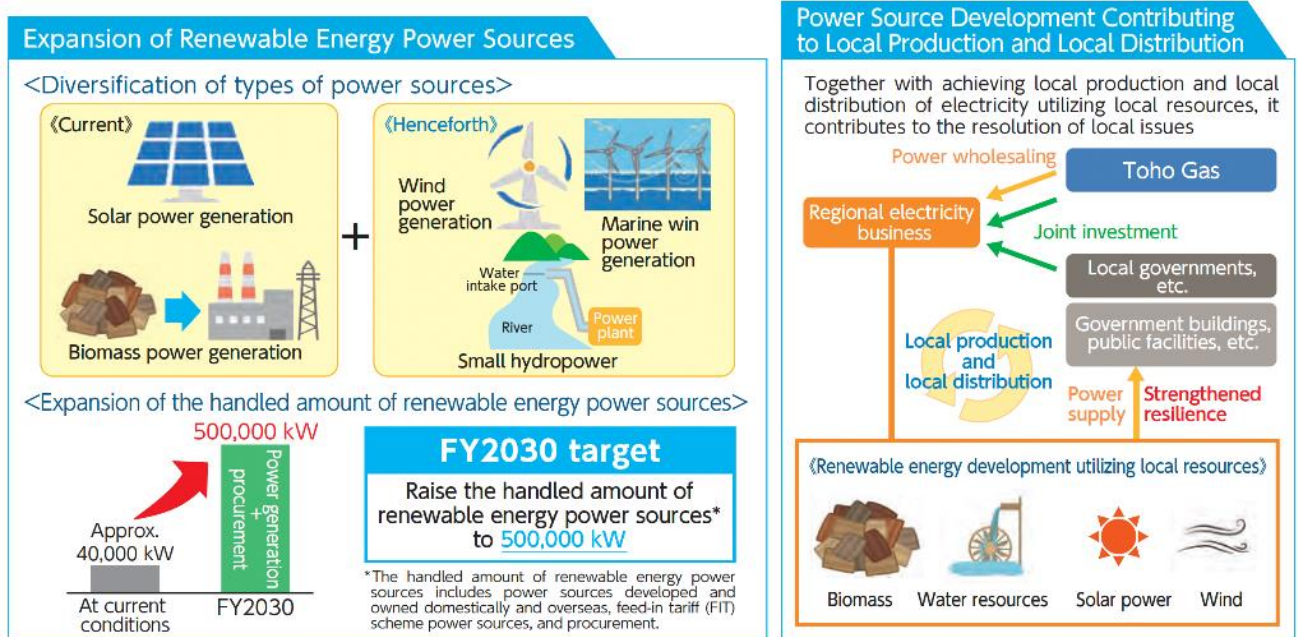


Figure-12 Decarbonization of electrical power sources

**(3) Governance of the fundraiser (sustainability promotion system)**

Figure-13 show Toho Gas's sustainability promotion system and its approach to sustainability promotion.

Toho Gas Group recognizes that addressing environmental issues, including climate change, is an important management issue and has established environmental action policies and guidelines, which are positioned in the management policy. Important matters such as risks and opportunities relating to climate change, strategies, risk management, and indicator reporting are reported to the Board of Directors via the Management Committee, which supervises the implementation status.

Toho Gas Group has set up the Group Environmental Preservation Board, consisting of Toho Gas and its major subsidiaries. The committee aims to reduce impacts of Group activities on the environment and promote the Group's compliance with laws and regulations related to environmental preservation. Specifically, the committee is designed to formulate the Group's basic policy on environmental preservation activities while setting goals regarding such activities. It is also intended to discuss and study measures aimed at achieving these goals, and to manage implementation of the measures. Regarding environmental action goals in particular, Toho Gas has established an Environmental Promotion Meeting in each department to verify progress and realization planning in conjunction with the Group Environmental Preservation Board.

Toho Gas deploys staff to handle environmental affairs at each department of Toho Gas and its subsidiaries. "Environmental promoters" are tasked with undertaking specific environmental activities. "Environmental auditors" are in charge of reviewing what has been achieved through environmental preservation activities and checking if these activities are consistent with relevant regulations. "Environmental controllers" are assigned to control the activities of the "environmental promoters" and "environmental auditors." The deployment of these environmental experts is meant to promote environmental activities. The environmental management system is shown in Figure-13.

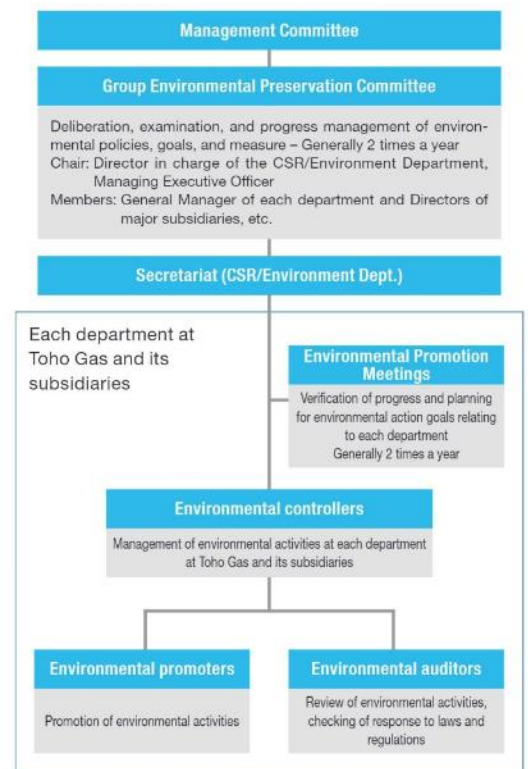


Figure-13 Organizational structure for management of environmental preservation



**Fundraiser Name:** Toho Gas Co., Ltd.

**Framework Name:** Toho Gas Green/Transition Finance Framework

**Review Provider's Name:** DNV Business Assurance Japan K.K.

**Date of Report:** 21<sup>st</sup> October 2022

## II. Scope and Objectives

DNV has been commissioned by Toho Gas to provide an assessment on the Framework. Our objective has been to implement an assessment on whether Toho Gas meets the criteria established on CTFH·CTFBG, GBP·GBGLs, GLP·GLGLs, applicable CBS, and EU Taxonomy to provide a second party opinion on the eligibility of the framework.

DNV, as an independent external reviewer, has identified no real or perceived conflict of interest associated with the delivery of this second-party opinion for Toho Gas.

In this report, no assurance is provided regarding the financial performance of the Green/Transition Finance, the value of any investments in the finance, or the long-term environmental benefits of the transaction.

\*Stated with GBP as an axis but to be replaced with loan-specific items where appropriate

### (1) Scope of review\*

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

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

\*The scope of review is to be applied as a part of the evaluation of the sustainable finance (green or transition) with use of proceeds.

\*The four disclosure elements of CTFH and CTFBG are included in the scope of review.

### (2) Role(s) of review provider

- |   |  |
|---|--|
| <input checked="" type="checkbox"/> Second Party Opinion  | <input type="checkbox"/> Certification |
| <input type="checkbox"/> Verification                     | <input type="checkbox"/> Ratings       |
| <input type="checkbox"/> Other ( <i>please specify</i> ): |  |

### (3) Standards/guidelines to be applied

No.	Standards/guidelines	Scheme owner
1.	Climate Transition Finance Handbook (CTFH)* <sup>1</sup>	International Capital Market Association (ICMA), 2020
2.	Basic Guidelines on Climate Transition Finance (CTFBG)* <sup>1</sup>	Financial Services Agency, Ministry of Economy, Trade and Industry, Ministry of the Environment, 2021
3.	Green Bond Principles (GBP)* <sup>2*3</sup>	International Capital Market Association (ICMA), 2021
4.	Green Bond Guidelines (GBGLs)* <sup>2*3</sup>	Ministry of the Environment, 2022
5.	Green Loan Principles (GLP)* <sup>2*3</sup>	Loan Market Association (LMA) and others, 2021
6.	Green Loan Guidelines (GLGLs)* <sup>2*3</sup>	Ministry of the Environment, 2022

\*<sup>1</sup> Climate transition: The concept of climate transition focuses principally on the credibility of an issuer's climate change-related commitments and practices (quoted from CTFH and CTFBG).



\*<sup>2</sup> It confirms compliance with the four core elements (use of proceeds, process for project evaluation and selection, management of proceeds, and reporting) that must be met when implementing as a bond/loan that meets the four elements of transition and has a specific use of proceeds (quoted from CTFBG).

\*<sup>3</sup> Green projects were assessed for eligibility using the referable technical criteria of the Climate Bond Initiative's Climate Bond Standard and EU Taxonomy.

### **III. Responsibilities of Toho Gas and DNV**

Toho Gas has provided the information and data used by DNV during the delivery of this review. DNV's second party opinion represents an independent opinion and is intended to inform Toho Gas and other interested stakeholders in the bonds and loans as to whether the established criteria have been met, based on the information provided to us. In our work we have relied on the information and the facts presented to us by Toho Gas. DNV is not responsible for any aspect of the nominated assets referred to in this opinion and cannot be held liable if estimates, findings, opinions, or conclusions are incorrect. Thus, DNV shall not be held liable if any of the information or data provided by Toho Gas's management and used as a basis for this assessment were not correct or complete.

## IV. Basis of DNV's Opinion

To provide as much flexibility for the fundraiser, as possible, we have adapted our Toho Gas Green\*/Transition Finance assessment methodologies, which incorporates the requirements of the CTFH, CTFBG, GBP, GBGLs, GLP and GLGLs, to create a Toho Gas Green/Transition Finance Eligibility Assessment Protocol (hereinafter, "Protocol"). Please refer to Schedule-2 and Schedule-3. The Protocol is applicable to Toho Gas Transition Finance under the CTFH, CTFBG, GBP, GBGLs, GLP and GLGLs.

\*Green projects have been evaluated using the technical criteria referred to in the Climate Bond Initiative's Climate Bond Standard.

DNV, as an independent external reviewer, provides second party opinion according to the protocol.

Our Protocol includes a set of suitable criteria that can be used to underpin DNV's opinion. The overarching principle behind the Climate Transition Finance of Bond and Loan with a specific use of proceeds as the basis for the opinion are as follows:

"provide an investment opportunity with transparent sustainability credentials"

"enable capital-raising and investment for new and existing projects with environmental benefits"

As per our Protocol, the criteria against which the Toho Gas Green/Transition Finance has been reviewed are grouped into common elements below, represented by CTFH, CTFBG, GBP, GBGLs, GLP and GLGLs.

### (1) Four elements of CTFH/CTFBG (disclosure elements)

#### **Principle One: Fundraiser's climate transition strategy and governance**

The financing purpose should be for enabling a fundraiser's climate change strategy.

#### **Principle Two: Business model environmental materiality**

The planned climate transition trajectory should be relevant to the environmentally material parts of the fundraiser's business model.

#### **Principle Three: Climate transition strategy to be science-based including targets and pathways**

Fundraiser's climate strategy should reference science-based targets and transition pathways.

#### **Principle Four: Implementation transparency**

Market communication in connection with the offer of a financing instrument which has the aim of funding the fundraiser's climate transition strategy should also provide transparency of the underlying investment program.

## **(2) Four elements of GBP/GBGLs and GLP/GLGLs**

### **Principle One: Use of Proceeds**

The Use of Proceeds criteria are guided by the requirement that a fundraiser of a green finance or a transition finance with specific use of proceeds must use the funds raised to bond eligible activities. The eligible activities should produce clear environmental benefits.

### **Principle Two: Process for Project Evaluation and Selection**

The Project Evaluation and Selection criteria are guided by the requirements that a fundraiser of a green finance or a transition finance with specific use of proceeds should outline the process it follows when determining eligibility of an investment using the green finance or transition finance with specific use of proceeds and outline any impact objectives it will consider.

### **Principle Three: Management of Proceeds**

The Management of Proceeds criteria are guided by the requirements that a green finance or a transition finance with specific use of proceeds should be tracked within the fundraising organization, that separate portfolios should be created when necessary and that a declaration of how unallocated funds will be handled should be made.

### **Principle Four: Reporting**

The Reporting criteria are guided by the recommendation that at least Sustainability Reporting to the bond investors or loan lenders should be made of the use of proceeds and that quantitative and/or qualitative performance indicators should be used, where feasible.

## V. Work Undertaken

Our work constituted a comprehensive review of the available information, based on the understanding that this information was provided to us by the fundraiser in good faith. We have not performed an audit or other tests to check the veracity of the information provided to us. The assessment work that forms DNV's opinion includes:

### **Pre-funding assessment (Green/Transition Finance Framework Assessment)**

- Creation of a Toho Gas-specific Protocol, adapted to the purpose of the Toho Gas Green/Transition Finance, as described above and in Schedule-2 to this assessment;
- Assessment of documentary evidence provided by Toho Gas on the Toho Gas Green/Transition Finance and supplemented assessment by a comprehensive desktop research. These checks refer to current assessment best practice and standards methodologies;
- Discussions with Toho Gas, and review of relevant documentation management;
- Documentation of findings against each element of the criteria.



## VI. Findings and DNV's Opinion

DNV's findings and opinion are as follows:

From the CTF-1 to 4 in (1) below are the findings and opinions of DNV against the disclosure elements of the CTFH and CTFBG. Please see Schedule-2 for details.

From the GBP/GLP 1 to 4 in (2) below are the findings and opinions of DNV against the requirement of the four common elements of GBP/GBGLs and GLP/GLGLs. Please see Schedule-3 for details.

### (1) Findings and opinions of DNV against the four common elements (disclosure elements) of CTFH and CTFBG

#### CTF-1: Fundraiser's climate transition strategy and governance

- In July 2021, Toho Gas formulated the "Toho Gas Group 2050 Carbon Neutrality Initiative," which sets out a realization image of carbon neutrality. In the vision, Toho Gas sets the long-term goal of achieving carbon neutrality in 2050, which is consistent with the goals of the Paris Agreement, and the medium-term goals for achieving the long-term goal. The realization image discloses the technology introduction plan to achieve the transition to carbon neutrality.
- DNV has reviewed and confirmed that Toho Gas's targets are consistent with the targets of the Paris Agreement, based on the action to achieve carbon neutrality in 2050, a science-based long-term target quantified by Toho Gas. Toho Gas sets environmental corporate strategies that are important to its business model, by identifying risks and opportunities based on the scenario analysis using TCFD guidance and grasping their impact.
- In the event of technological developments or changes in trends related to the transition strategy, or changes in the external scenarios on which the transition strategy is based, Toho Gas plans to revise the materiality and review its climate change initiatives, including the transition strategy, as necessary, and to disclose the details in a timely manner on its website, etc.
- Toho Gas identified individual issues with reference to the GRI Standard<sup>\*1</sup>, evaluated them from the aspects of economic and social values to identify new materialities through the Management Committee and the Board of Directors. The "Integrated Report 2022" discloses the promotion of carbon neutrality as one of the materialities, while the "Toho Gas Group Medium-Term Management Plan 2022-2025" describes the promotion of carbon neutrality as one of the four themes to be addressed during the medium-term period (FY2022 to FY2025). The Group Environmental Committee and other structures and mechanisms have been established to promote this at the management level, including the implementation of the transition strategy.

\*1: Global Reporting Initiative (an international standard providing ESG-related reporting, management and analysis tools)

- Toho Gas has expressed its aim to build an energy system that contributes to carbon neutrality based on gas (city gas and LPG), hydrogen, and electricity in order to become carbon neutral throughout its supply chain, including its customer locations, in the “Toho Gas Group 2050 Carbon Neutrality Initiative”, etc. Based on this approach, Toho Gas aims to promote the various initiatives listed in the image of carbon neutrality and, through these activities, to make a broad contribution to the achievement of the SDGs set by the United Nations.
- Based on an assessment of the implementation plan provided by Toho Gas under the Framework, the “Toho Gas Group 2050 Carbon Neutrality Initiative” and Toho Gas’s realization image and scenario of carbon neutrality, DNV confirmed that it is well aligned with Toho Gas's Transition Strategy. Through the assessment, DNV confirmed that the implementation plan based on the Transition Strategy is reliable, ambitious, and achievable.

#### **CTF-2: Business model environmental materiality**

- Toho Gas's transition efforts include not only CO<sub>2</sub> emission reductions from its own business activities, but also activities that contribute to the CO<sub>2</sub> emission reduction at customers. This will contribute to the implementation of supply-side and demand-side carbon neutrality as an important initiative indicated in the various plans and strategies for decarbonization in Japan. In other words, Toho Gas's transition initiatives directly support the transition of society as a whole, including its own company.
- Toho Gas's realization image and scenario of carbon neutrality are well aligned with the “Transition Roadmap in the Gas Sector” (The Ministry of Economy, Trade and Industry), the “Transition Roadmap in the Power Sector” (Agency for Natural Resources and Energy), and the Carbon Neutral Challenge 2050 (The Japan Gas Association), and its specific implementation plans and targets are set and quantified in the absolute sense that they must be the optimization to achieve them and the possibility of further improvement.
- DNV confirmed that Toho Gas's plan to implement its Transition Strategy is closely linked to the activities of its core business and to activities that contribute to the CO<sub>2</sub> emissions reduction of in society as a whole, thus contributing to the environmental aspects of society as a whole and supporting the promotion of Toho Gas's business. Toho Gas's planned transition strategy and transition pathway are associated with the materiality that Toho Gas has achieved through GRI standards, TCFD, etc., and will contribute to significant environmental benefits (impact) in both qualitative and quantitative terms.

**CTF-3: Climate transition strategy to be science-based including targets and pathways**

- Toho Gas has set a transition plan that is consistent with the Paris Agreement based on science-based evidence, and a transition trajectory that is consistent with the goals of the Ministry of Economy, Trade and Industry, Agency for Natural Resources and Energy, and the Japan Gas Association.
- DNV has confirmed that Toho Gas's Transition Strategy is quantified based on a consistent measurement methodology with prescribed assumptions.
- DNV has confirmed that Toho Gas set out Transition Strategy targets for sustainable CO<sub>2</sub> emission reductions using the TCFD, etc., which are consistent with the "Transition Roadmap in the Gas Sector" (The Ministry of Economy, Trade and Industry), the "Transition Roadmap in the Power Sector" (Agency for Natural Resources and Energy), and the Carbon Neutral Challenge 2050 (The Japan Gas Association).

Table-3 (re-posted) Toho Gas transition targets

<b>Medium-term targets</b>	<p><b>Targets up to FY2025</b></p> <p>CO<sub>2</sub> emission reduction contribution: ▲1 million tonnes (compared to FY2020)</p> <p>Renewable energy sources handled: 250,000 kW</p> <p><b>Targets up to 2030</b></p> <p>CO<sub>2</sub> emission reduction contribution: ▲3 million tonnes<sup>*1</sup> (compared to FY2020)</p> <p>Gas carbon neutralization rate: At least 5%<sup>*2</sup></p> <p>Renewable energy sources handled: 500,000 kW</p>
<b>Long-term targets</b>	<p><b>Targets for 2050</b></p> <p>Carbon neutrality of the entire supply chain, including customer locations</p>

\*1: Contribution to CO<sub>2</sub> reduction through business activities (from FY2021)

\*2: Percentage of gas sold that is carbon neutral (assuming various means such as methanation, etc., hydrogen use, biogas, carbon neutral LNG, carbon recycling, overseas contributions, afforestation and forest protection, etc.)

- Toho Gas is promoting the advanced use of energy, including the introduction of high-efficiency gas facilities, and the carbon neutralization of gas while encouraging customers fuel conversion to city gas, with the aim of reducing CO<sub>2</sub> emissions by 500,000 tonnes for a part of Scope 3 emission equivalents (compared to FY2020) in 2030, and of contributing to society's overall CO<sub>2</sub> reduction contribution of 3 million tonnes (compared to FY2020).
- Toho Gas's CO<sub>2</sub> reduction include not only CO<sub>2</sub> emission reductions from its own business activities (Scope 1 and 2), but also Scope 3 and activities that contribute to the reduction at customers. This will contribute to the implementation of supply-



side and demand-side carbon neutrality as an important initiative indicated in the various plans and strategies for decarbonization in Japan. In other words, Toho Gas's transition initiatives directly support the transition of society as a whole, including its own company, as a company handling natural gas.

- DNV has confirmed that a third-party assurance was obtained for the quantitative information such as CO<sub>2</sub> emissions from Toho Gas, and that the subject data will be disclosed in the Integrated Report and on Toho Gas's website.

#### **CTF-4: Implementation transparency**

- DNV has confirmed that the investment plan related to Toho Gas's Transition Strategy includes agreement on future investment and expenditure. Specifically, in order to address climate change-related risks and opportunities, including the implementation of the Transition Strategy, Toho Gas aims for a 1:1 ratio of core projects to strategic projects out of the JPY 230 billion of investments in the medium-term management plan period covering FY2022 - FY2025, which includes projects implemented with green/transition finance.
- DNV has confirmed that the overall investment plan (investment amount) for the future will be carried out in accordance with the appropriate timeline, based on the internal management system and processes, taking into account CTF-1 to CTF-3.

## (2) Findings and opinions of DNV against the four common elements of GBP/GBGLs and GLP/GLGLs

\* The four elements are used as criteria for green finance or transition finance to specify the use of proceeds, and some green bonds/loans below can be read as transition finance (bond/loan).

### GBP/GLP-1: Use of Proceeds

Toho Gas has defined the criteria applied to eligible projects as green/transition projects which meet Transition Strategy and related handbook, principle, and guidelines (CTFH and CTFBG). Table-1 shows the overview of green/transition finance projects.

DNV has confirmed that Toho Gas plans to allocate the full amount of the proceeds raised through green/transition finance for new investment and refinancing for existing investments as R&D, capital investments, investments and loans, and other related expenditure regarding eligible projects in order to implement the Transition Strategy.

These are projects that contribute to typical greenhouse gas reductions and to achieve carbon neutrality towards business transformation, as exemplified by CTFH/CTFBG, GBP/GBGLs, and GLP/GLGLs. These projects are also consistent with the “Transition Roadmap in the Gas Sector” (The Ministry of Economy, Trade and Industry), the “Transition Roadmap in the Power Sector” (Agency for Natural Resources and Energy), and the Carbon Neutral Challenge 2050 (The Japan Gas Association) and contribute to achieving their targets. These projects have been evaluated as meeting the criteria required for green/transition projects and having clear environmental benefits on the Transition Strategy and are expected to contribute to the SDGs.

Table-1 (re-posted) Toho Gas Green/Transition Finance Project Overview

Eligible Project		Project Overview
Business Category	Type of Initiative	
Gas	Reductions of carbon and decarbonization at customer locations	
	Fuel conversion to gas	Expenditure and investment in supporting fuel conversion from coal and petroleum to city gas
	Creation of gas supply chain	Capital investment in extending or maintaining gas pipelines
	Gas-related energy savings	Capital investment in cogeneration, installation of high-efficiency gas appliances, and regional heating and cooling
	Carbon recycling*	

	CCUS	R&D or capital investment in separation, recovery, utilization, and storage of CO <sub>2</sub>
	Decarbonization of gas itself*	
	Methanation	R&D or capital investment in the practical implementation of methanation technology
	Carbon neutral LNG	Expenditure and investment in the procurement and supply of carbon neutral LNG
	Biogas (Renewable energy)	R&D or capital investment in biogas introduction
Hydrogen	Mobility applications*	
	Hydrogen station	Capital investment in the development of hydrogen stations
	Further application expansion*	
	Hydrogen combustion equipment, etc.	R&D related to hydrogen combustion, mixed-combustion with city gas, etc.
	Distributed energy systems	Capital investment in the construction of smart towns combining various technologies, such as hydrogen and renewable energy
	Supply chain creation*	
	Hydrogen production, CCUS	R&D or capital investment in hydrogen production and carbon recycling through natural gas reforming, etc.
	Local hydrogen network	R&D or capital investment in hydrogen pipeline supply through local networks
Electricity	Reductions of carbon and decarbonization at customer locations*	
	Distributed energy systems, renewable energy, clean transportation	R&D or capital investment in the promotion of various distributed energy resources, including solar power generation, storage batteries, and electric vehicles, and their integration and control using digital technology
	Decarbonization of power sources*	
	Renewable energy	Capital investment / investment and loan for the development of renewable energy sources such as solar power, biomass, wind (including offshore wind), and small hydropower Investment and loan for new regional power companies

\*: Projects that could be used for green finance as well as transition finance

**Use of proceeds classified under GBP/GLP (for green projects)**

- |  |  |
|--|--|
| <input checked="" type="checkbox"/> Renewable energy   | <input type="checkbox"/> Energy efficiency (energy savings)  |
| <input type="checkbox"/> Pollution prevention and control  | <input type="checkbox"/> Environmentally sustainable management of biological natural resources and land use                 |
| <input type="checkbox"/> Conservation of terrestrial and aquatic biodiversity  | <input checked="" type="checkbox"/> Clean transportation   |
| <input type="checkbox"/> Sustainable water resources and wastewater management   | <input type="checkbox"/> Adaptation to climate change  |
| <input checked="" type="checkbox"/> Highly eco-efficient products, environment-adapted products, environment-friendly production technologies and processes  | <input type="checkbox"/> Green buildings with locally, nationally, or internationally recognized standards or certifications |
| <input type="checkbox"/> Other ( <i>please specify</i> ):  |  |
| <input type="checkbox"/> Undetermined at the time of implementation of the finance but expected to fit into the GBP/GLP classification or other eligible fields not currently listed in the GBP/GLP. |  |

## GBP/GLP-2: Process for Project Evaluation and Selection

Toho Gas confirms that the green/transition projects contribute to the achievement of the transition strategy and that they do not conflict with the following exclusion criteria, which were set out in the Framework in advance. Toho Gas also confirms that measures for environmental and social risk reduction are implemented for all nominated eligible projects. Specifically, the Finance Department will take the lead in selecting the eligible projects, in consultation with the Planning Department and the CSR & Environment Department, and after evaluating the environmental benefits of each project, the Finance Officer will make the final decision.

DNV confirmed that these processes had been established as internal documents of Toho Gas and the plan will be implemented in accordance with the appropriate processes.

DNV also confirmed that the green/transition project implemented by Toho Gas is consistent with the fundraiser's management and environmental policies, as well as its transition strategy, goals, and pathways.

### <Exclusion criteria>

- Inappropriate relationships such as unfair trade, bribery, corruption, extortion, embezzlement, etc. that do not comply with the laws and regulations of the country of the location
- Transactions that could cause human rights, environmental, or other social issues

## Evaluation and selection

- |   |   |
|---|---|
| <input checked="" type="checkbox"/> Conforms to the fundraiser's achievement of environmental contribution goals              | <input checked="" type="checkbox"/> Documented process to determine that projects fit within defined categories               |
| <input checked="" type="checkbox"/> The project is eligible for use of proceeds by green finance and transparency is ensured. | <input checked="" type="checkbox"/> Documented process to identify and manage potential ESG risks associated with the project |
| <input type="checkbox"/> The project is evaluated and selected based on the published standard summary                        | <input type="checkbox"/> Other ( <i>please specify</i> ):   |

## Information on responsibilities and accountability

- |  |   |
|--|---|
| <input checked="" type="checkbox"/> Evaluation / Selection criteria subject to external advice or verification | <input checked="" type="checkbox"/> In-house assessment |
| <input type="checkbox"/> Other ( <i>please specify</i> ):  |   |



### GBP/GLP-3: Management of Proceeds

The proceeds will be deposited into Toho Gas’s common account, and the Finance Department will then manage the allocation of proceeds for each project by allocating them to Toho Gas, affiliated companies, and subsidiaries, using the internal management systems, the allocation management ledger, etc.

The internal management systems allow for tracking over the period of redemption or repayment, and the Finance Department will report the allocation status to the Finance Officer once a year for a review. Vouchers relating to the management of the proceeds will be kept in accordance with the document management rules.

The net proceeds will be allocated within approximately three years of the issue. If the proceeds are to be used to refinance existing expenditure, it is planned to be allocated within approximately three years from the time of the financing, and the projects that are determined to be eligible as transition projects at the time of allocation are eligible in accordance with the process set out in GBP/GLP-2. However, if the project execution (planning, construction, etc.) takes a long time, the period of allocation and refinancing may be flexibly adjusted in consideration of the green/transition characteristics of the project.

The amount of proceeds will be managed in cash or cash equivalents in the same amount as the unallocated proceeds until the allocation.

If green/transition finance is to be implemented under this framework in the future, the method of managing the proceeds will be explained prior to implementation of the finance through disclosure in legal documents and loan agreement documentation.

#### Tracking of proceeds:

- Some or all of the proceeds by green finance that are planned to be allocated are systematically distinguished or tracked by the fundraiser
- Disclosure of intended types of temporary investment instruments for unallocated proceeds
- Other (*please specify*): Unallocated proceeds are managed in cash or cash equivalents

#### Additional disclosure:

- |  |  |
|--|--|
| <input type="checkbox"/> Allocation to future investments only                   | <input checked="" type="checkbox"/> Allocation to both existing and future investments   |
| <input checked="" type="checkbox"/> Allocation to individual disbursements       | <input type="checkbox"/> Allocation to a portfolio of disbursements  |
| <input type="checkbox"/> Disclosure of portfolio balance of unallocated proceeds | <input checked="" type="checkbox"/> Other ( <i>please specify</i> ): includes allocations made through subsidiaries and affiliates |

## GBP/GLP-4: Reporting

DNV confirms that Toho Gas will report (annual reporting) on the green/transition finance until the proceeds are allocated, and disclose information on the status of the allocation, the projects to which the proceeds have been allocated or the environmental benefits.

With regard to the allocation status of proceeds, the following items will be disclosed for the period until the full amount of the proceeds has been allocated to eligible projects. Environmental benefits will be disclosed for any or all of the items in the table below for the period from the implementation of the green/transition finance to the completion of redemption or repayment, as long as is reasonably practicable.

In the event of a material change in the project for which the proceeds are to be used, such change and the status of unallocated proceeds will be promptly disclosed even after the completion of the allocation.

The report will be disclosed on the Toho Gas website.

### <Allocation status>

- Amount of allocated proceeds
- Estimated amount of unallocated proceeds, estimated time of allocation
- Estimated amount or percentage allocated to refinancing

### <Environmental benefits>

Eligible Project		Project Overview	Impact Reporting Items
Business Category	Type of Initiative		
Gas	Reductions of carbon and decarbonization at customer locations		<ul style="list-style-type: none"> <li>• Overview of each project</li> <li>• Progress in R&amp;D, capital investment, etc.</li> <li>• Annual CO<sub>2</sub> emission reductions from each project (t-CO<sub>2</sub>/year)</li> </ul>
	Fuel conversion to gas	Expenditure and investment in supporting customers' fuel conversion from coal and oil to city gas.	
	Creation of gas supply chain	Capital investment in extending or maintaining gas pipelines	
	Gas-related energy savings	Capital investment in cogeneration, installation of high-efficiency gas appliances and district heating and cooling	

	Carbon recycling*				
	CCUS	Research and development or capital investment in the separation, recovery, utilisation and storage of CO <sub>2</sub>			
	Decarbonization of gas itself*				
	Methanation	Research and development or capital investment in the practical application of methanation technology			
	Carbon neutral LNG	Expenditure and investment in the procurement and supply of carbon neutral LNG			
	Biogas (Renewable energy)	Research and development or capital investment in biogas introduction			
	Hydrogen	Mobility applications*		<ul style="list-style-type: none"> <li>· Overview of each project</li> <li>· Progress in R&amp;D, capital investment, etc.</li> <li>· Annual CO<sub>2</sub> emission reductions from each project (t-CO<sub>2</sub>/year)</li> </ul>	
		Hydrogen station			Capital investment in the development of hydrogen stations
Further application expansion*					
Hydrogen combustion equipment, etc.		Research and development related to hydrogen combustion, co-firing with city gas, etc.			
Distributed energy systems		Capital investment in the construction of smart towns combining various technologies, such as hydrogen and renewable energy.			
Supply chain creation*					
Hydrogen production, CCUS		R&D or capital investment in hydrogen production and carbon recycling through natural gas reforming, etc.			
Local hydrogen network		Research and development or capital investment in hydrogen			

		pipeline supply through local networks	
Electricity	Reductions of carbon and decarbonization at customer locations*		<ul style="list-style-type: none"> <li>Overview of each project</li> <li>Progress in R&amp;D, capital investment, etc.</li> <li>Installed capacity</li> <li>Annual CO<sub>2</sub> emission reductions from each project (t-CO<sub>2</sub>/year)</li> </ul>
	Distributed energy systems, renewable energy, clean transportation	R&D or capital investment in the promotion of various distributed energy resources, including photovoltaic power generation, storage batteries and electric vehicles, and their integration and control using digital technology.	
	Decarbonization of power sources*		<ul style="list-style-type: none"> <li>Overview of each project</li> <li>Progress in R&amp;D, capital investment, etc.</li> <li>Installed capacity</li> <li>Annual power generation</li> <li>Annual CO<sub>2</sub> emission reductions from each project (t-CO<sub>2</sub>/year)</li> </ul>
	Renewable energy	<p>Capital investment or investment and financing for the development of renewable energy sources such as solar, biomass, wind (including offshore wind) and small hydropower.</p> <p>Investing in and financing new regional power companies</p>	

**Use of Proceeds reporting:**

- |  |  |
|--|--|
| <input checked="" type="checkbox"/> Project-by-project | <input checked="" type="checkbox"/> On a project portfolio basis |
| <input type="checkbox"/> Linkage to individual finance | <input type="checkbox"/> Other ( <i>please specify</i> ):        |

**Information reported:**

- |   |  |
|---|--|
| <input checked="" type="checkbox"/> Allocated amounts     | <input type="checkbox"/> Green finance share of total investment |
| <input type="checkbox"/> Other ( <i>please specify</i> ): |  |

**Frequency:**

- |   |                                      |
|---|--------------------------------------|
| <input checked="" type="checkbox"/> Annual                | <input type="checkbox"/> Semi-annual |
| <input type="checkbox"/> Other ( <i>please specify</i> ): |                                      |

**Impact reporting (Environmental Impact):**

- |  |  |
|--|--|
| <input checked="" type="checkbox"/> Project-by-project | <input checked="" type="checkbox"/> On a project portfolio basis |
| <input type="checkbox"/> Linkage to individual finance | <input type="checkbox"/> Other ( <i>please specify</i> ):        |

**Frequency:**

- |   |                                      |
|---|--------------------------------------|
| <input checked="" type="checkbox"/> Annual                | <input type="checkbox"/> Semi-annual |
| <input type="checkbox"/> Other ( <i>please specify</i> ): |                                      |

**Information reported (expected or ex-post):**

- |   |   |
|---|---|
| <input checked="" type="checkbox"/> GHG emissions/savings                           | <input type="checkbox"/> Energy savings           |
| <input checked="" type="checkbox"/> Other ESG indicators ( <i>please specify</i> ): | Installed capacity, annual power generation, etc. |

**Means of disclosure:**

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

## Assessment Conclusion

On the basis of the information provided by Toho Gas and the work undertaken, it is DNV's opinion that the Toho Gas Green/Transition Finance Framework meets the criteria established in the Protocol, and that it is aligned with the following stated definition or purpose of climate transition finance for bonds and loans that specify the use of proceeds within the CTFH/CTFBG, GBP/GBGLs, GLP/GLGLs.

"provide an investment opportunity with transparent sustainability credentials"

"enable capital-raising and investment for new and existing projects with environmental benefits"

DNV Business Assurance Japan K.K.

21<sup>st</sup> October 2022



**Mark Robinson.**

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Assessor  
DNV Business Assurance Japan K.K.



### About DNV

Driven by our purpose of safeguarding life, property and the environment, DNV enables organisations to advance the safety and sustainability of their business. Combining leading technical and operational expertise, risk methodology and in-depth industry knowledge, we empower our customers' decisions and actions with trust and confidence. We continuously invest in research and collaborative innovation to provide customers and society with operational and technological foresight.

With our origins stretching back to 1864, our reach today is global. Operating in more than 100 countries, our 16,000 professionals are dedicated to helping customers make the world safer, smarter and greener.

### Disclaimer

Responsibilities of the Management of the Issuer and the Second-Party Opinion Providers, DNV: The management of Issuer has provided the information and data used by DNV during the delivery of this review. Our statement represents an independent opinion and is intended to inform the Issuer management and other interested stakeholders in the Bond as to whether the established criteria have been met, based on the information provided to us. In our work we have relied on the information and the facts presented to us by the Issuer. DNV is not responsible for any aspect of the nominated assets referred to in this opinion and cannot be held liable if estimates, findings, opinions, or conclusions are incorrect. Thus, DNV shall not be held liable if any of the information or data provided by the Issuer's management and used as a basis for this assessment were not correct or complete.

## Schedule-1 Green/Transition Finance Nominated Projects

The projects listed in the table are green/transition finance candidates before the implementation of finance (as of October 2022). In the future, green/transition finance issued under the Toho Gas Green/Transition Finance Framework will be selected from one or more of the green/transition eligible criteria (nominated eligible projects) and the use of proceeds will be reported in the pre-financing or post-financing reports. If additional green/transition projects are included, eligibility will be evaluated in advance by Toho Gas in accordance with the Toho Gas Green/Transition Finance Framework and, if necessary, DNV will evaluate them in a timely manner.

Eligible Project		Project Overview
Business Category	Type of Initiative	
Gas	Reductions of carbon and decarbonization at customer locations	
	Fuel conversion to gas	Expenditure and investment in supporting fuel conversion from coal and petroleum to city gas
	Creation of gas supply chain	Capital investment in extending or maintaining gas pipelines
	Gas-related energy savings	Capital investment in cogeneration, installation of high-efficiency gas appliances, and regional heating and cooling
	Carbon recycling*	
	CCUS	R&D or capital investment in separation, recovery, utilization, and storage of CO <sub>2</sub>
	Decarbonization of gas itself*	
	Methanation	R&D or capital investment in the practical implementation of methanation technology
	Carbon neutral LNG	Expenditure and investment in the procurement and supply of carbon neutral LNG
	Biogas (Renewable energy)	R&D or capital investment in biogas introduction
Hydrogen	Mobility applications*	
	Hydrogen station	Capital investment in the development of hydrogen stations
	Further application expansion*	
	Hydrogen combustion equipment, etc.	R&D related to hydrogen combustion, mixed-combustion with city gas, etc.



	Distributed energy systems	Capital investment in the construction of smart towns combining various technologies, such as hydrogen and renewable energy
	Supply chain creation*	
	Hydrogen production, CCUS	R&D or capital investment in hydrogen production and carbon recycling through natural gas reforming, etc.
	Local hydrogen network	R&D or capital investment in hydrogen pipeline supply through local networks
Electricity	Reductions of carbon and decarbonization at customer locations*	
	Distributed energy systems, renewable energy, clean transportation	R&D or capital investment in the promotion of various distributed energy resources, including solar power generation, storage batteries, and electric vehicles, and their integration and control using digital technology
	Decarbonization of power sources*	
	Renewable energy	Capital investment / investment and loan for the development of renewable energy sources such as solar power, biomass, wind (including offshore wind), and small hydropower
Investment and loan for new regional power companies		

\*: Projects that could be used for green finance as well as transition finance

## Schedule-2 Transition Finance Framework Eligibility Assessment Protocol

The checklists (1-4) below are DNV evaluation procedures created for Toho Gas Green/Transition Finance Framework Eligibility Assessment based on the disclosure requirements of CTFH and CTFBG.

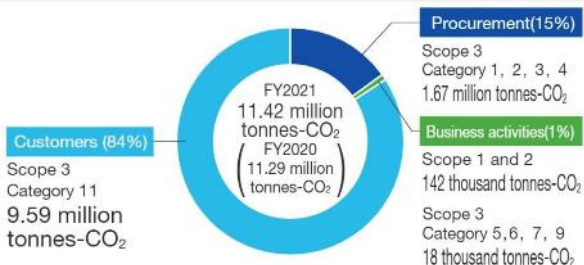
The "confirmed documents" in the Work Undertaken include public or private documents (internal documents of the issuer or fundraiser), etc., and are provided by Toho Gas as evidence of eligibility judgment for DNV.

\*Please replace "Issuer", "Investor" to "Borrower/Fundraiser", "Lender" in the context in the following requirements.

Ref.	Criteria	Requirements	Work Undertaken	DNV Findings
1	Fundraiser's climate transition strategy and governance	<p>The financing purpose should be for enabling a fundraiser's climate change strategy. A 'transition' label applied to a debt financing instrument should serve to communicate the implementation of a fundraiser's corporate strategy to transform the business model in a way which effectively addresses climate-related risks and contributes to alignment with the goals of the Paris Agreement.</p> <p>Suggested information and indicators</p> <ul style="list-style-type: none"> <li>• A long-term target to align with the goals of the Paris Agreement (e.g. the objective of limiting global warming ideally to 1.5°C and, at the very least, to well below 2°C);</li> <li>• Relevant interim targets on the trajectory towards the longterm goal;</li> <li>• Disclosure on the fundraiser's levers towards decarbonisation, and strategic planning towards a long-term target to</li> </ul>	<p>Confirmed documents:</p> <ul style="list-style-type: none"> <li>- Framework</li> <li>- 6th Basic Energy Plan</li> <li>- Transition Roadmaps in the gas and power sectors</li> <li>- Carbon Neutral Challenge</li> <li>- Integrated Report 2022</li> <li>- Toho Gas Group Medium-Term Management Plan 2022-2025</li> <li>- Toho Gas Group 2050 Carbon Neutrality Initiative</li> <li>- Project list</li> </ul> <p>Interviews with Toho Gas stakeholders</p>	<p>Toho Gas has established a framework and has introduced a range of plans and initiatives to manage and enhance the environmental sustainability and related performance of the organization against Toho Gas Group's wider environmental strategy.</p> <p>DNV has reviewed and confirmed that Toho Gas's targets are consistent with the targets of the Paris Agreement, based on the action to achieve carbon neutrality in 2050, a science-based long-term target quantified by Toho Gas. Toho Gas sets environmental corporate strategies that are important to its business model, by identifying risks and opportunities based on the scenario analysis using TCFD guidance and grasping their impact.</p> <p>Toho Gas presented a realization image and scenario of achieving carbon neutrality in the "Toho Gas Group 2050 Carbon Neutrality Initiative" published in July 2021. The long-term target is to achieve carbon neutrality by 2050, which is consistent with the targets of the Paris Agreement, and the medium-term targets for realizing this target are to contribute 3 million tonnes of CO<sub>2</sub> reduction in 2030 (compared to FY2020), to achieve a gas carbon</p>

Ref.	Criteria	Requirements	Work Undertaken	DNV Findings
		<p>align with the goals of the Paris Agreement;</p> <ul style="list-style-type: none"> <li>• Clear oversight and governance of transition strategy and,</li> <li>• Evidence of a broader sustainability strategy to mitigate relevant environmental and social externalities and contribute to the UN Sustainable Development Goals.</li> </ul>		<p>neutrality rate of at least 5%, and to handle 500,000 kW of renewable energy. Toho Gas's realization image of carbon neutrality discloses specific technologies to be introduced to realize the transition to carbon neutrality.</p> <p>Toho Gas's Transition Strategy is aligned with the "Transition Roadmap in the Gas Sector" (The Ministry of Economy, Trade and Industry), the "Transition Roadmap in the Power Sector" (Agency for Natural Resources and Energy), and the Carbon Neutral Challenge 2050 (The Japan Gas Association), and incorporates the action plan to achieve the targets set by utilizing TCFD guidance. Furthermore, in the event of technological developments or changes in trends related to the transition strategy, or changes in the external scenarios on which the transition strategy is based, Toho Gas plans to revise the materiality and review its climate change initiatives, including the transition strategy, as necessary, and to disclose the details in a timely manner on Toho Gas's website, etc.</p> <p>Toho Gas identifies the promotion of carbon neutrality as one of the materialities in the "Integrated Report 2022", while describes the promotion of carbon neutrality as one of the four themes to be addressed during the medium-term period (FY2022 to FY2025) in the "Toho Gas Group Medium-Term Management Plan 2022-2025". Measures against climate change is recognized as one of the most important issues in Toho Gas's business, and structures and mechanisms have been established to promote this at the management level, including the implementation of the transition strategy.</p> <p>Toho Gas has expressed its aim to build an energy system that contributes to carbon neutrality based on gas,</p>

Ref.	Criteria	Requirements	Work Undertaken	DNV Findings
				<p>hydrogen, and electricity in order to become carbon neutral throughout its supply chain, including its customer locations, in the “Toho Gas Group 2050 Carbon Neutrality Initiative”, etc. Based on this approach, Toho Gas aims to promote the various initiatives listed in the realization image of carbon neutrality and, through these activities, to make a broad contribution to the achievement of the SDGs set by the United Nations.</p> <p>Based on an assessment of the implementation plan provided by Toho Gas under the Framework, the “Toho Gas Group 2050 Carbon Neutrality Initiative” and Toho Gas’s realization image and scenario of carbon neutrality, DNV confirmed that it is well aligned with Toho Gas’s Transition Strategy. Through the assessment, DNV confirmed that the implementation plan based on the Transition Strategy is reliable, ambitious and achievable.</p>
2	Business model environmental materiality	The planned climate transition trajectory should be relevant to the environmentally-material parts of the fundraiser’s business model, taking into account potential future scenarios which may impact on current determinations concerning materiality.	<p>Confirmed documents:</p> <ul style="list-style-type: none"> <li>- Framework</li> <li>- 6th Basic Energy Plan</li> <li>- Transition Roadmaps in the gas and power sectors</li> <li>- Carbon Neutral Challenge</li> <li>- Integrated Report 2022</li> <li>- Toho Gas Group Medium-Term Management Plan 2022-2025</li> </ul>	<p>DNV evaluated whether the key activities associated with Toho Gas's business activities correspond to Toho Gas’s Transition Strategy, which was evaluated as contributing to the environment.</p> <p>The greenhouse gas emissions from Toho Gas’s value chain (FY2021) are as follows:</p> <p>Scope 1, 2: 142 thousand t-CO<sub>2</sub>            Scope 3 Category 1, 2, 3, 4: 1.67 million t-CO<sub>2</sub>            Scope 3 Category 5, 6, 7, 9: 18 thousand t-CO<sub>2</sub>            Scope 3 Category 11: 9.59 million t-CO<sub>2</sub></p>

Ref.	Criteria	Requirements	Work Undertaken	DNV Findings
			<ul style="list-style-type: none"> <li>- Toho Gas Group 2050 Carbon Neutrality Initiative</li> <li>- Project list</li> </ul> <p>Interviews with Toho Gas stakeholders</p>	 <p>*Includes methane, fluorocarbons and other non CO<sub>2</sub> greenhouse gas emissions.</p> <p>[Scope 1] Direct emissions by business operator          [Scope 2] Indirect emissions accompanying use of electricity and heat supplied by other companies          [Scope 3] Indirect emissions other than Scope 1 and 2 (Emissions of others related to business activities of the operator)</p> <p>Toho Gas's Transition efforts include not only CO<sub>2</sub> emission reductions from its own business activities (Scope 1 and 2), but also Scope 3 and activities that contribute to the reduction at customers. This will contribute to the implementation of supply-side and demand-side carbon neutrality as an important initiative indicated in the various plans and strategies for decarbonization in Japan. In other words, Toho Gas's transition initiatives directly support the transition of society as a whole, including its own company.</p> <p>Toho Gas's realization image of carbon neutrality is well aligned with the "Transition Roadmap in the Gas Sector" (The Ministry of Economy, Trade and Industry), the "Transition Roadmap in the Power Sector" (Agency for</p>

Ref.	Criteria	Requirements	Work Undertaken	DNV Findings
				<p>Natural Resources and Energy), and the Carbon Neutral Challenge 2050 (The Japan Gas Association), and its specific implementation plans and targets are set and quantified in the absolute sense that they must be the optimization to achieve them and the possibility of further improvement.</p> <p>DNV confirmed that Toho Gas's plan to implement its Transition Strategy is closely linked to the activities of its core business and to the activities that contribute to the CO<sub>2</sub> emissions reduction of in society as a whole, thus contributing to the environmental aspects of society as a whole and supporting the promotion of Toho Gas's business.</p> <p>Toho Gas's planned transition strategy and transition pathway are associated with the materiality that Toho Gas has achieved through GRI standards*1, TCFD, etc., and will contribute to significant environmental benefits (impact) in both qualitative and quantitative terms.</p> <p>*1: Global Reporting Initiative (an international standard providing ESG-related reporting, management and analysis methods)</p>
3	Climate transition strategy to be science-based including targets and pathways	<p>Fundraiser's climate strategy should reference science-based targets and transition pathways. The planned transition trajectory should:</p> <ul style="list-style-type: none"> <li>• be quantitatively measurable (based on a measurement methodology which is consistent over time);</li> <li>• be aligned with, benchmarked or otherwise referenced to recognized,</li> </ul>	<p>Confirmed documents:</p> <ul style="list-style-type: none"> <li>- Framework</li> <li>- 6th Basic Energy Plan</li> <li>- Transition Roadmaps in the gas and power sectors</li> <li>- Carbon Neutral Challenge</li> </ul>	<p>Toho Gas has set a transition plan that is consistent with the Paris Agreement based on science-based evidence, and a transition trajectory that is consistent with the goals of the Ministry of Economy, Trade and Industry, Agency for Natural Resources and Energy, and the Japan Gas Association.</p> <p>DNV has confirmed that Toho Gas's Transition Strategy is quantified based on a consistent measurement methodology with prescribed assumptions. The transition</p>

Ref.	Criteria	Requirements	Work Undertaken	DNV Findings				
		<p>science-based trajectories where such trajectories exist;</p> <ul style="list-style-type: none"> <li>be publicly disclosed (ideally in mainstream financing filings), include interim milestones, and;</li> <li>be supported by independent assurance or verification.</li> </ul> <p>&lt;Suggested information and indicators&gt;</p> <ul style="list-style-type: none"> <li>Short, medium, and long-term greenhouse gas reduction targets aligned with Paris Agreement;</li> <li>Baseline;</li> <li>Scenario utilised, and methodology applied (e.g. ACT, SBTi, etc.);</li> <li>Greenhouse gas objectives covering all scopes (Scope 1, 2 and 3); and,</li> <li>Targets formulated both in intensity and absolute terms.</li> </ul>	<ul style="list-style-type: none"> <li>Integrated Report 2022</li> <li>Toho Gas Group Medium-Term Management Plan 2022-2025</li> <li>Toho Gas Group 2050 Carbon Neutrality Initiative</li> </ul> <p>Interviews with Toho Gas stakeholders</p>	<p>targets were set out based on initiatives using TCFD, etc., which are consistent with the policies of the Ministry of Economy, Trade and Industry, Agency for Natural Resources and Energy, and the Japan Gas Association.</p> <p>Specifically, Toho Gas set out the following transition targets:</p> <table border="1" data-bbox="1406 603 2123 1203"> <tr> <td data-bbox="1406 603 1547 1082"><b>Medium-term targets</b></td> <td data-bbox="1547 603 2123 1082"> <p><b>Targets up to FY2025</b></p> <p>CO<sub>2</sub> emission reduction contribution: ▲1 million tonnes (compared to FY2020)</p> <p>Renewable energy sources handled: 250,000 kW</p> <p><b>Targets up to 2030</b></p> <p>CO<sub>2</sub> emission reduction contribution: ▲3 million tonnes*<sup>1</sup> (compared to FY2020)</p> <p>Gas carbon neutralization rate: At least 5%*<sup>2</sup></p> <p>Renewable energy sources handled: 500,000 kW</p> </td> </tr> <tr> <td data-bbox="1406 1082 1547 1203"><b>Long-term targets</b></td> <td data-bbox="1547 1082 2123 1203"> <p><b>Targets for 2050</b></p> <p>Carbon neutrality of the entire supply chain, including customer locations</p> </td> </tr> </table> <p>*1: Contribution to CO<sub>2</sub> reduction through business activities (from FY2021)</p> <p>*2: Percentage of gas sold that is carbon neutral (assuming various means such as methanation, etc., hydrogen use, biogas, carbon neutral LNG, carbon recycling, overseas contributions, afforestation and forest protection, etc.)</p>	<b>Medium-term targets</b>	<p><b>Targets up to FY2025</b></p> <p>CO<sub>2</sub> emission reduction contribution: ▲1 million tonnes (compared to FY2020)</p> <p>Renewable energy sources handled: 250,000 kW</p> <p><b>Targets up to 2030</b></p> <p>CO<sub>2</sub> emission reduction contribution: ▲3 million tonnes*<sup>1</sup> (compared to FY2020)</p> <p>Gas carbon neutralization rate: At least 5%*<sup>2</sup></p> <p>Renewable energy sources handled: 500,000 kW</p>	<b>Long-term targets</b>	<p><b>Targets for 2050</b></p> <p>Carbon neutrality of the entire supply chain, including customer locations</p>
<b>Medium-term targets</b>	<p><b>Targets up to FY2025</b></p> <p>CO<sub>2</sub> emission reduction contribution: ▲1 million tonnes (compared to FY2020)</p> <p>Renewable energy sources handled: 250,000 kW</p> <p><b>Targets up to 2030</b></p> <p>CO<sub>2</sub> emission reduction contribution: ▲3 million tonnes*<sup>1</sup> (compared to FY2020)</p> <p>Gas carbon neutralization rate: At least 5%*<sup>2</sup></p> <p>Renewable energy sources handled: 500,000 kW</p>							
<b>Long-term targets</b>	<p><b>Targets for 2050</b></p> <p>Carbon neutrality of the entire supply chain, including customer locations</p>							

Ref.	Criteria	Requirements	Work Undertaken	DNV Findings
				<p>Toho Gas's CO<sub>2</sub> reduction include not only CO<sub>2</sub> emission reductions from its own business activities (Scope 1 and 2), but also Scope 3 and activities that contribute to the reduction at customers. This will contribute to the implementation of supply-side and demand-side carbon neutrality as an important initiative indicated in the various plans and strategies for decarbonization in Japan. In other words, Toho Gas's transition initiatives directly support the transition of society as a whole, including its own company as a company handling natural gases.</p> <p>Toho Gas is promoting the advanced use of energy, including the introduction of high-efficiency gas facilities, and the carbon neutralization of gas while encouraging customers fuel conversion to city gas, with the aim of reducing CO<sub>2</sub> emissions by 500,000 tonnes for a part of Scope 3 emission equivalents (compared to FY2020) in 2030, and of contributing to society's overall CO<sub>2</sub> reduction contribution of 3 million tonnes (compared to FY2020).</p> <p>A third-party assurance was obtained for the quantitative information such as CO<sub>2</sub> emissions from Toho Gas, which is disclosed in the Integrated Report 2022 and on Toho Gas's website.</p>
4	Implementation transparency	Market communication in connection with the offer of a financing instrument which has the aim of funding the fundraiser's climate transition strategy should also provide transparency to the extent practicable, of the underlying investment program including	Confirmed documents: <ul style="list-style-type: none"> <li>- Framework</li> <li>- Integrated Report 2022</li> <li>- Toho Gas Group Medium-Term</li> </ul>	<p>DNV has confirmed that the investment and development plan related to Toho Gas's Transition Strategy includes agreement on future investment and expenditure.</p> <p>Specifically, in order to address climate change-related risks and opportunities, including the implementation of the Transition Strategy, Toho Gas aims for a 1:1 ratio of</p>



Ref.	Criteria	Requirements	Work Undertaken	DNV Findings
		<p>capital and operational expenditure. This may include R&amp;D-related expenditure where relevant, and details of where any such operating expenditure is deemed 'non-Business as Usual', as well as other relevant information indicating how this program supports implementation of the transition strategy, including details of any divestments, governance, and process changes.</p> <p>&lt;Suggested information and indicators&gt;</p> <ul style="list-style-type: none"> <li>• Disclosure on the percentage of assets/revenues/expenditures/divestments aligned to the various levers outlined in Element 1 above</li> <li>• Capex roll-out plans consistent with the overall strategy and climate science</li> </ul>	<p>Management Plan 2022-2025</p> <ul style="list-style-type: none"> <li>- Toho Gas Group 2050 Carbon Neutrality Initiative</li> <li>- Project list</li> </ul> <p>Interviews with Toho Gas stakeholders</p>	<p>core projects to strategic projects out of the JPY 230 billion of investments in the medium-term management plan period covering FY2022 - FY2025, which includes projects implemented with green/transition finance.</p> <p>DNV has confirmed that the overall investment plan (investment amount) for the future will be carried out in accordance with the appropriate timeline, based on the internal management system and processes, taking into account CTF-1 to CTF-3.</p> <p>Toho Gas plans to allocate to the nominated green/transition eligible projects set out in Schedule-1 as R&amp;D, capital investments, investments and loans, and other related expenditures. Through the assessment, DNV concluded that Toho Gas's transition strategy, in terms of directly and indirectly supporting the decarbonization of society as a whole, can be seen as a non-Business as Usual concept.</p>

## Schedule-3 Green Finance (Transition Finance with specific use of proceeds) Eligibility Assessment Protocol

The checklist below (GBP/GLP-1 to GBP/GLP-4) is a DNV evaluation procedure created for Toho Gas Green/Transition Finance Eligibility Assessment (green/transition finance with specific use of proceeds) based on the requirements of GBP/GBGLs and GLP/GLGLs. “Confirmed documents” in the “Work Undertaken” includes documents inside the fundraiser and is provided by Toho Gas as evidence of eligibility judgment for DNV.

In Schedule-3, it is referred to as GBP or GLP according to the practice, but this is the standard to be referred to in the case of financing that specifies the use of proceeds such as transition projects in transition finance that specifies the use of proceeds based on CTFH and CTFBG, so please read as the meaning of the green/transition as appropriate.

### GBP/GLP-1 Use of Proceeds

Ref.	Criteria	Requirements	Work Undertaken	DNV Findings
1a	Types of funds	<p>The types of green/transition finance are classified into one of the following types defined by GBP/GLP.</p> <ul style="list-style-type: none"> <li>• (Standard) Green/transition Bond/loan</li> <li>• Green/transition Revenue Bond/loan</li> <li>• Green/transition Project Bond/loan</li> <li>• Other</li> </ul>	<p>Confirmed documents:</p> <ul style="list-style-type: none"> <li>- Framework</li> </ul> <p>Interviews with Toho Gas stakeholders</p>	<p>Through the evaluation work, DNV confirmed that Toho Gas Green/Transition Finance falls into the following categories.</p> <ul style="list-style-type: none"> <li>• (Standard) Green/transition bond/loan</li> </ul>
1b	Green/transition Project Classification	<p>The key to a transition finance is that the proceeds will be used for a transition project, which should be properly stated in the legal documents relating to the security/loan.</p>	<p>Confirmed documents:</p> <ul style="list-style-type: none"> <li>- Framework</li> <li>- Toho Gas Group 2050 Carbon Neutrality Initiative</li> <li>- Project list</li> </ul> <p>Interviews with Toho Gas stakeholders</p>	<p>DNV confirms that Toho Gas Green/Transition Finance is intended to finance a wide range of green/transition projects focused on Toho Gas's environmental targets and transition strategy, as described in the Framework and Schedule-1.</p> <p>Specifically, all Green/Transition Finance Eligible Project Candidates listed in Schedule-1 are evaluated as conforming to the Transition Strategy, and the proceeds through Green/Transition Finance are planned to be financed one or more of the Green/Transition Finance Eligible Project Candidates. If a green/transition project is pre-selected before</p>

Ref.	Criteria	Requirements	Work Undertaken	DNV Findings
				<p>the financing is implemented, this will be disclosed in legal documents.</p> <p>Through the assessment, DNV concludes that the Green/Transition eligible projects candidates will bring concrete and actual environmental benefits.</p>
1c	Environmental benefits	All green/transition projects to which the funds are used should have clear environmental benefits, the effects of which should be assessed by the fundraiser and, where possible, quantitatively demonstrated.	<p>Confirmed documents:</p> <ul style="list-style-type: none"> <li>- Framework</li> <li>- Toho Gas Group 2050 Carbon Neutrality Initiative</li> <li>- Project list</li> </ul> <p>Interviews with Toho Gas stakeholders</p>	<p>Green/Transition projects will contribute to goals based on Toho Gas's Transition Strategy and contribute to low-carbon or decarbonization that classified into the three business fields listed in Schedule-1. The environmental benefit is the reduction of CO<sub>2</sub> emissions, which has been quantitatively or qualitatively evaluated by Toho Gas.</p> <p>DNV confirmed that, prior to the implementation of green/transition finance, the project's environmental benefits evaluation method (calculation method) and the items to be disclosed are planned to be evaluated and reported quantitatively as indicators and CO<sub>2</sub> emission reductions according to the project's characteristics in the annual report. (If it is difficult to evaluate the quantitative CO<sub>2</sub> emission reductions due to the characteristics of the project, Toho Gas will report the project outline and the status of R&amp;D and demonstration to the extent practicable).</p>
1d	Refinancing rate	If all or part of the proceeds are used or may be used for refinancing, the fundraiser will indicate the estimated ratio of the initial investment to the refinancing and, if necessary. Therefore, it is recommended to clarify which	<p>Confirmed documents:</p> <ul style="list-style-type: none"> <li>- Framework</li> <li>- Project list</li> </ul> <p>Interviews with Toho Gas stakeholders</p>	Toho Gas plans to allocate all of the proceeds to new investment, refinancing, or both, in one or more of the eligible project candidates included in Schedule-1. If it is clear in advance, prior to the implementation of the financing, whether the financing will be used for new investments or refinancing, this will be disclosed in legal documents. If it is not yet clear, the fundraiser plans to disclose the estimated

Ref.	Criteria	Requirements	Work Undertaken	DNV Findings
		investment or project portfolio is subject to refinancing.		amount (or percentage) of the proceeds used for refinancing through reporting (annual report).

### GBP/GLP-2 Process for Project Evaluation and Selection

Ref.	Criteria	Requirements	Work Undertaken	DNV Findings
2a	Project selection process	Green/transition finance fundraisers should provide an overview of the process of qualifying projects for which green/transition finance funding will be used. This includes (but is not limited to): <ul style="list-style-type: none"> <li>The process by which the fundraiser determines that the project in question is included in the business category of a qualified green/transition project.</li> <li>Creation of criteria for eligibility of projects for which green/transition finance funding will be used</li> <li>Environmental sustainability goals</li> </ul>	Confirmed documents: <ul style="list-style-type: none"> <li>Framework</li> </ul> Interviews with Toho Gas stakeholders	DNV confirmed that the fundraiser has a process of determining the eligibility of projects for which the green/transition finance, and that the outline is specified in the framework. <p>Specifically, the Finance Department will take the lead in selecting the eligible projects, in consultation with the Planning Department and the CSR &amp; Environment Department, and after evaluating the environmental benefits of each project, the Finance Officer will make the final decision.</p>
2b	Fundraisers' Environmental and Social Governance Framework	In addition to criteria and certifications, the information published by fundraisers regarding the green/transition finance process also considers the quality of performance of the fundraiser's framework and environmental sustainability.	Confirmed documents: <ul style="list-style-type: none"> <li>Framework</li> <li>Toho Gas Group Medium-Term Management Plan 2022-2025</li> </ul> Interviews with Toho Gas stakeholders	Toho Gas complies with environment-related laws, ordinances and regulations, and considers that the effects of environmental benefits such as CO <sub>2</sub> reduction are clear in the entire life cycle or each process when selecting green/transition projects to be implemented. <p>In the operation and implementation of the project, each of the departments involved is committed to</p>

Ref.	Criteria	Requirements	Work Undertaken	DNV Findings
				<p>the preservation of the surrounding environment. The following exclusion criteria have been set.</p> <ul style="list-style-type: none"> <li>• Inappropriate relationships such as unfair trade, bribery, corruption, extortion, embezzlement, etc. that do not comply with the laws and regulations of the country of the location</li> <li>• Transactions that could cause human rights, environmental, or other social issues</li> </ul> <p>DNV has confirmed that the green/transition projects implemented by Toho Gas are consistent with Toho Gas's management and environmental policies, as well as with the transition strategy, goals, and pathways.</p>

### GBP/GLP-3 Management of Proceeds

Ref.	Criteria	Requirements	Work Undertaken	DNV Findings
3a	Tracking procedure-1	The net proceeds from of green/transition finance should be managed in sub-accounts, included in sub-portfolio, or otherwise tracked. It should also be certified by the fundraiser in a formal internal process related to the fundraiser's investment and financing operations for the Transition Project.	<p>Confirmed documents:</p> <ul style="list-style-type: none"> <li>- Framework</li> <li>- Allocated proceeds management list</li> </ul> <p>Interviews with Toho Gas stakeholders</p>	DNV has confirmed that the proceeds by the green/transition finance can be tracked in line with Toho Gas's internal system, etc., and proved based on the review of systems actually in use and documents through the assessment.

Ref.	Criteria	Requirements	Work Undertaken	DNV Findings
3b	Tracking procedure-2	During the green/transition finance redemption period, the balance of funds raised that is being tracked should be adjusted at regular intervals to match the amount allocated to eligible projects undertaken during that period.	Confirmed documents: <ul style="list-style-type: none"> <li>- Framework</li> <li>- Allocated proceeds management list</li> </ul> Interviews with Toho Gas stakeholders	DNV confirmed that Toho Gas’s Finance Department plans to review the outstanding balance of the green/transition finance by using the internal system and the allocated proceeds management list described in 3a on an annual basis during the period from the implementation of the green/transition finance to its redemption or repayment.
3c	Temporary holding	If no investment or payment has been made in a qualified green/transition project, the fundraiser should also inform the investor of the possible temporary investment method for the balance of unallocated proceeds.	Confirmed documents: <ul style="list-style-type: none"> <li>- Framework</li> <li>- Allocated proceeds management list</li> </ul> Interviews with Toho Gas stakeholders	DNV confirmed that the confirmation process through Toho Gas’s internal system and the allocated proceeds management list are structured to ensure that the balance of unallocated proceeds is recognized sequentially.  DNV confirmed through the framework and assessment that the balance of unallocated proceeds will be managed in cash or cash equivalents, and that in the unlikely event of a significant delay in the scheduled date of allocation, this would be reported in the reporting or otherwise, together with the reasons for the delay. DNV also confirmed that the balance of unallocated proceeds will be disclosed through reporting on the allocation status of proceeds.

### GBP/GLP-4 Reporting

Ref.	Criteria	Requirements	Work Undertaken	DNV Findings				
4a	Periodical Reporting	<p>In addition to reporting on the use of proceeds and the temporary investment of unallocated proceeds, the fundraiser will consider each project at least once a year for projects to which the Green/transition Finance proceeds have been allocated, taking into account the following: A list of each project should be provided.</p> <ul style="list-style-type: none"> <li>-Confidentiality and competitive considerations</li> <li>-Outline of each project, expected sustainable environmental and social effects</li> </ul>	<p>Confirmed documents:</p> <ul style="list-style-type: none"> <li>- Framework</li> </ul> <p>Interviews with Toho Gas stakeholders</p>	<p>DNV confirmed that Toho Gas will carry out green/transition finance reporting (annual reporting) and disclose information on the allocation status of proceeds, projects for which proceeds have been allocated, and environmental benefits. With regard to the allocation status of proceeds, the following items are disclosed until the full amount of proceeds has been allocated to eligible projects. For environmental benefits, any or all of the items in the table below will be disclosed for the period from the implementation of the green/transition finance to the completion of the redemption or repayment, as long as is reasonably practicable.</p> <p>DNV also confirmed that, in the event of a material change in the project for which the proceeds are to be used, disclosure will be made promptly regarding such change and unallocated proceeds even after the completion of the allocation of proceeds.</p> <p>The report will be published on the Toho Gas website.</p> <p>&lt;Allocation status&gt;</p> <ul style="list-style-type: none"> <li>• Amount of allocated proceeds</li> <li>• Estimated amount of unallocated proceeds, estimated time of allocation</li> <li>• Estimated amount or percentage allocated to refinancing</li> </ul> <p>&lt;Environmental benefits&gt;</p> <table border="1"> <thead> <tr> <th>Business Category</th> <th>Impact Reporting Items</th> </tr> </thead> <tbody> <tr> <td>Gas</td> <td>• Overview of each project</td> </tr> </tbody> </table>	Business Category	Impact Reporting Items	Gas	• Overview of each project
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