

Mitsubishi HC Capital Inc. | Overview

Mitsubishi HC Capital Inc. (Fundraising and Financing as Enabler)

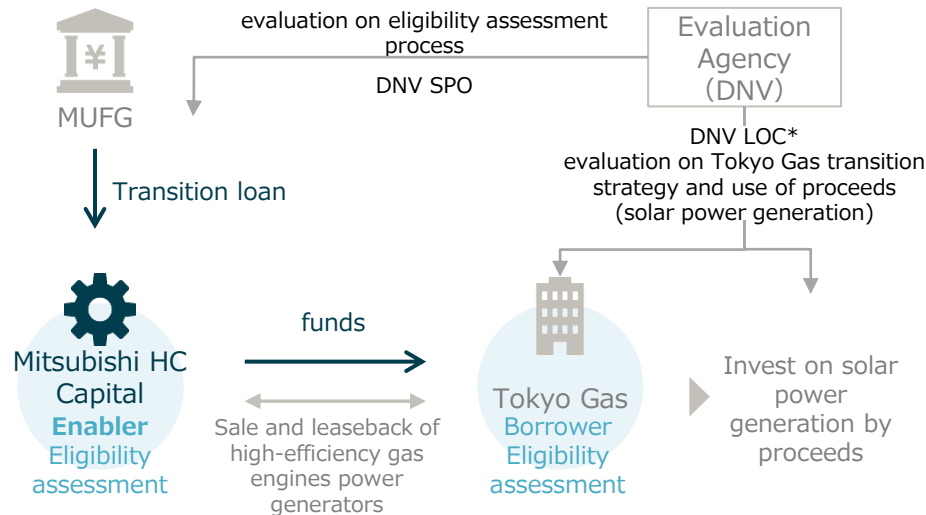
■ Corporate Profile

Industry	Other financing business
Location	Japan
Business	Leasing of various properties, installment sales of various properties, various financing services

■ Loan Outline

Finance Scheme	<ul style="list-style-type: none"> Transition loan MUFJ Bank, Ltd. → Mitsubishi HC Capital Inc. Leaseback Mitsubishi HC Capital Inc. ↔ Tokyo Gas Co., Ltd.
Evaluation Agency	DNV BUSINESS ASSURANCE JAPAN K.K.
Amount Borrowed	NA
Contract Date	March 2023

Finance scheme (lease structure)



Eligibility Assessment

- Mitsubishi HC Capital as an enabler has concluded Tokyo Gas's transition strategy to be eligible and this use of proceeds is essential to the implementation of their strategy.
- Evaluation results has received 2 step verification process of SPO and LOC by external evaluation agency (see left diagram) and its transition eligibilities are confirmed.

Evaluation	Details
Enabler (Mitsubishi HC Capital) -SPO-	<ul style="list-style-type: none"> Sets out evaluation process to assess final fundraiser's transition eligibility and obtains SPO on their evaluation process by external evaluation agency . In detail, they score each components of transition and sets a baseline to assess eligibility based on the scores (or requires fundraiser to obtain SPO), which will be operated by appropriate internal process.
Fundraiser (Tokyo Gas) -LOC-	<ul style="list-style-type: none"> Based on their evaluation process, Mitsubishi HC Capital confirms their use of proceeds specified lease finance to Tokyo Gas is appropriated to eligible project (solar power generation) aligned with Tokyo Gas's transition strategy. Confirms Tokyo Gas will manage and report their environmental impact. Above confirmation has received LOC from external evaluation agency.

- Assess Mitsubishi HC Capital as enabler based on ICMA's Climate Transition Finance Handbook and METI's Basic Guidelines.
 - It is particularly important for this projects to confirm the transition eligibility of the equipment lending destination in order to determine transition eligibility.
- This subsidy project was approved based on METI's policy. See p.5~10 for more details.

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Mitsubishi HC Capital Evaluation Results

Basic Guidelines Element 1 etc.

- Transition strategy: environmental policy has been set and disclosed and aims to contribute to societal decarbonization by expanding transition finance to not only the top tier companies but also to SMEs.
- Materiality: Identified "promote a decarbonized society" as a materiality and aim for both environmental contribution and sustainable corporate growth.

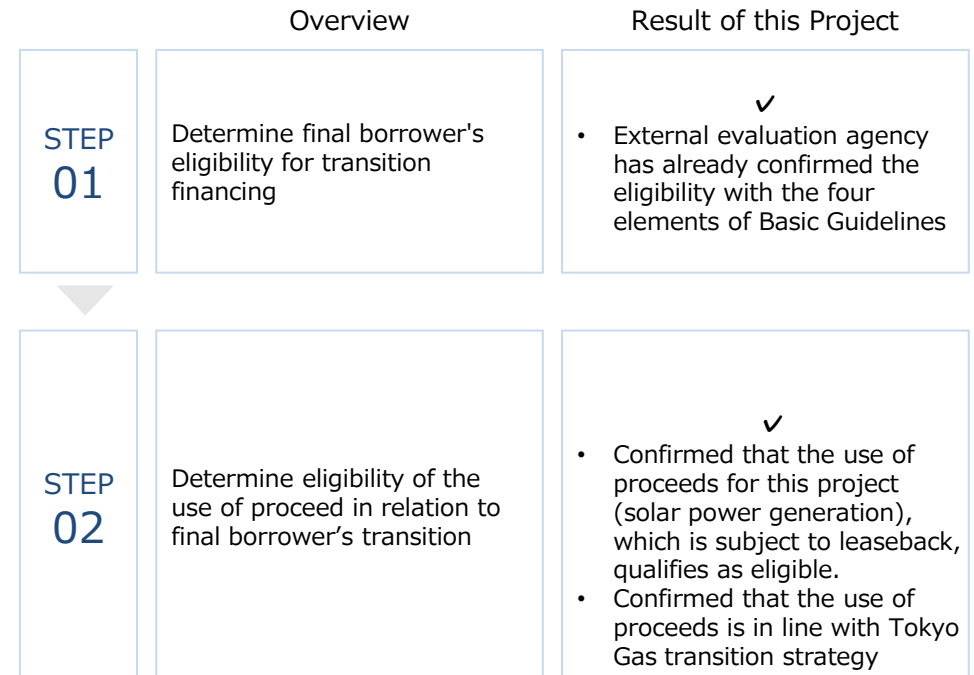
Validity of eligibility evaluation process

- Project with Tokyo Gas, entity already approved for FY2022 Subsidy Program, as final borrower and I is aligned with Tokyo Gas's transition strategy.
- Mitsubishi HC Capital confirms each projects' eligibility based on Basic Guidelines and scoring.
- Ensures credibility of transition eligibility of evaluation process by external evaluation agency.

Efforts on Mitsubishi HC Capital's Transition

- ✓ Disclosure of environmental performance, including Scope 3 Category 15
 - ✓ The environmental improvement effect of solar power generation covered by this project will be attributed to the final borrower (Tokyo Gas) and contribute to societal CO2 reductions.
- ✓ Establishment of Sustainability Committee
 - ✓ Established in April 2021 as one of the advisory committees.
 - ✓ Deliberates on climate change and other important issues.
- ✓ Identification of "promote a decarbonized society" as a materiality
 - ✓ Specific efforts include investment in a venture company developing hydrogen generators, and the signing of an MOU on collaboration to build a hydrogen value chain pilot activities.
 - ✓ The integrated report also mentions supporting investments that will help customers' transitions, specifying that "we will expand our function of acting as an intermediary (through equipment leasing) between customers who are making capital investments for decarbonization and financial institutions and investors who are interested in ESG financing."

Selection Process of Use of Fund by Mitsubishi HC Capital

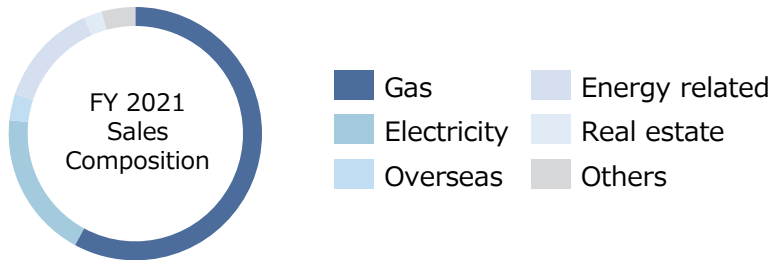


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Tokyo Gas (Final Borrower) Business Overview

Approximately 58% of its business is in the supply and sale of gas (gas business), and 75% of its emissions fall into the Scope 3.



2030

- Scope 1&2 (city gas production stage, buildings used by the company, and company vehicles): Net zero
- CO₂ reduction contribution (compared to 2013): Approximately 17 million tons*
*includes 750,000 tons of reduction in Scope 3 emissions

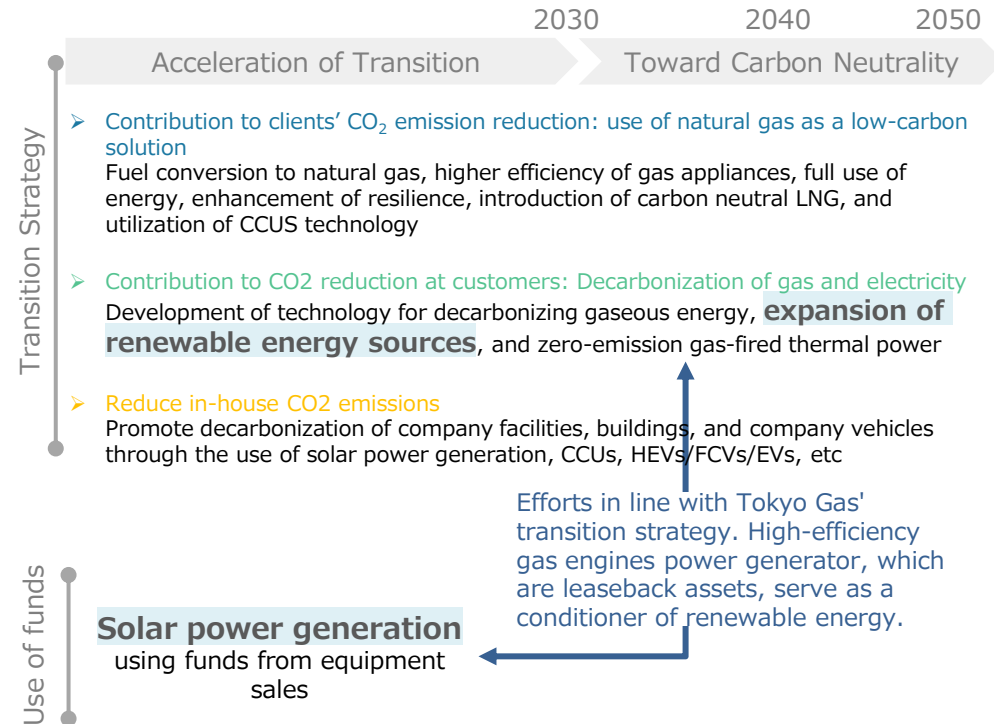
2050

- Net zero CO₂

Alignment with the Four Basic Guideline Elements of Tokyo Gas*

Element 1	<ul style="list-style-type: none"> • Strategy: Transition roadmap(Compass Action) to achieve net zero CO₂ emissions in 2050 is formulated. Plans to achieve decarbonization without locking in natural gas by progressively introducing hydrogen and carbon neutral methane after 2030, while promoting carbon reduction by utilizing natural gas. • Governance: Established a structure to promote the transition strategy at the management level.
Element 2	<ul style="list-style-type: none"> • Identified environmental materiality based on guidelines such as TCFD, GRI standards, and ISO26001, including responses to climate change. • As the most important management issue, the company aims to "lead in net zero CO₂ emissions as a leading natural gas company."
Element 3	<ul style="list-style-type: none"> • Scope 1, 2, and 3 mid-term targets are set to achieve net-zero CO₂ emissions in 2050. • The low-carbon and decarbonization efforts to achieve these targets are aligned with the transition roadmap for gas sector by METI.
Element 4	<ul style="list-style-type: none"> • Plans to invest approximately 2 trillion yen in growth areas including decarbonization by 2030; plans to invest 1 trillion yen in the medium-term management plan for FY2020-FY2022, including growth areas such as decarbonization. • Annual reporting of the environmental improvement effects of the project is planned (until bond redemption).

Relationship Between Tokyo Gas' Transition Strategy and This Project



*For details of Tokyo Gas' transition strategy and business outline, see "[Tokyo Gas Project Overview](#)."

Committee | Results

Mitsubishi HC Capital Transition Finance (Fundraising and Financing as Enabler)

RESULTS:

Approved for Climate Innovation Finance Promotion Grants Scheme

Main Opinions

Transition Strategy

- As a project for subsidy program, Mitsubishi HC Capital, the enabler is planning to develop a transition strategy in the future, and we have high expectations to the strategy to be developed.
- Working on gas engines that have mobility while utilizing them as conditioner for renewables is definitely an effort of transition. It is also an important effort for Tokyo Gas' transition strategy as leaseback assets and the use of proceeds for solar power generation is related to their transition strategy.

Other factors/ Others

- This is an important scheme to encourage the transition of SMEs and other companies with short on funds.

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

Transition Finance for Enabler in Subsidy Program

**Ministry of Economy, Trade and Industry
Environmental Economy Office
February 2023**

Transition Finance for Enablers

- Various cases of transition finance in major high emitting industries are seen in the market through publication of the Basic Guidelines, Sectoral Technology Roadmaps and implementation of Model Program (subsidy program). Next phase expects encourage transition finance for diverse sectors and entities.
- New cases are already seen in the market where **financial institutions fundraise/finance through transition finance as enablers.**
- This document provides classifications for enablers financial scheme and verification process for the subsidy program.

Basic Guidelines on Climate Transition Finance

(...)

An entity that seeks transition finance is: (1) an entity that formulates strategies and plans to meet the targets set for achieving decarbonization and procures funds to put initiatives into practice in line with those strategies and plans; **and (2) an entity that procures funds for activities (including investments and loans) that enable transition toward decarbonization by another party.**

ICMA Handbook Related questions

10. How would this guidance be applied by **financial institutions who may not necessarily have a transition plan of their own but may be involved in financing transitions made by clients they provide financial services to?**

- **Each of the recommendations in the Handbook can be applied by financiers extending debt to underlying projects.** In such cases, the financier should articulate the how the underlying projects themselves fit into the project owner's climate transition objectives and strategy.

■ Enabler

✓ Banks, insurer, corporate banking (including investment funds) and leasing

* Cases where Corporate banking (business company (holdings, financial subsidiary, etc) fundraise and transferring capitals within their group is out of the scope of enablers as decisions will be made based of group strategy.

Classifications and Eligible Cases for the Subsidy Program

- Basic Guidelines and the ICMA Handbook allows enablers to fundraise through transition finance without transition strategies, however, **METI expects enablers to construct their transition strategy and provide additional values as a financiers.**
- On the other hand, **enablers play an important role** in expanding the transition finance market to various entities. **Enablers may enhance their knowledge and set their transition strategy through implementing transition finance projects, the Subsidy Program allows Enablers to set transition finance in the future and judge the eligibility for each projects.**

Expected Cases

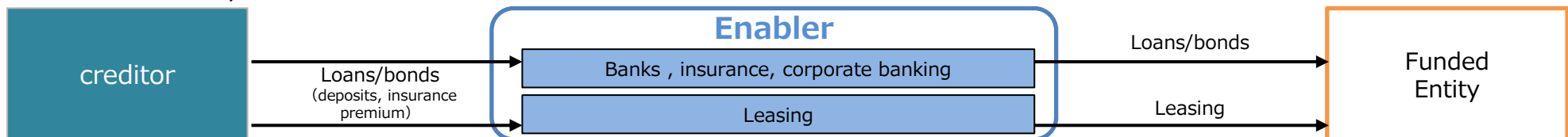
- Schemes may differ between leasing and other financial services; however, enablers transition finance can be classified as follows regardless of the business. Eligible cases for Subsidy Programs are as follows. Leasing requires to confirm that it is not a simple changes of emitters from facility users to enablers.
- Subsidy Programs will confirm the eligibility of transition for funded entities/projects and enablers' transition strategy.

		Enablers with transition strategy (aligned with 4 elements)		Enablers without transition strategy (not aligned with 4 elements)	
		evaluation process (with third party verification)	evaluation process (without third party verification)	evaluation process (with third party verification)	evaluation process (without third party verification)
Fundraise by enablers (specified UoP)	Funded entity (Specified UoP) CASE 1	Eligible ☉ Leasing of existing facility Leaseback with other criteria to be met	×	Individual decision ○ Leasing of existing facility Leaseback with other criteria to be met	×
	Funded entity (Unspecified UoP) CASE 2	Leasing ▲ Others ☉	×	Leasing ▲ Others ○	×
Fundraise by enablers (unspecified UoP*) CASE 3		▲ Difficulty in tracking fund flow	×	—	—

*Evaluation Process: process for enablers to evaluate the eligibility of funded entity/projects

*UoP: use of proceeds

[finance scheme by businesses]

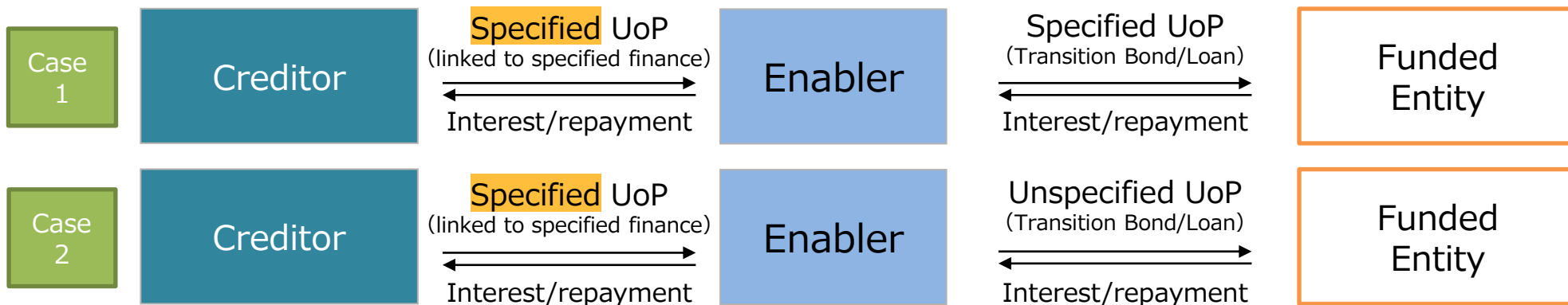


Banks, Insurer and Corporate Banking

Eligible or individual decision

Specified UoP for Enablers' Fundraise

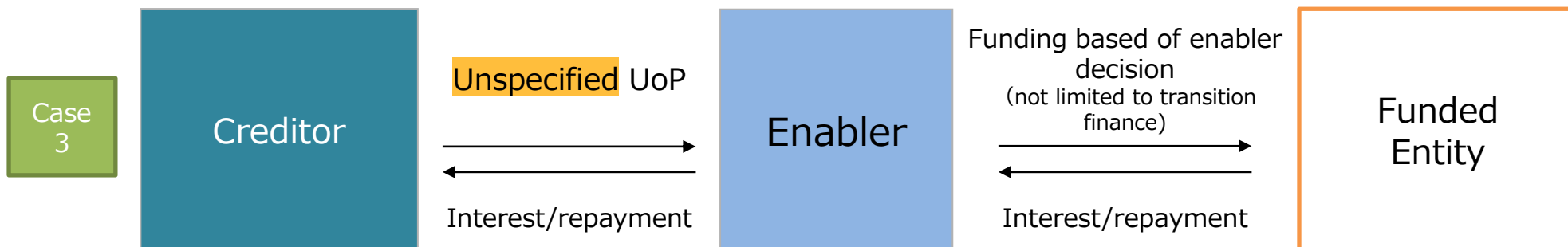
- ✓ Eligibility assessment for specified UoP includes not only confirming whether enabler constructed transition strategy, but also to crucial to confirm the transition finance eligibility of the funded entity and requires clear explanation to the creditor to ensure transition credibility



Not eligible

Unspecified UoP for Enablers' Fundraise

- ✓ In case of unspecified UoP, tracking enablers KPI (eg, financed emissions) is insufficient to ensure the fund will be used for eligible transition projects.



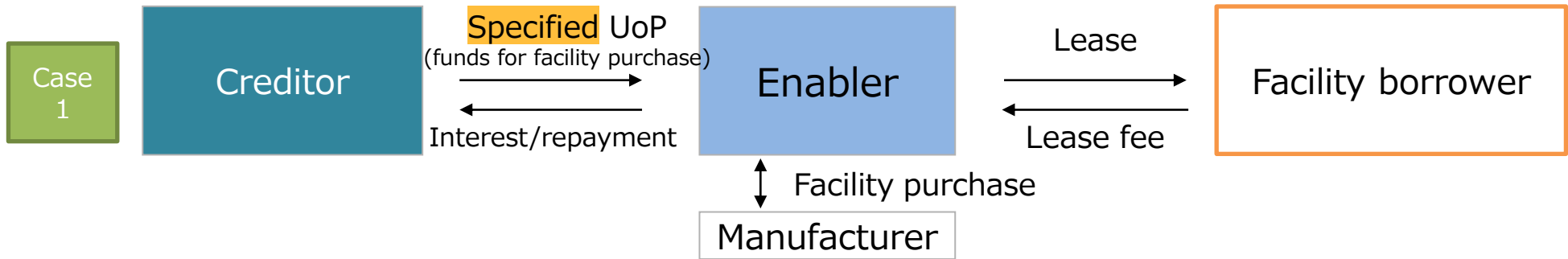
Cases for Leasing①

Eligible or individual decision

Specified UoP for Enablers' Fundraise

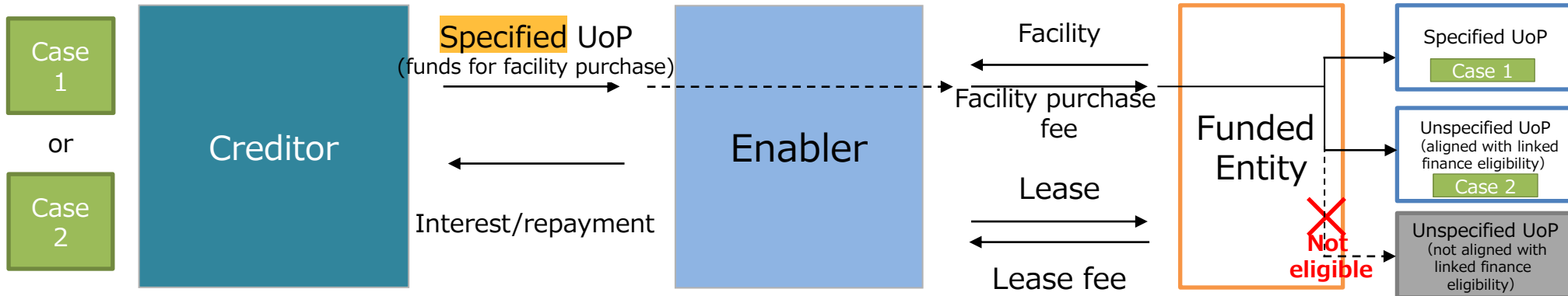
New facility construction (or leaseback for new facility construction)

- ✓ Eligibility assessment for specified UoP includes not only confirming whether enabler constructed transition strategy, but also to crucial to confirm the transition finance eligibility of the leased facility and requires clear explanation to the creditor to ensure transition credibility



Leaseback for existing facility

- ✓ With the existing facility being eligible transition assets, cases where purchase fee of facilities are proceeded for specified UoP will be classified as case 1, and where UoP is unspecified but is aligned with the same level of criteria for transition linked bonds/loans will be classified as case 2. Both cases require the eligibility of purchase fees to be evaluated objectively.



Cases for Leasing②

Not eligible

Unspecified UoP for Enablers' Fundraise

- ✓ In case of unspecified UoP, tracking of Enablers' KPI is insufficient to objectively judge the transition eligibility of the funds.

