



## SECOND PARTY OPINION

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# DAIKI AXIS CO., LTD. SUSTAINABILITY FINANCE PERIODIC REVIEW

**Prepared by:** DNV Business Assurance Japan K.K.

**Location:** Kobe, Japan

**Date:** 25 April 2022

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## CONTENTS

I Scope and Objectives	4
II Project Outline	5
III Responsibilities of the Management of the Daiki Axis and DNV	7
IV Basis of DNV's opinion	7
V Work Undertaken	9
VI Findings and DNV's opinion	10
Schedule-1 Daiki Axis Sustainability Finance Details of Nominated Projects and Outline of Assets	16
Schedule-2 Sustainability Finance Eligibility Assessment Protocol	18
SF-1 Use of Proceeds	18
SF-2 Process for Project Selection and Evaluation	20
SF-3 Management of Proceeds	21
SF-4 Reporting	23

History of Issue

Date of Issue	Remarks
21 August 21 2020	Sustainability Finance Second Party Opinion for Pre-Issuance
28 September 2021	<ul style="list-style-type: none"> <li>- Additional country for the plant construction in the water-related infrastructure projects (India)</li> <li>- Adding a project category for the use of proceeds (Solar Power generation project)</li> <li>- Conducting reassessments in accordance with revisions and additions to each standard (Green Bond Principles: version 2018 → 2021; Green Loan Principles: version 2018 → 2021; Social Bond Principles: version 2020 → 2021; Green Bond Guidelines 2020; Green Loan Guidelines version 2020 and Sustainability Bond Guidelines: version 2018 → 2021, Climate Bond Standard version 3.0: Solar Criteria)</li> <li>- Adding Schedule-3 Solar Criteria</li> <li>- Adding Schedule-4 Green Loan Guidelines Eligibility assessment</li> <li>- Other formal changes (e.g., change of company name from DNV GL to DNV, etc.)</li> </ul>
25 April 2022 (This report)	- Sustainability Finance Periodic Review (1 <sup>st</sup> )

**Disclaimer**

Our assessment relies on the premise that the data and information provided y for any decision a person or an entity may make based on this Statement.

**Statement of Competence and Independence**

DNV applies its own management standards and compliance policies for quality control, in accordance with ISO/IEC 17021:2011 - Conformity Assessment Requirements for bodies providing audit and certification of management systems, and accordingly maintains a comprehensive system of quality control, including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements. We have complied with the DNV Code of Conduct<sup>1</sup> during the assessment and maintain independence where required by relevant ethical requirements. This engagement work was carried out by an independent team of sustainability assurance professionals. DNV was not involved in the preparation of statements or data included in the Framework except for this Statement. DNV maintains complete impartiality toward stakeholders interviewed during the assessment process.

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

## I Scope and Objectives

Daiki Axis Co., Ltd. (hereinafter, "Daiki Axis") has commissioned DNV Business Assurance Japan K.K. (hereinafter, "DNV") to conduct the periodic review for "Daiki Axis Sustainability Finance". The objective of DNV's periodic review is to implement an assessment to confirm that "Daiki Axis Sustainability Finance" (hereinafter, "this Sustainability Finance") meets Green Bond Principles (hereinafter, "GBP"), Green Loan Principles (hereinafter, "GLP") and applicable Climate Bond Standards Version 3.0 (Sector Criteria: Solar version v2.1) as described below, and to provide an independent second party opinion on the eligibility of this finance.

Daiki Axis implemented the Sustainability Financing (Stock acquisition rights) on 7 September 2020 and the Sustainability Finance (Loan) on 1 October 2021. The fund raised through this Sustainability Finance is 1.926 billion JPY (Right of Warrant: 1.126 billion JPY, Loan: 0.8 billion JPY) as of February 2022. DNV's review team conducted the periodic review of this finance in February 2022 referring to or applying GBP, GLP and Green Loan Guidelines (GLGLs).

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 Daiki Axis. In this paper, no assurance is provided regarding the financial performance of Sustainability Finance, the value of any investment in the Sustainability Finance, or the long-term environmental benefits of the transaction.

### Standards/Guidelines to be applied

No.	Standards/Guidelines	Scheme Owner	Applied Level
1	Green Loan Principles (GLP)	Loan Market Association (LMA), etc. 2021	Apply
2	Green Loan Guidelines (GLGLs)	Ministry of Environment Japan, 2020	Apply
3	Green Bond Principles (GBP)	International Capital Market Association (ICMA), 2021	Reference
4	Green Bond Guidelines (GBGLs)	Ministry of Environment Japan, 2020	Reference
5	Social Bond Principles (SBP)	International Capital Market Association (ICMA), 2021	Reference
6	Sustainability Bond Guidelines (SBG)	International Capital Market Association (ICMA), 2021	Reference
7	Climate Bonds Standard version 3.0 (CBS) Sector criteria: Water infrastructure version 3.0 (CBS-WI) Solar version 2.1 (CBS-SE)	Climate Bond Initiative	Reference (Available sector)
8	Green and Social Bonds: A High-Level Mapping to the Sustainable Development Goals	International Capital Market Association (ICMA), 2020	Reference
9	Handbook Harmonized Framework for Impact Reporting	International Capital Market Association (ICMA), 2021	Reference

## II Project Outline

The management policy of the Daiki Axis Group is: committed to the mission to “protect the environment and change the future”, improve the lives of workers and contribute to the development of society by continuously developing as “eco-creation and development companies”<sup>\*1</sup>. In addition, for the specific mid-term management plan (Promotion of ESG management)<sup>\*2</sup>, Daiki Axis focuses on the followings, especially in the environmental sector through the main business described above: 1) Expansion of overseas water-related infrastructure business in China, Southeast Asia, India, Africa, 2) Renewable energy centered on the solar power generation business and the small-scale wind turbine generator-related business.

Daiki Axis also has been addressing six priority key issues (materiality) in accordance with SDGs set by the United Nations<sup>\*3</sup>.

The promotion of water-related and renewable energy-related businesses through this sustainability financing is an initiative that contributes directly and indirectly to the environmental and social issues. These business activities are closely related to the management policy of the Daiki Axis Group, the mid-term management plan (Promotion of ESG management) and SDGs goals of “6. Clean Water and Sanitation”, “7. Affordable and Clean Energy” and “13. Climate Action”<sup>\*4</sup>.

DNV confirmed that the fund of 1.126 billion JPY raised through the Daiki Axis Sustainability Finance (Share Subscription Rights) was allocated to which 0.224 billion JPY was for Johkasou (Decentralized Sewage Treatment Plant) construction and operation for water-related infrastructure business, and 0.042 billion JPY was for Water Kiosk projects. DNV also confirmed that 0.8 billion JPY borrowed through the Sustainability Finance (Loan) on 1 October 2021 was allocated to the funds for M&A of Sanei Ecohome Inc. which was engaged in the development, operation and equipment sales of solar power generation business. Moreover, DNV confirmed that 0.102 billion JPY from the funds raised through the Share Subscription Rights was allocated for refinancing to the above-mentioned loan. The allocation status of the funds is reported and published once a year on the Daiki Axis website. The outline of the allocated projects and the assets is shown in Table-1 and Schedule-1 below.

Table-1 Outline of allocated projects and assets (as of end of February 2022)

Sustainability Projects portfolio	Outline of allocated amount and assets of Sustainability Projects (as of February 2022)	
<b>Environmental Facilities Business</b>  <b>(Water-related Infrastructure Business)</b>	<b>Project-01:</b> Johkasou (Decentralized Sewage Treatment Plant) construction and operation  <b>Allocated amount:</b> <b>0.224 billion JPY</b>	<ul style="list-style-type: none"> <li>- Project Name: Construction of New Plant in India</li> <li>- Location: Haryana State, India</li> <li>- Products: Johkasou for domestic wastewater</li> <li>- Production capacity: approx. 350 units/year</li> <li>- Progress: Under construction (scheduled to start operation in September 2022)</li> </ul>
	<b>Project -02:</b> Wastewater treatment system installation and operation (BOO·BOT)  <b>Not allocated</b>	Outline: Providing wastewater treatment systems through BOO and BOT
	<b>Project -03:</b> Clean drinking water services (Water Kiosk)  <b>Allocated amount:</b> <b>0.042 billion JPY</b>	<ul style="list-style-type: none"> <li>- Location: Uttarakhand, India</li> <li>- Products: Clean drinking water services (Water Kiosk)</li> <li>- Production capacity: 133m<sup>3</sup>/year</li> <li>- Progress: 24 units installed</li> </ul>
<b>Renewable Energy-related Business (Solar Power Generation Business)</b>	<b>Project -04:</b> Solar power generation business of development, operation, equipment sales, etc.  <b>Allocated amount:</b> <b>0.8 billion JPY</b>	Allocated the proceeds to acquire shares of Sanei Ecohome Inc. which was engaged in design, installation, equipment sales, operation and maintenance of solar power generation system on 1 October 2021.  <b>Owned solar power generation facilities (power sold under FIT)</b> Number of facilities owned: 24 / Total output: 3,307kW (as of October 2021) 【Facilities in operation】 <ul style="list-style-type: none"> <li>- Number of facilities that started supplying electricity: 2</li> <li>- Output of facilities that started supplying electricity: 1,082kW</li> </ul> <b>Solar power generation facilities sold (sale in lots)</b>  Number of facilities owned: 35 / Total output: 1,564kW (as of October 2021) 【Facilities sold】 <ul style="list-style-type: none"> <li>- Total sales: 13 facilities</li> <li>- Total output: 727.92kW</li> </ul>

 \* 1 : Corporate slogan: <http://www.daiki-axis.com/company/index03.html>

 \* 2 : ESG Initiatives <http://www.daiki-axis.com/ir/001/index002.html>

\* 3 : Promoting ESG Management, Efforts to SDGs, Financial Results Briefing for the Second Quarter of the Fiscal Year Ending December, 2021 (2 September 2021)

\* 4 : The relevance to SDGs is complementary to the issuance of green bonds, with reference to Green, Social and Sustainability Bonds: A High-Level Mapping to the Sustainable Development Goals established by ICMA, which sets out the Green Bond Principles. It would not intend directly related to the funding purposes.

### III Responsibilities of the Management of the Daiki Axis and DNV

The management of the Daiki Axis has provided the information and data used by DNV during the delivery of this review. DNV's statement represents an independent opinion and is intended to inform the management of the Daiki Axis and other interested stakeholders in the Finance 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 Daiki Axis.

DNV is not responsible for any aspect of the candidate projects and 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 Management of the Daiki Axis 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 Daiki Axis as possible, we have adapted our Finance assessment methodologies, which incorporates the applicable requirements of the GBP, GLP, SBP and related criteria, to create a Daiki Axis-specific Finance Eligibility Assessment Protocol (henceforth referred to as "Protocol"). The Protocol has the capacity for potential application of the Finance under the GBP, GLP, SBP and related criteria.

Our Protocol includes a set of suitable criteria that can be used to underpin DNV's opinion. The overarching principle and guidelines behind the criteria are that the Finance should "enable capital-raising and investment for new and existing projects with environmental and social benefits."

As per our Protocol, the criteria against which the Finance has been reviewed are grouped under the four Principles:

- **Principle One: Use of Proceeds:** The Use of Proceeds criteria is guided by the requirement that Daiki Axis must use the funds raised to Finance eligible activities. The eligible activities should produce clear environmental and/or social benefits.
- **Principle Two: Process for Project Evaluation and Selection:** The Project Evaluation and Selection criteria are guided by the requirements that Daiki Axis should outline the process it follows when determining the eligibility of an investment using Finance proceeds and outline any impact objectives it will consider.
- **Principle Three: Management of Proceeds:** The Management of Finance Proceeds criteria are guided by the requirements that a Finance should be tracked within Daiki Axis, those separate portfolios should be created when necessary and that a



declaration of how unallocated funds (from the exercise of the right of warrant or loan to disbursement to the project) will be handled should be made.

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



## V Work Undertaken

Our work constituted a high level of review of the available information, based on the understanding that this information was provided to us by Daiki Axis in good faith. We have not performed an audit or other tests to check the veracity of the information provided to us. The work undertaken to form our opinion included:

### **Additional Assessment of Sustainability Finance (due to revision of assessment report): \*Not included in this report**

- Creation of the Daiki Axis-specific Protocol, adapted to the purpose of the Finance, as described above and in Schedule-2 to this Assessment.
- Assessment of documentary evidence provided by Daiki Axis on the Finance and supplemented assessment by a high-level desktop research. These checks refer to current assessment best practices and standards methodology.
- Discussions with Daiki Axis, and review of relevant documentation.
- Documentation of findings against each element of the criteria.

### **Periodic Assessment (Post-issuance of Sustainability Finance): \*Details of this report**

- Evaluation of the supporting documents provided by Daiki Axis related to the Finance, high level desktop surveys, document reviews, and interviews with key personnel of Daiki Axis. These checks refer to current assessment best practices and standard methodologies.
- Discussion with Daiki Axis management and review of relevant documentation.
- Field survey and inspection, if required.
- Review of the nominated projects and assets as described in Schedule-1 as at the time of periodic assessment.
- Documentation of findings for Periodic assessment as detailed in this document.

Our opinion as detailed below is a summary of these findings.

## VI Findings and DNV's opinion

DNV's findings are listed below:

### (1) Use of Proceeds

DNV confirmed that the fund of 1.126 billion JPY raised through the Share Subscription Rights was allocated to which 0.224 billion JPY was for Johkasou (Decentralized Sewage Treatment Plant) construction and operation for water-related infrastructure business, and 0.042 billion JPY was for clean drinking water services through the Water Kiosk projects. DNV also confirmed that 0.8 billion JPY raised through Loan was allocated to the funds for M&A of Sanei Ecohome Inc. which was engaged in the design, installation, equipment sales, operation and maintenance of solar power generation system. Moreover, DNV confirmed that 0.102 billion JPY from the funds raised through the Share Subscription Rights was allocated for refinancing to the above-mentioned loan.

#### Eligible Projects:

##### **Water-related Infrastructure Business: Allocated amount 0.266 billion JPY**

- Project 01 : Johkasou (Decentralized Sewage Treatment Plant) construction and operation (0.224 billion JPY allocated)
- Project 02 : Wastewater treatment (BOO<sup>\*1</sup> BOT<sup>\*2</sup>)
- Project 03 : Clean drinking water services (Water Kiosk)<sup>\*3</sup>  
(0.042 billion JPY allocated)

##### **Renewable energy-related business: 0.8 billion JPY allocated**

- Project 04 : Solar power generation (Loan proceeds have been fully allocated for M&A)

\* 1 BOO business: (Build Own Operate) Build Own Operate, Daiki Axis group provides construction, fund raising, operation and maintenance. Daiki Axis continuously hold its ownership or decommission/demolition of facilities after contraction.

\* 2 BOT business: (Build Operate Transfer) Daiki Axis group provides construction, fund raising, operation and maintenance. Owner takes over its ownership from Daiki Axis group after contraction.

\* 3 Project-03: The Central Government of India assists the named National Rural Drinking Water Programme (NRDWP) to achieve social issues related water infrastructure, whose objective is "enable all households to have access to and use safe & adequate drinking water within premises to the extent possible". Daiki Axis sustainability finance project contribute to solve the above social issues including following works/schemes, according



to JJM (Jal Jeevan Mission, Water life mission). Indian administrative committee (NITI Aayang) has reported 600million Indian citizens faced severe water service condition.

- Reliable drinking water source development/ augmentation of existing sources
- Technological intervention for treatment to make water potable (where water quality is an issue, but quantity is sufficient)
- Grey water management

\* 4 Funds for M&A: Funds were allocated to acquire shares of Sanei Ecohome Inc. which was engaged in design, installation, equipment sales, operation and maintenance of solar power generation system

Figure-1 Project 04 Solar Power Generation business (Example)



Shiroumaru Own Power Plant



Kamonai Power Plant (sale in lots)

## (2) Process for Project Evaluation and Selection

Through the review, DNV confirmed that the nominated four projects included in the water-related infrastructure business and the renewable Energy-related business described in Schedule-1 were in line with Daiki Axis's corporate philosophy (corporate slogan) and mid-term management plan (Promotion of ESG management), and were evaluated and selected through the appropriate determined process by the relevant sections of Daiki Axis. (Refer to "Section I: Scope and Objectives".) Daiki Axis applies eligibility criteria shown in Section I and considers the negative impacts to environment or society based on its 'Sustainability project selection prerequisites' described below, as well.

< Sustainability project selection prerequisites >

- Compliance with environmental law and regulations (e.g., Environmental Impact Assessment)
- Communication with local communities

## (3) Management of Proceeds

DNV has reviewed and confirmed the evidence showing how Daiki Axis has tracked/managed the proceeds from the Finance, from the exercise of the right of warrant or loan to February 2022. DNV has confirmed that Daiki Axis has been and would allocate the proceeds to the sustainability project appropriately and promptly. Daiki Axis finance department disburses and manages the proceeds in accordance with its internal accounting management procedure. Daiki Axis periodically reviews the outstanding balance of the Finance, means unallocated proceeds from the exercise of right of warrant or loan to the time of disbursement, as cash or cash equivalents, at the end of each financial year for disclosure. Daiki Axis allocated 1.066 billion JPY from 1.926

billion JPY of the proceeds to the Project 01, 03, 04, as of February 2022. In addition, 0.102 billion JPY has been allocated to the Project-04 as refinancing, and the unallocated proceeds are 0.757 billion JPY.

Note that, as stated above, DNV provides no assurance regarding the financial performance of the Finance, the value of any investments in the Finance, or the long-term environmental benefits of the transaction.

## **(4) Reporting**

DNV confirmed that Daiki Axis would report to stakeholders the specific information required by the GBP, GLP, SBP and related criteria annually on its website until the planned proceeds are mostly allocated. DNV also confirmed that these included description of the allocation and management of the proceeds, project lists and their progress, as well as the associated qualitative and quantitative environmental and social benefits for each sustainability projects (project-01~04). DNV confirmed that the environmental benefits were disclosed by referring "Handbook Harmonized Framework for Impact Reporting" showing the reporting methods, with the consideration of confidentiality. Details are as follows.

### **-1- Allocation and management of the proceeds**

Allocation and management of the proceeds will be reported till proceeds are mostly allocated. (Proceeds from Warrant and loan are distinguished when reporting).

(1) Capital investment to the sustainability projects that the proceeds were allocated: Refer to Schedule-1

(2) Amount of unallocated proceeds: 0.757 billion JPY

### **-2- Nominated Projects and their progress**

(1) Information, such as location, name, production item, production capacity, of the eligible projects that the proceeds were allocated, with considering the confidentiality

(2) Progress of the eligible projects that the proceeds were allocated (e.g., progress of construction, scheduled date of completion)

### **-3- Environmental and social benefits**

(1) Project-01: Johkasou (Decentralized Sewage Treatment Plant) construction and operation

Progress: New plant in Haryana State, India under construction (scheduled to start operation in September 2022, Annual production capacity: approx. 350 units)

(2) Project -02: Wastewater treatment (BOO•BOT)

No progress proceeded as of February 2022 due to before allocation of proceeds.

(3) Project -03 : Clean drinking water services (Water Kiosk)

Operational status: In operation

Location: Uttarakhand, India

Progress: 24 units installed

Production capacity: 133m<sup>3</sup>/year

(4) Project -04: Assets overview owned by Sanei Ecohome Inc., acquired through M&A, which is engaged in design, installation, equipment sales, operation and maintenance of solar power generation system

- Company-owned solar power generation facilities (power sold under FIT) (as of February 2022)
  - Number of facilities that starts supplying electricity: 2
  - Output of facilities that starts supplying electricity: 1,082kW
  - Annual power generation: 132,766 kWh
  - Environmental benefits: 61,338 kg-CO<sub>2</sub>/year
- Solar power generation facilities sold (sale in lots) (as of February 2022)
  - Total sales: 13 facilities
  - Total output: 727.92kW

※ Annual power generation (kWh) and environmental benefits (annual CO<sub>2</sub> reduction (t-CO<sub>2</sub> /year) will be reported one year after the proceeds are allocated.

※ The environmental benefits will be calculated in the following manner.

CO<sub>2</sub> reduction = Amount of power generation (kWh)×CO<sub>2</sub> emission factor (kg-CO<sub>2</sub>/kWh)

\* Amount of power generation: Actual results of solar and wind power generation projects

\*CO<sub>2</sub> emission factor: National average of CO<sub>2</sub> emission factor from "Emission factors by business sector based on the Law Concerning the Promotion of the Measures to Cope with Global Warming"

Note that, Daiki Axis engaged DNV, as an external reviewer, to confirm its eligibility as Finance with integrity and objectivity, and to obtained this review. In addition, Daiki Axis will obtain the next review by one year after project completion.

## Assessment Conclusion

On the basis of the information provided by Daiki Axis and the work undertaken, it is DNV's opinion that the Daiki Axis sustainability finance (warrant and loan) meets the criteria established in the Protocol and that it is aligned with the stated definition or purpose of sustainability finance (warrant and loan), which is to "enable capital-raising and investment for new and existing projects with environmental and social benefits".

DNV Business Assurance Japan K.K.

25 April 2022



**Naoki Maeda**

Managing Director

DNV Business Assurance Japan K.K.



**Masato Kanedome**

Project Leader

DNV Business Assurance Japan K.K.



**Tsuyoshi Katori**

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.

### Schedule-1 Daiki Axis Sustainability Finance Details of Nominated Projects and Outline of Assets

No	Sustainability Project Portfolio		Project Category	Sub-Category	Funded Amount	Allocated Amount	Remarks
01	Environmental Facilities Business (Water-related Infrastructure Business)	Johkasou (Decentralized Sewage Treatment Plant) construction and operation	<b>Green</b> - sustainable water and wastewater control - pollution prevention and control  <b>Social</b> - Affordable basic infrastructure	<b>Green, Social</b> - Wastewater treatment system for avoidance of regional pollution due to domestic and industry wastewater - Public water purification system	Total: 1.926 billion JPY (Breakdown) •Right of warrant : 1.126 billion JPY •Loan: 0.8 billion JPY	0.224 billion JPY (as of February 2022)	- Project Name: Construction of New Plant in India - Location: Haryana State, India - Products: Johkasou for domestic wastewater - Production capacity: approx. 350 units/year - Progress: Under construction (scheduled to start operation in September 2022)
02		wastewater treatment business (BOO·BOT)				Not allocated (as of February 2022)	<b>Outline:</b> Providing wastewater treatment systems through BOO and BOT <b>-Product specification (example):</b> Johkasou for domestic wastewater
03		Clean drinking water services (Water Kiosk) (India)	<b>Social</b> - Affordable basic infrastructure (Drinking Water) - Access to essential services (Health)	<b>Green, Social</b> Clean drinking water supply		0.042 billion JPY (as of February 2022)	- Location: Uttarakhand, India - Products: Clean drinking water services (Water Kiosk) - Production capacity: 133m <sup>3</sup> /year - Progress: 24 units installed



No.	Sustainability Project Portfolio		Project Category	Sub-Category	Funded Amount	Allocated Amount	Remarks
04	Renewable Energy-related Business (Solar Power Generation Business)	Solar power generation business of development, operation, equipment sales, etc.	<b>Green</b> Renewable Energy (Energy-derived CO <sub>2</sub> reduction)	Solar power generation business (Onshore)		0.8 billion JPY (as of February 2022)	<p>Allocated the proceeds to acquire shares of Sanei Ecohome Inc. which was engaged in design, installation, equipment sales, operation and maintenance of solar power generation system on 1 October 2021.</p> <p><b>Owned solar power generation facilities (power sold under FIT)</b> Number of facilities owned: 24 / Total output: 3,307kW (as of October 2021) 【Facilities in operation】</p> <ul style="list-style-type: none"> <li>- Number of facilities that started supplying electricity: 2</li> <li>- Output of facilities that started supplying electricity: 1,082kW</li> <li>- Annual power generation: 132,766 kWh</li> <li>- Environmental benefits: 61,338 kg-CO<sub>2</sub>/year</li> </ul> <p><b>Solar power generation facilities sold (sale in lots)</b> Number of facilities owned: 35 / Total output: 1,564kW (as of October 2021) 【Facilities sold】</p> <ul style="list-style-type: none"> <li>- Total sales: 13 facilities</li> <li>- Total output: 727.92kW</li> </ul>

## Schedule-2 Sustainability Finance Eligibility Assessment Protocol

Following check list SF\*-1~SF-4 are based on DNV's Finance eligibility assessment protocol referred to four core components of GBP, GLP and related criteria. \*SF: Sustainability Finance

### SF-1 Use of Proceeds

Ref.	Criteria	Requirements	Work Undertaken	DNV Findings
1a	Type of Finance	<p>The Finance must fall in one of the following categories, as defined such as the Green Bond Principles:</p> <ul style="list-style-type: none"> <li>- Sustainability Use of Proceeds Finance</li> <li>- Sustainability Use of Proceeds Revenue Finance</li> <li>- Sustainability Project Finance</li> <li>- Others</li> </ul>	<p>Confirmed documents:</p> <ul style="list-style-type: none"> <li>- Daiki Axis sustainability finance Framework (hereinafter, "Daiki Axis Framework")</li> </ul> <p>Discussions with stakeholders</p>	<p>Through the review, DNV confirmed that the Daiki Axis sustainability finance (Right of warrant and Loan) (hereinafter, "Sustainability Finance") fell into the following category:</p> <ul style="list-style-type: none"> <li>•Others</li> </ul> <p>The proceeds through the right of warrant and loan were allocated to the eligible projects which clearly contributed to the environment and society, in accordance with the Daiki Axis Sustainability Finance Framework (hereinafter, "Daiki Axis Framework"). In addition, the project evaluation and selection, the management of proceeds and the reporting were conducted.</p>
1b	Sustainability (Green and Social) Project Categories	<p>The cornerstone of a Finance is the utilization of the proceeds of the bond which should be appropriately described in the legal documentation for the Finance.</p>	<p>Confirmed documents:</p> <ul style="list-style-type: none"> <li>- Daiki Axis Framework</li> <li>- Documents disclosed in a timely manner</li> <li>- Daiki Axis Website</li> </ul> <p>Discussions with stakeholders</p>	<p>DNV confirmed that the identified projects in the Daiki Axis Framework were in line with the following representative eligibility categorized in the criteria such as GBP, GLP and SBP.</p> <p><b><u>Contribution to the environment (Green)</u></b></p> <ul style="list-style-type: none"> <li>- Sustainable water and wastewater management</li> <li>- Pollution prevention and control</li> <li>- Renewable energy</li> </ul> <p><b><u>Contribution to the society (Social)</u></b></p>

Ref.	Criteria	Requirements	Work Undertaken	DNV Findings
				<ul style="list-style-type: none"> <li>- Affordable basic infrastructure (Clean drinking water)</li> <li>- Access to essential services (Health, Health management)</li> </ul>
1c	Green and Social benefits	All designated Sustainability Project categories should provide clear greenly and socially sustainable benefits, which, where feasible, will be quantified or assessed by the issuer.	Confirmed documents: - Daiki Axis Framework Discussions with stakeholders	<p>DNV confirmed that the water-related infrastructure projects of the eligible projects contributed to the environment and the society shown in 1b by providing the system of domestic and industry wastewater treatment, public water purification and the clean drinking water services. These are evaluated quantitatively as the volume of wastewater treatment (km<sup>3</sup>/year) and drinking water supply (km<sup>3</sup>/year), and the number of equipment production, shipments and facilities will be disclosed in the periodic report. It was confirmed that the solar power generation projects of the eligible projects contributed to the environment shown in 1b, by starting the operation of the generation facilities after the completion of the interconnection works and the sale. These are evaluated quantitatively as the environmental benefits, and the number of the interconnected power generation facilities owned by the company, the output of the power generation facilities(kW), the amount of electricity generated per year (kWh) and CO<sub>2</sub> emission reductions (t-CO<sub>2</sub>/year), as well as the output (kW) of the facilities developed and sold will be disclosed in the periodic reports.</p> <p>DNV assessment concluded that the risks against the environmental and social impacts related to these projects were relatively low by considering the followings.</p> <ul style="list-style-type: none"> <li>- Compliance with environmental law and regulations (e.g., Environmental Impact Assessment)</li> <li>- Communication with local communities</li> </ul> <p>In addition, DNV confirmed that Project-03 was for the efforts to solve the drinking water issues in accordance with "Jal Jeevan Mission(JJM)" set by the Central Government of India.</p>

Ref.	Criteria	Requirements	Work Undertaken	DNV Findings
1d	Refinancing share	In the event that a proportion of the proceeds may be used for refinancing, it is recommended that issuers provide an estimate of the share of financing vs. re-financing, and where appropriate, also clarify which investments or project portfolios may be refinanced.	Confirmed documents: - Daiki Axis Framework Discussions with stakeholders	Of 1.126 billion JPY raised through the right of warrant, 0.224 billion JPY was allocated to the construction and operation of Johkasou plants, and 0.042 billion JPY was allocated to supply the clean drinking water by Water Kiosk. DNV confirmed that 0.8 billion JPY raised through the loan was allocated for M&A of Sanei Ecohome Inc. which was engaged in design, installation, equipment sales, maintenance and operation of the solar power generation system. In addition, it was confirmed that 0.102 billion JPY raised through the right of warrant was allocated for the above-mentioned loan as refinancing.

## SF-2 Process for Project Selection and Evaluation

Ref.	Criteria	Requirements	Work Undertaken	DNV Findings
2a	Investment-decision process	The issuer of a Finance should outline the decision-making process it follows to determine the eligibility of projects using Finance proceeds. This includes, without limitation: - A process to determine how the projects fit within the eligible Sustainability (green and social) Project's categories. - The criteria making the projects eligible for using the Finance proceeds; and - The environmental and social sustainability objectives	Confirmed documents: - Daiki Axis Framework Discussions with stakeholders	DNV confirmed that Daiki Axis set out the following criteria for project selection as per the Daiki Axis Framework:  Eligible Sustainability Project means: - The nominated 3 sustainability projects, described in the Schedule-1, were evaluated and selected through the appropriate determined process by the relevant sections of Daiki Axis based on its corporate philosophy (corporate slogan) and mid-term management plan (Promotion of ESG management). - Daiki Axis applies eligibility criteria listed Section I (3) and considers the negative impacts to the environment or the society based on its 'Sustainability project selection prerequisites' described below, as well.

Ref.	Criteria	Requirements	Work Undertaken	DNV Findings
				<p>&lt;Sustainability project selection prerequisites&gt;</p> <ul style="list-style-type: none"> <li>- Compliance to environmental law and regulations (e.g., Environmental Impact Assessment)</li> <li>- Communication with local communities</li> </ul>
2b	Issuer's environmental, social and governance framework	In addition to information disclosed by an issuer on its Finance process, criteria and assurances, Finance investors may also take into consideration the quality of the issuer's overall framework and performance regarding green and social sustainability.	<p>Confirmed documents:</p> <ul style="list-style-type: none"> <li>- Daiki Axis Framework</li> <li>- Daiki Axis corporate philosophy, mid-term management plan, etc.</li> </ul> <p>Discussions with stakeholders</p>	<p>According to the assessment through the documents and interviews, DNV confirmed that the water-related infrastructure projects in the environmental equipment-related project would contribute to the sustainable society through the corporate philosophy (corporate slogan) and the mid-term management plan (Promotion of ESG management) of Daiki Axis. DNV also confirmed that Daiki Axis showed the growth strategy including its Sustainability Projects in the Financial Results Briefing documents, etc. disclosed by Daiki Axis, and those projects were the activities with the sustainability.</p> <p>Daiki Axis will provide the annual reporting based on the Daiki Axis Framework for the environmental and social benefits through the Sustainability Projects.</p> <p>In addition, DNV confirmed that the Sustainability Projects implemented by Daiki Axis was valid to realize the sustainable society, through the discussion with Daiki Axis and the document review.</p>

### SF-3 Management of Proceeds

Ref.	Criteria	Requirements	Work Undertaken	DNV Findings
3a	Tracking procedure-1	The net proceeds of Finance should be credited to a sub-account, moved to a	<p>Confirmed documents:</p> <ul style="list-style-type: none"> <li>- Daiki Axis Framework</li> </ul>	Through the documents review and interviews, DNV confirmed that the proceeds through the Sustainability Finance were

Ref.	Criteria	Requirements	Work Undertaken	DNV Findings
		sub- portfolio or otherwise tracked by the issuer in an appropriate manner and attested to by a formal internal process that will be linked to the issuer’s lending and investment operations for Sustainability Projects.	- Daiki Axis internal management regulation documents, etc. Discussions with stakeholders	deposited into the Daiki Axis’s general account, and thereafter allocated to the eligible projects using the internal process based on its internal accounting procedure and documents management procedure. The actual expenditure has been confirmed in accordance with the deposits and withdrawals slip.
3b	Tracking procedure-2	So long as the Finance outstanding, the balance of the tracked proceeds should be periodically reduced by amounts matching eligible sustainability investments made until green and social benefit appearance or completion of proceeds allocation.	Confirmed documents: - Daiki Axis Framework - Daiki Axis internal management regulation documents, etc. Discussions with stakeholders	DNV confirmed how Daiki Axis tracked and managed the proceeds during from the post-issuance of the Sustainability Finance (after Right of Warrant or Loan) to allocation to the projects. DNV also confirmed that 0.266 billion JPY from the proceeds of 1.126 billion JPY raised through the right of warrant, and 0.8 billion JPY borrowed through the loan were newly allocated to the Sustainability Projects. In addition, 0.102 billion JPY from the proceeds raised through the right of warrant was allocated to the above-mentioned loan as refinancing. It was confirmed that Daiki Axis periodically reviewed the outstanding balance of the unallocated proceeds of the Sustainability Finance at least every fiscal year.
3c	Temporary holdings	Pending such investments or disbursements to eligible Sustainability Projects, the issuer should make known to investors the intended types of temporary investment instruments for the balance of unallocated proceeds.	Confirmed documents: - Daiki Axis Framework - Daiki Axis internal management regulation documents Discussions with stakeholders	DNV confirmed that the proceeds would be allocated to the projects as new investment in a timely manner or disbursed as refinancing, responding to the projects progress, and the unallocated proceeds from the funds raised through the right of warrant were managed as cash or cash equivalents.

### SF-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, issuers should provide at least annually a list of projects to which Finance proceeds have been allocated including</p> <ul style="list-style-type: none"> <li>- when possible with regards to confidentiality and/or competitive considerations</li> <li>- a brief description of the projects and the amounts disbursed, as well as the expected greenly and socially sustainable impact.</li> </ul>	<p>Confirmed documents:            - Daiki Axis Framework            Discussions with stakeholders</p>	<p>Daiki Axis discloses the information of the specific items required for the Sustainability Finance on its website annually.</p> <p>Daiki Axis Sustainability Finance  <a href="https://www.daiki-axis.com/company/sustainable/sf/">https://www.daiki-axis.com/company/sustainable/sf/</a>            Daiki Axis Sustainability Finance Reporting in FY2021  <a href="https://www.daiki-axis.com/official/wp-content/uploads/2021/11/2021Sustainable-Finance-report.pdf">https://www.daiki-axis.com/official/wp-content/uploads/2021/11/2021Sustainable-Finance-report.pdf</a>            (November 2021)</p> <p>The information disclosed includes the allocation status of proceeds, the projects progress and the qualitative/quantitative reports related to the environmental and social contribution. To be specific, the number of facilities that started supplying electricity of the company-owned solar power generation facilities, the output of facilities that started supplying electricity and the output of the solar power generation facilities sold are reported on the website.</p>