

A close-up photograph of two hands gently touching a tree trunk covered in vibrant green moss. The hands are positioned on either side of the trunk, with fingers slightly spread. The background is a soft, out-of-focus green, suggesting a forest setting. The lighting is natural and soft, highlighting the texture of the moss and the skin of the hands.

Kao

Sustainability-Linked Bond Framework

May 2023

1. Introduction

Contributing to the enrichment of people's lives by promoting *Yoki-Monozukuri* from a consumer and customer perspective

Ever since its foundation, Kao Corporation has been operating under the mission of realizing a Kirei World (i.e., clean, beautiful, and orderly world) in which all life lives in harmony through consumer-driven *Yoki-Monozukuri* (excellent manufacturing). *Kao Sekken*, a high-quality beauty bar soap introduced in 1890, marked the burgeoning of Japan's toiletries market and became the origin of our company name.

We have subsequently expanded our business areas to include products designed to make people's everyday lives comfortable (detergents, sanitary products, etc.), beauty care products (cosmetics, etc.), and functional foods designed to support people's health. Meanwhile, in the area of industrial products, we have been serving industries around the world with quality chemical products, which are not only excellent in functionality and performance but also friendly to the environment.

1.1 Kao's corporate philosophy (The Kao Way)

The Kao Way is our corporate philosophy that underpins the business activities of the Kao Group. Basing everything—from long-term business plans to day-to-day business decisions—on the Kao Way enables us to ensure consistency in activities across the Group. The Kao Way also serves as an essential guiding principle for our employees, enabling them to align their personal development with the development of the company and thereby to find fulfillment in their work and lives.



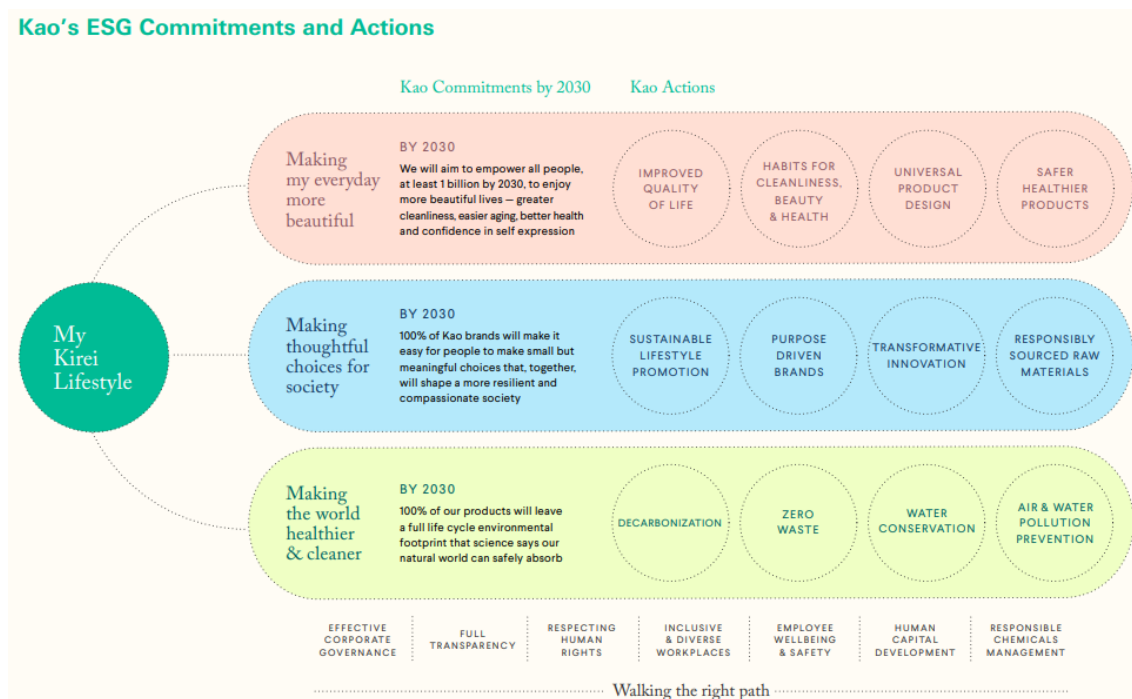
Mission: Realizing a Kirei World in which all life lives in harmony

As one Kao, we work together with passion to provide comprehensive care and enrichment to create a Kirei Life—a cleaner, more beautiful, and healthier life—for all people and the planet. Through innovation that provides excellent value, we share joy and create a safer, more harmonious world for all.

1.2 Kirei Lifestyle Plan—Kao's ESG strategy

For some 130 years, Kao has strived to realize emotionally enriched lives for all by catering to people's needs in life. In April 2019, we developed an ESG strategy called the “Kirei Lifestyle Plan” designed to realize a “kirei lifestyle” or a sustainable lifestyle where consumers' needs are on the rise. The plan specifies 19 priority actions that need to be focused on (hereinafter “19 Kao Actions”). Meanwhile, in 2021, we launched the Mid-term Plan 2025 (K25), which sets forth a vision calling for protecting future lives, defining sustainability as the only path to achieve that end. Going forward, we will continue to strive to achieve our purpose—i.e., the realization of a Kirei World in which all life lives in harmony—by incorporating ESG perspectives into management decisions, working to further develop our business, and seeking to offer better products and services to consumers and society.

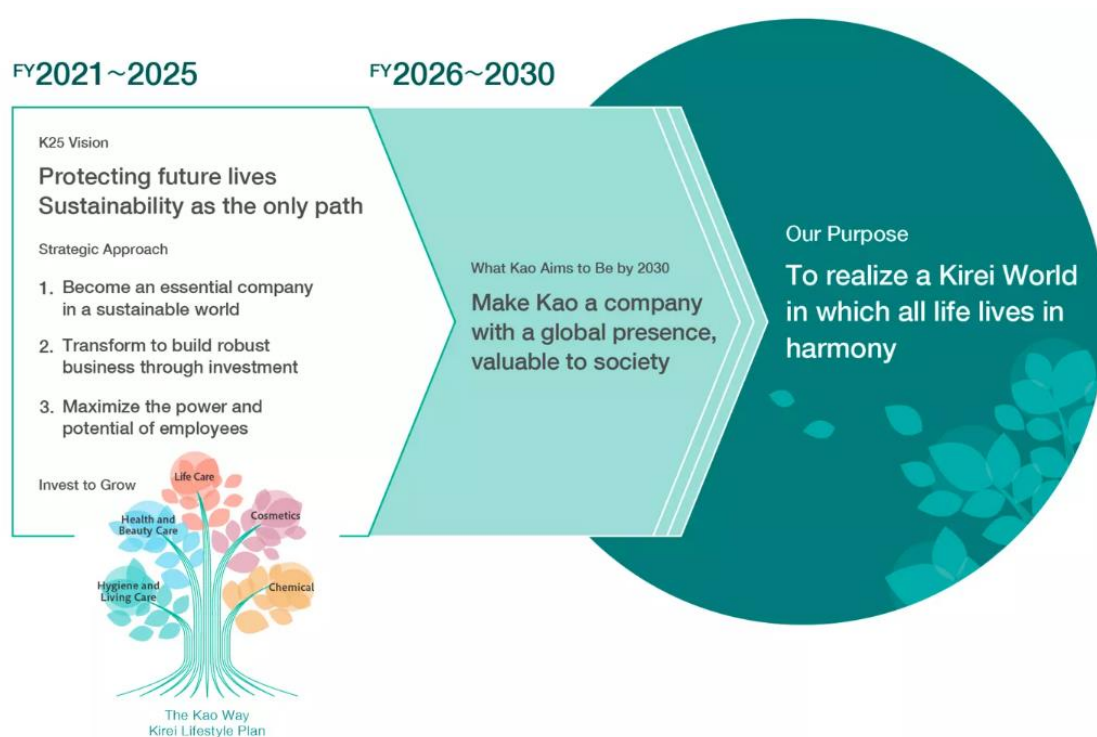
Kao's ESG Strategy “Kirei Lifestyle Plan”



1.3 Mid-term Plan 2025 (K25)

The Kao Group formulated the Kao Group Mid-term Plan 2025 (K25) covering the five-year period from FY2021 through FY2025 with the aim of realizing a prosperous and sustainable society. K25 is an important milestone for delivering on our purpose of realizing a Kirei World in which all life lives in harmony. Through K25, we will transform our business model and evolve into a company that protects future lives. Furthermore, we will accelerate efforts toward value creation and profitable development, working with many partners in tackling various social issues.

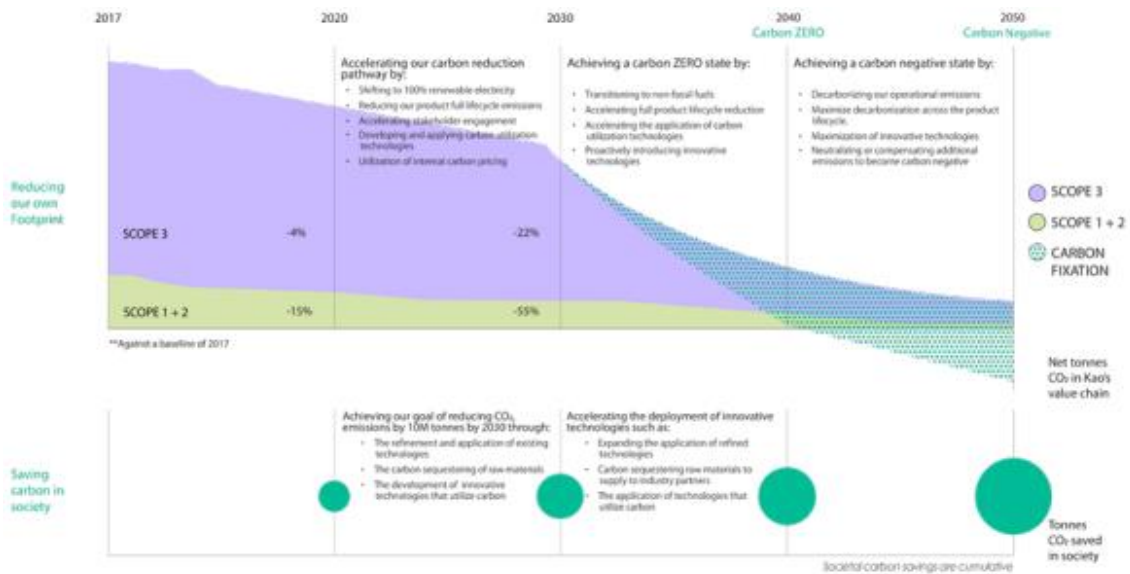
Kao Group Mid-term Plan “K25”



1.4 Initiatives for decarbonization

In order to achieve carbon zero by 2040 and carbon negative by 2050, not only are we working to reduce CO₂ emissions from our business activities, but we are also aiming to contribute to the realization of a decarbonized society by helping reduce emissions in society and through atmospheric carbon fixation. In May 2021, we announced new decarbonization targets for achieving the goal of reaching carbon zero by 2040 and carbon negative by 2025. The medium- to long-term targets on the trajectory toward that end have been validated by the Science Based Targets initiative (SBTi) as being consistent with the 1.5°C scenario. Also, we are a member of RE100, a global initiative of companies committed to sourcing 100% renewable electricity for their operations.

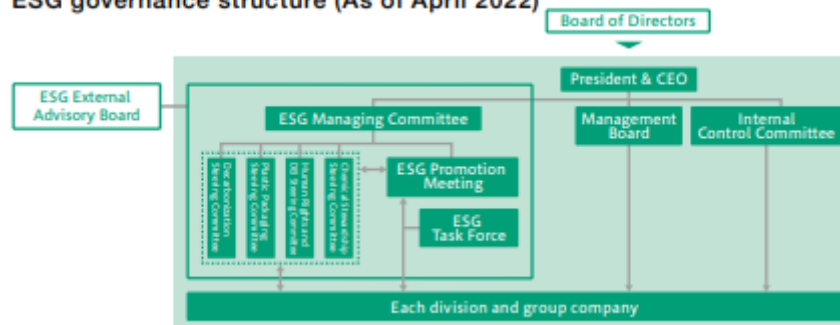
Kao's decarbonization targets



1.5 ESG governance structure

We have a flexible and robust governance structure in place in a bid to strengthen resilience to drastic global changes as well as to enable us to expand business opportunities and address various social challenges. Our ESG governance structure, which operates under the supervision of the Board of Directors, is headed by President & CEO and composed of committees and other organizational units. The ESG Managing Committee discusses and decides on the direction of future activities under the ESG strategy, and reports to the Board of Directors on the status of activities. The ESG External Advisory Board, comprising external experts, provides insights from external perspectives. The ESG Promotion Meeting serves as a mechanism for implementing the ESG strategy, whereas the ESG Task Force is responsible for proposing specific activities to be implemented in focused areas. They together promote activities undertaken by divisions and group companies.

ESG governance structure (As of April 2022)



1.6 Background to the establishment of a sustainability-linked bond framework

In line with our ESG strategy “Kirei Life Plan,” we are aiming to help achieve the sustainability of society and enhance corporate value through ESG-driven *Yoki-Monozukuri*.

In a bid to advance our efforts to contribute to decarbonization, one of the 19 Kao Actions, we have established a sustainability-linked bond framework (hereinafter the “Framework”) and will seek to achieve our goal of reaching carbon zero by 2040 and carbon negative by 2050 through the issuance of bonds under the Framework.

2. Sustainability-linked bond framework

The Framework defines our commitments regarding the five core components set out under the International Capital Market Association (ICMA)’s Sustainability-Linked Bond Principles 2020 and the Japanese Ministry of the Environment’s Sustainability-Linked Bond Guidelines 2022, and we have obtained a second opinion from Rating and Investment Information, Inc. (R&I) confirming their alignment with the five core components.

- 2.1 Selection of key performance indicators (KPIs)
- 2.2 Calibration of sustainability performance targets (SPTs)
- 2.3 Bond characteristics
- 2.4 Reporting
- 2.5 Verification

2.1 Selection of KPIs

We use the following key performance indicator (KPI) for sustainability-linked bonds issued under the Framework. The KPI contributes to decarbonization, one of the Kao Actions under our ESG strategy the “Kirei Lifestyle Plan.” Our target for the KPI (55% reduction in CO₂ emissions by FY2030) has been validated by the SBTi as meeting the criteria for the 1.5°C pathway.

Item	Description
KPI	Percentage of reduction in absolute Scope 1 & 2 CO ₂ emissions from all Kao Group sites relative to baseline year (FY2017)

<Performance in recent years>

	FY2019	FY2020	FY2021	FY2022
Percentage of reduction in absolute Scope 1 & 2 CO ₂ emissions relative to baseline year (FY2017)	9%	15%	20%	26%

* Boundary: All Kao Group sites including company cars in Japan

* Gases included: The seven greenhouse gases (GHGs) specified in the Kyoto Protocol (only CO₂ for sites outside Japan)

2.2 Calibration of sustainability performance targets (SPTs)

The sustainability performance target (SPTs) shown below is applied to sustainability-linked bonds issued under the Framework.

Item	Description
SPT	39% reduction in absolute Scope 1 & 2 CO ₂ emissions by FY2026 relative to baseline year (FY2017)
Target observation date	May 31, 2027

* The SPT is an interim target aligned to the KPI target to be achieved by FY2030.

2.3 Bond characteristics

The characteristics of bonds issued under the Framework vary depending on the status of SPT achievement. Specifically, the coupon rate steps up as follows:

- Step-up in the coupon rate

If the SPT has not been achieved by the target observation date, the coupon rate will be increased by 0.10 percentage points for the period from the first coupon date subsequent thereto to the date of redemption.

If the status of SPT achievement cannot be verified on the target observation date for whatever reason, it will be deemed that the SPT has not been achieved. In the case of any changes to the SPT following the issuance of certain sustainability-linked bonds, the SPT for those issued prior to such changes will remain intact and unaffected. However, in the event that it becomes necessary to make adjustments to the KPI and/or the calibration of the SPT due to the occurrence of an unexpected event (M&A activity, changes in national laws and regulations, etc.) that could have a material impact on

the premises upon which the KPI is based—such as KPI calculation methodology and SPT calibration—or on the boundary of the KPI, we will disclose such changes on our website in a timely manner, along with reasons for the changes and the methodology for recalculation.

2.4 Reporting

Throughout the period until the redemption of sustainability-linked bonds issued under the Framework, we will disclose the following information on our website with regard to the status of SPT achievement corresponding to the stated KPI target.

Item	Description
KPI performance	KPI performance as of the end of each fiscal year
Status of SPT achievement	Status of SPT achievement as of the target observation date
Material updates to information, etc.	Information on matters that could affect the achievability of the SPT (e.g., development/renewal of sustainability strategy)

2.5 Verification

We will obtain independent third-party assurance of performance for the stated KPI annually until the target observation date. The assurance obtained from the external assurer will be made available on our website.

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