



Second Opinion

Kao Corporation

May 17, 2023

Sustainability-Linked Bond Framework

ESG Division
Senior Analyst: Mami Arai

Rating and Investment Information, Inc. (R&I) has confirmed the alignment of the Sustainability-Linked Bond Framework (the Framework) of Kao Corporation dated May 2023 with the International Capital Market Association (ICMA)'s Sustainability-Linked Bond Principles 2020 and the Ministry of the Environment (MOE)'s Sustainability Linked Bond Guidelines 2022. This opinion is based on the following views.

■ Outline of the Opinion

(1) Selection of Key Performance Indicators (KPIs)

The KPI is the rate of reduction in absolute Scope 1+2 CO₂ emissions at all Kao Group sites compared to 2017. Kao identifies decarbonization as one of the Kao Actions (i.e., priority action themes) in its ESG Strategy, and in 2021, it set new goals of achieving carbon zero by 2040 and carbon negative by 2050. The KPI is an important indicator of progress toward these goals.

(2) Calibration of Sustainability Performance Targets (SPTs)

The SPT is a 39% absolute Scope 1+2 CO₂ emissions reduction compared to 2017 by 2026. Kao's target of a 55% Scope 1+2 CO₂ emissions reduction compared to 2017 by 2030 was approved by the Science Based Targets (SBT) Initiative as aligned with the 1.5°C pathway. The SPT is based on this mid-term target, constituting an ambitious emissions reduction target that is in line with the Paris Agreement. So far, Kao has primarily reduced Scope 2 emissions by using renewable energy and carrying out thorough energy-saving activities. In addition to this, future efforts will address a Scope 1 reduction that involves new technology development and an emissions reduction in its worksites in Asia, which face a challenge in the stable procurement of renewable energy. Achieving the SPT requires a 3.25% emissions reduction per year while demanding more innovative initiatives than ever. Accordingly, the SPT is an ambitious and meaningful target.

(3) Bond Characteristics

If the SPT is unmet, the interest rate will step up by 0.10% from the day following the interest payment date that occurs immediately after the date of determination through the redemption date. Interest rate terms are linked to performance against the SPT, functioning as an incentive for achieving the SPT and reinforcing Kao's commitment to decarbonization, one of the Kao Actions.

(4) Reporting

Kao will disclose KPI performance and SPT achievement on its website annually, together with the information that may affect SPT achievement (e.g., formulation and update of sustainability strategies).

(5) Verification

Kao will have its KPI performance assured by an independent third party annually and disclose an assurance report on its website.

Rating and Investment Information, Inc.

Copyright (C) 2023 Rating and Investment Information, Inc. All rights reserved.

(Contact) Customer Service Department, Sales and Marketing Division: Terrace Square, 3-22, Kandanishiki-cho, Chiyoda-ku, Tokyo 101-0054, Japan TEL 03-6273-7471
Second Opinions are R&I's opinions on the alignment of a framework, formulated by companies etc. to raise funds for the purpose of environmental conservation and social contribution, with the principles etc. compiled by public organizations or private organizations related to the relevant financing as of the date of assessment and are not statements of fact. Further, R&I does not state its opinions about any matters other than the alignment, certify outcomes, give advice regarding investment decisions or financial matters, or endorse the merits of any investment subject to the financing. R&I does not undertake any independent verification of the accuracy or other aspects of the related information when issuing a Second Opinion and makes no related representations or warranties. R&I is not liable in any way for any damage arising in relation to Second Opinions. As a general rule, R&I issues a Second Opinion for a fee paid by the issuer. For details, please refer to the end of this document.

Overview of the Issuer

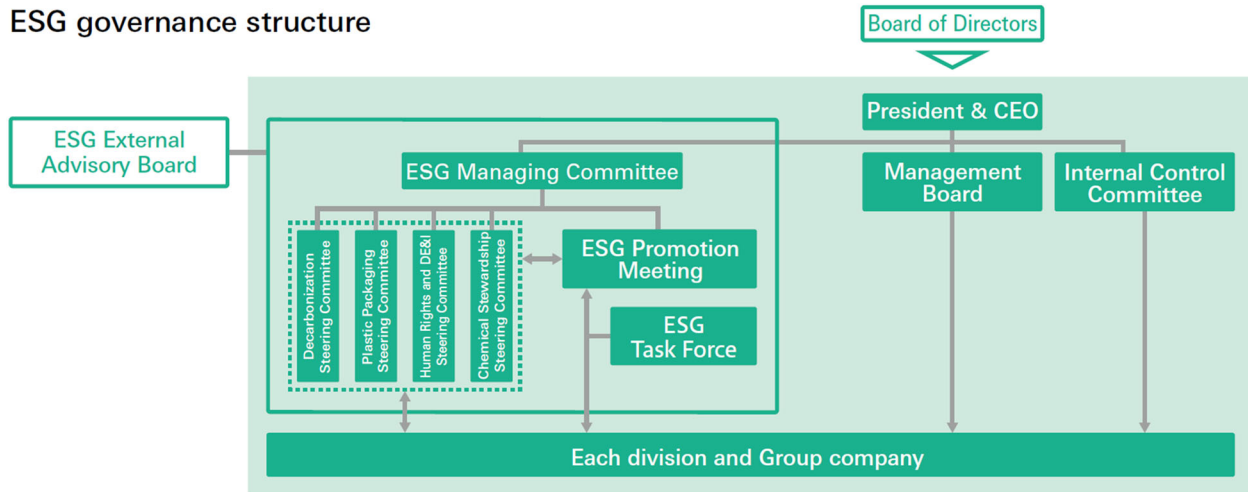
- Kao is Japan's largest manufacturer of household and personal care products that was founded in 1887. It has the Consumer Products Business consisting of Hygiene and Living Care (e.g., laundry detergents, kitchen and house cleaning products, sanitary products), Health and Beauty Care (e.g., hygiene products, toothpastes, toothbrushes), Life Care (commercial-use hygiene products and health drinks) and Cosmetics, and the Chemical Business, which develops industrial products. The company operates globally, mainly in Asia, on the back of its strong product development capabilities based on extensive basic research.
- The Kao Way, its Corporate Philosophy created in 2004, enshrines the core values that have been handed down from its founder: Integrity as the only choice, *Yoki-Monozukuri* in plan and action, and Innovation for today and tomorrow. The spirit is shared by all employees as the cornerstone and the starting point of everything they do. In response to changes in the business environment, the Kao Way was updated in 2021 with a new Mission of "As one, we create a Kirei life for all—providing care and enrichment for the life of all people and the planet." The company enhanced its ESG perspective and passion to change with the aim of continuing to contribute to society even in the dramatically changing environment.



[Source: Kao Sustainability Report 2022]

- To implement the Kao Actions throughout the company, Kao is building an ESG governance structure that realizes more flexible and robust ESG activities. Under the Board of Directors, there are organizations such as the ESG Managing Committee consisting of members of the management team and the ESG Promotion Meeting attended by the heads of divisions. Outside viewpoints are also input into management through the ESG External Advisory Board, which is made up of external experts.

ESG governance structure



[Source: Kao Sustainability Report 2022]

1. Selection of KPIs

'Selection of KPIs' of the Framework is in conformity with the ICMA's Sustainability-Linked Bond Principles 2020 and the MOE's Sustainability Linked Bond Guidelines 2022 from the following perspective.

(1) Abstract of KPIs

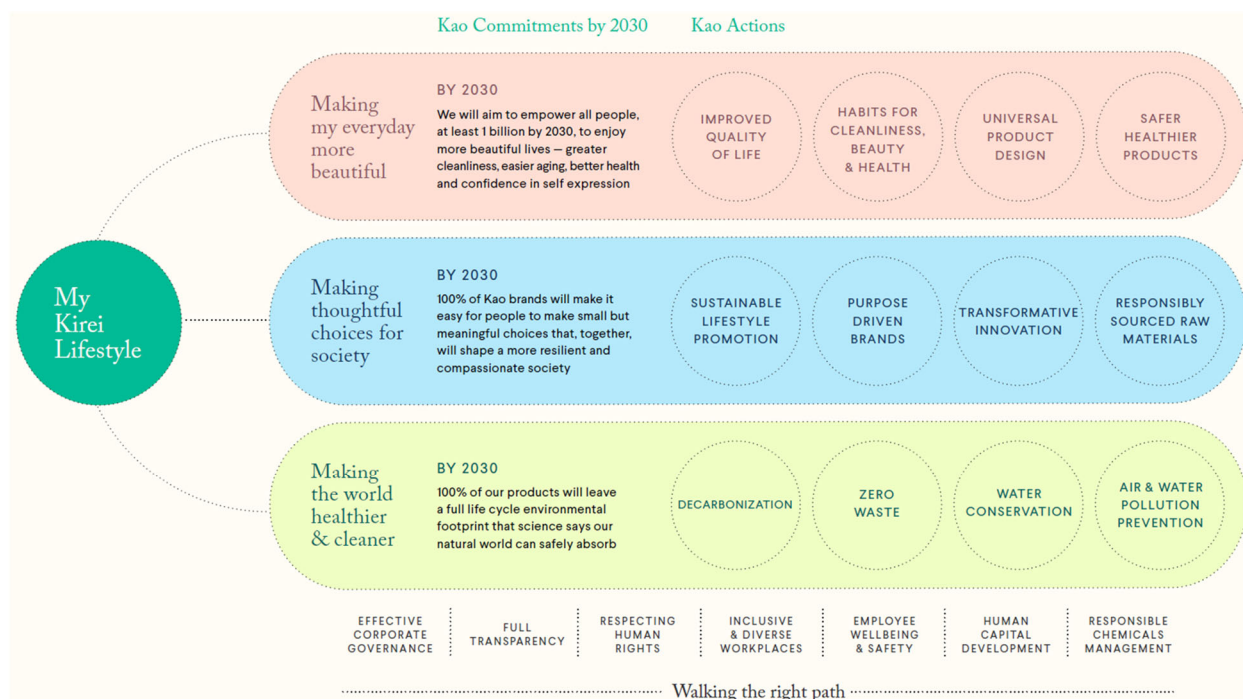
- The KPI of Sustainability-Linked Bonds issued under the Framework is the rate of reduction in absolute Scope 1+2 CO2 emissions at all Kao Group sites compared to 2017.
- The KPI performance in recent years is as follows.

	2019	2020	2021	2022
% reduction in absolute Scope 1+2 CO2 emissions (Base year: 2017)	9%	15%	20%	26%

(2) Materiality of KPIs

① Kao's ESG Strategy

- In 2019, Kao released the Kirei Lifestyle Plan, an ESG Strategy designed to realize sustainable lifestyles called the Kirei Lifestyle, for which consumer demand is growing. 19 Kao Actions have been identified for each of the three pillars of "Making my everyday more beautiful," "Making thoughtful choices for society," and "Making the world healthier & cleaner," as well as for "Walking the right path," which is the foundation of these pillars. Mid- to long-term targets to achieve by 2030 have also been set for each of the Kao Actions to facilitate effective and reliable ESG activities.

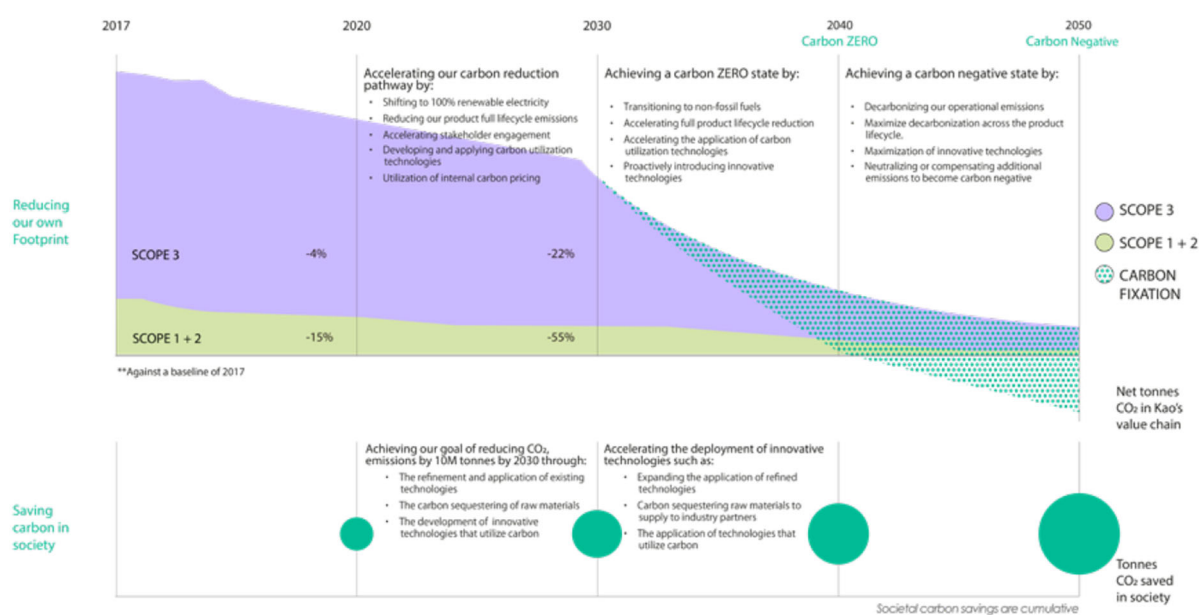


[Source: Kao Sustainability Report 2022]

- Kao has put ESG at the core of its business, as suggested by K25, the Mid-term Plan for 2021-2025 that pursues "sustainability as the only path." By transforming its business model and collaborating with various partners, the company aims to realize its purpose: a Kirei World in which all life lives in harmony.
- ESG Steering Committees were set up for the first time in 2022 to ensure that actions are quickly taken for four priority issues of decarbonization, plastic packaging, human rights and DE&I, and chemical stewardship. Under the committee owners, who are executive officers, the steering committees coordinate with the ESG Managing Committee and have the ability to make suggestions to divisions and group companies.
- Kao also focuses on enhancing employee engagement, which is the driving force for the promotion of its ESG Strategy. The company requires every employee to recognize the importance of his/her individual efforts from an ESG perspective, and to this end, it shares the latest ESG trends in and outside the company with employees and implements initiatives to invigorate human capital including through ESG targets set by each employee.

② Materiality of KPIs

- Kao identifies decarbonization as one of the Kao Actions in its ESG Strategy and also as a priority issue addressed by the ESG Steering Committees. In 2021, it set new decarbonization goals of achieving carbon zero by 2040 and carbon negative by 2050.
- Under its founding mission of contributing to social sustainability through business activities, Kao is working to reduce CO2 emissions throughout the entire product lifecycle. Toward decarbonization, it will actively disseminate information that drives changes in consumers' behavior and encourage suppliers to take actions.
- Reducing Scope 1 and 2, which are emissions from its worksites, is the fundamental initiative in Kao's collaboration with its stakeholders. Upon setting the long-term decarbonization goals mentioned above, Kao substantially raised its Scope 1+2 reduction target from 22% by 2030 to 55% by 2030 compared to 2017 to align the target with the SBT 1.5°C scenario. In addition, it joined the RE100 global corporate renewable energy initiative and set the target of having 100% of electricity used by the Kao Group sites be generated using renewable energy by 2030.
- The KPI is an important indicator of progress toward the achievement of the decarbonization goals.



[Source: Kao Sustainability Report 2022]

2. Calibration of SPTs

'Calibration of SPTs' of the Framework is in conformity with the ICMA's Sustainability-Linked Bond Principles 2020 and the MOE's Sustainability Linked Bond Guidelines 2022 from the following perspective.

(1) Abstract of SPTs

- The SPT is a 39% absolute Scope 1+2 CO2 emissions reduction compared to 2017 by 2026.

(2) Ambitiousness of SPTs

① Ambitiousness of SPTs

- The SPT is an emissions reduction target that is in line with the Paris Agreement. Kao's target of a 55% Scope 1+2 CO2 emissions reduction compared to 2017 by 2030 was approved by the SBTi as aligned with the 1.5°C pathway. Consistent with this mid-term target, the SPT is ambitious.
- So far, Kao has primarily reduced Scope 2 emissions by using renewable energy and carrying out thorough energy-saving activities. In addition to this, future efforts will address a Scope 1 reduction that involves new technology development and an emissions reduction in its worksites in Asia, which face a challenge in the stable procurement of renewable energy. Achieving the SPT requires a 3.25% emissions reduction per year while demanding more innovative initiatives than ever.
- In light of the above factors, the SPT is an ambitious and meaningful target.

② Relevance of Means for Achieving SPTs

- To reduce Scope 2 emissions further, Kao will step up efforts to switch to low CO2 equipment and introduce renewable energy. Recognizing additionality as important for renewable energy, the company will actively install solar power generation systems to generate electricity for its own use and utilize corporate Power Purchase Agreements, thereby also contributing to the promotion of renewable energy in markets. For Scope 1 emissions, technology development for the practical use of biofuels is underway with the aim of reducing emissions in its chemical business and other fields.
- Kao adopted an internal carbon pricing system in 2006, and for 17 years, it has been implementing investment decision-making that contributes to decarbonization, for example through the adoption of energy-saving equipment and the purchasing of renewable energy. Following the establishment of the ambitious decarbonization goals in 2021, the company raised its internal carbon price from 3,500 yen per t-CO2 to US\$168 per t-CO2, and in 2022, broadened the scope of this system to overseas plants. The Kao Group as a whole is intensifying efforts and fostering awareness about decarbonization.

③ Contribution to the SDGs

- The initiatives to achieve the SPT will contribute to 7. Affordable and clean energy, 12. Responsible consumption and production, 13. Climate action and 17. Partnerships for the goals.



(3) Relevance of SPTs

- Regarding the relevance of the SPT, a Second Opinion has been obtained from R&I, an independent third party.

3. Bond Characteristics

'Bond characteristics' of the Framework is in conformity with the ICMA's Sustainability-Linked Bond Principles 2020 and the MOE's Sustainability Linked Bond Guidelines 2022 from the following perspective.

- If the SPT is unmet, the interest rate will step up by 0.10% from the day following the interest payment date that occurs immediately after the last day of May 2027, which is the date of determination, through the redemption date. If SPT achievement cannot be confirmed, the SPT will be considered unmet.
- The definition of the KPI, the SPT and interest rate terms are stipulated in the Framework and statutory disclosure documents. Interest rate terms are linked to performance against the SPT, functioning as an incentive for achieving the SPT and reinforcing Kao's commitment to decarbonization, one of the Kao Actions.

4. Reporting

'Reporting' of the Framework is in conformity with the ICMA's Sustainability-Linked Bond Principles 2020 and the MOE's Sustainability Linked Bond Guidelines 2022 from the following perspective.

- Regarding KPI performance and SPT achievement, Kao will disclose the information shown below on its website annually until Sustainability-Linked Bonds are redeemed.

Item	Information to Be Reported
KPI performance	KPI performance as of the end of each fiscal year
SPT achievement	SPT achievement as of the date of determination
Material updates, etc.	Information that may affect SPT achievement (e.g., formulation and update of sustainability strategies)

- If events (e.g., mergers and acquisitions, regulatory changes in relevant countries) that cannot be foreseen at the time of the issuance of Sustainability-Linked Bonds occur and make it necessary to change the definition of the KPI or the calibration of the SPT, Kao will disclose such changes, including the reason for changes and the method of recalculation, on its website in a timely manner.

5. Verification

'Verification' of the Framework is in conformity with the ICMA's Sustainability-Linked Bond Principles 2020 and the MOE's Sustainability Linked Bond Guidelines 2022 from the following perspective.

- Kao will have its KPI performance assured by an independent third party annually until the date of SPT achievement determination and disclose an assurance report on its website.

[Disclaimer]

Second Opinion is not the Credit Rating Business, but one of the Ancillary Businesses (businesses excluding Credit Rating Service but are ancillary to Credit Rating Activities) as set forth in Article 299, paragraph (1), item (xxviii) of the Cabinet Office Ordinance on Financial Instruments Business, etc. With respect to such business, relevant laws and regulations require measures to be implemented so that activities pertaining to such business would not unreasonably affect the Credit Rating Activities, as well as measures to prevent such business from being misperceived as the Credit Rating Business.

Second Opinions are R&I's opinions on the alignment of a framework, formulated by companies etc. to raise funds for the purpose of environmental conservation and social contribution, with the principles etc. compiled by public organizations or private organizations related to the relevant financing as of the date of assessment. Second Opinions do not address any matters other than the alignment (including but not limited to the alignment of a bond issue with the framework and the implementation status of the project subject to financing). Second Opinions do not certify the outcomes and other qualities of the projects subject to the financing. Hence, R&I will not be held responsible for the effectiveness of the projects, including their outcomes. Second Opinions are not, in any sense, statements of current, future, or historical fact and should not be interpreted as such, and Second Opinions are not a recommendation to purchase, sell, or hold any particular securities and do not constitute any form of advice regarding investment decisions or financial matters. Second Opinions do not address the suitability of an investment for any particular investor. R&I issues Second Opinions based on the assumption that each investor will investigate and evaluate the securities which they plan to purchase, sell, or hold for themselves. All investment decisions shall be made at the responsibility of the individual investor.

The information used when R&I issues Second Opinions is information that R&I has determined, at its own discretion, to be reliable. However, R&I does not undertake any independent verification of the accuracy or other aspects of that information. R&I makes no representation or warranty, express or implied, as to the accuracy, timeliness, adequacy, completeness, merchantability, fitness for any particular purpose, or any other matter with respect to any such information.

R&I is not responsible or liable in any way to any party, for all or any damage, loss, or expenses arising out of or in relation to errors, omissions, inappropriateness of, or insufficiencies in the information used when issuing Second Opinions, or opinions in Second Opinions, or arising out of or in relation to the use of such information or Second Opinions (regardless of the nature of the damage, including direct, indirect, ordinary, special, consequential, compensatory, or incidental damage, lost profits, non-monetary damage, and any other damage, and including expenses for attorneys and other specialists), whether in contract, tort, for unreasonable profit or otherwise, irrespective of negligence or fault of R&I.

All rights and interests (including patent rights, copyrights, other intellectual property rights, and know-how) regarding Second Opinions belong to R&I. Use of Second Opinions, in whole or in part, for purposes beyond personal use (including reproducing, amending, sending, distributing, transferring, lending, translating, or adapting the information), and storing Second Opinions for subsequent use, is prohibited without R&I's prior written permission.

As a general rule, R&I issues a Second Opinion for a fee paid by the issuer.

Japanese is the official language of this material and if there are any inconsistencies or discrepancies between the information written in Japanese and the information written in languages other than Japanese the information written in Japanese will take precedence.

[Expertise and Third-Party Characteristics]

R&I has launched the R&I Green Bond Assessment business in 2016, and since then, R&I has accumulated knowledge through numerous evaluations. Since 2017, R&I has been participating as an observer in the Green Bond Principles and Social Bond Principles, which have their own secretariat at the International Capital Market Association (ICMA). It also has been registered since 2018 as an Issuance Supporter (external review entity) of the Financial Support Programme for Green Bond Issuance, a project by the Ministry of the Environment.

The R&I assessment method and results can be found on the R&I website (<https://www.r-i.co.jp/en/rating/esg/index.html>).

There is no capital or personal relationship between R&I and the fundraiser that could create a conflict of interest.

Sustainability-Linked Bonds Independent External Review Form

The Guidelines for External Reviews recommend the public disclosure of external reviews either in summary format through a recommended template and/or in its entirety. This contributes to market transparency and clarifies issuers' alignment with the Principles.

Section 1. Basic Information

Issuer name: Kao Corporation

Sustainability-Linked Bond ISIN: Kao Corporation Sustainability-Linked Bond Framework

Independent External Review provider's name for second party opinion pre-issuance (sections 2 & 3):
Rating and Investment Information, Inc.

Completion date of second party opinion pre-issuance: May 17, 2023

Independent External Review provider's name for post-issuance verification (section 4): -

Completion date of post issuance verification: -

At the launch of the bond, the structure is:

- | | |
|---|--|
| <input checked="" type="checkbox"/> a step-up/step-down structure | <input type="checkbox"/> a variable redemption structure |
| <input type="checkbox"/> a specified amount of carbon offsets | <input type="checkbox"/> a specified amount of donation |

Section 2. Pre-Issuance Review

2-1 SCOPE OF REVIEW

The following may be used or adapted, where appropriate, to summarise the scope of the review.

The review:

- | | |
|--|---|
| <input checked="" type="checkbox"/> assessed all the following elements (complete review) | <input type="checkbox"/> only some of them (partial review): |
| <input checked="" type="checkbox"/> Selection of Key Performance Indicators (KPIs) | <input checked="" type="checkbox"/> Bond characteristics (<i>acknowledgment of</i>) |
| <input checked="" type="checkbox"/> Calibration of Sustainability Performance Targets (SPTs) | <input checked="" type="checkbox"/> Reporting |
| <input checked="" type="checkbox"/> Verification | |
| <input checked="" type="checkbox"/> and confirmed their alignment with the SLBP. | |

2-2 ROLE(S) OF INDEPENDENT EXTERNAL REVIEW PROVIDER

- | | |
|--|---|
| <input checked="" type="checkbox"/> Second Party Opinion | <input type="checkbox"/> Certification |
| <input type="checkbox"/> Verification | <input type="checkbox"/> Scoring/Rating |

Note: In case of multiple reviews / different providers, please provide separate forms for each review.

2-3 EXECUTIVE SUMMARY OF REVIEW and/or LINK TO FULL REVIEW (if applicable)

Rating and Investment Information, Inc. (R&I) has confirmed the alignment of the Sustainability-Linked Bond Framework of Kao Corporation dated May 2023 with the International Capital Market Association (ICMA)'s Sustainability-Linked Bond Principles 2020 and the Ministry of the Environment (MOE)'s Sustainability Linked Bond Guidelines 2022.

For details, please refer to the report above.

Section 3. Detailed pre-issuance review

Reviewers are encouraged to provide the information below to the extent possible and use the comment section to explain the scope of their review.

3-1 SELECTION OF KEY PERFORMANCE INDICATORS (KPIs)

Overall comment on the section (if applicable):

For details, please refer to "1. Selection of KPI" in the report above.

List of selected KPIs:

- ✓ **KPI the rate of reduction in absolute Scope 1+2 CO2 emissions**

Definition, Scope, and parameters

- | | |
|--|---|
| <input checked="" type="checkbox"/> Clear definition of each selected KPIs | <input checked="" type="checkbox"/> Clear calculation methodology |
| <input type="checkbox"/> Other (please specify): | |

Relevance, robustness, and reliability of the selected KPIs

- | | |
|--|--|
| <input checked="" type="checkbox"/> Credentials that the selected KPIs are relevant, core and material to the issuer's sustainability and business strategy. | <input checked="" type="checkbox"/> Evidence that the KPIs are externally verifiable |
| <input checked="" type="checkbox"/> Credentials that the KPIs are measurable or quantifiable on a consistent methodological basis | <input checked="" type="checkbox"/> Evidence that the KPIs can be benchmarked |
| | <input type="checkbox"/> Other (please specify): |

3-2 CALIBRATION OF SUSTAINABILITY PERFORMANCE TARGETS (SPTs)

Overall comment on the section (if applicable):

For details, please refer to "2. Calibration of SPTs" in the report above.

Rationale and level of ambition

- | | |
|--|---|
| <input checked="" type="checkbox"/> Evidence that the SPTs represent a material improvement | <input checked="" type="checkbox"/> Credentials on the relevance and reliability of selected benchmarks and baselines |
| <input checked="" type="checkbox"/> Evidence that SPTs are consistent with the issuer's sustainability and business strategy | <input checked="" type="checkbox"/> Credentials that the SPTs are determined on a predefined timeline |
| | <input type="checkbox"/> Other (<i>please specify</i>): |

Benchmarking approach

- | | |
|--|---|
| <input checked="" type="checkbox"/> Issuer own performance | <input type="checkbox"/> Issuer's peers |
| <input checked="" type="checkbox"/> reference to the science | <input type="checkbox"/> Other (<i>please specify</i>): |

Additional disclosure

- | | |
|---|--|
| <input type="checkbox"/> potential recalculations or adjustments description | <input checked="" type="checkbox"/> issuer's strategy to achieve description |
| <input checked="" type="checkbox"/> identification of key factors that may affect the achievement of the SPTs | <input type="checkbox"/> Other (<i>please specify</i>): |

3-3 BOND CHARACTERISTICS

Overall comment on the section (*if applicable*):

For details, please refer to "3. Bond Characteristics" in the report above.

Financial impact:

- variation of the coupon
- Other (*please specify*):

Structural characteristic:

- Other (*please specify*):
If the SPT is unmet, the interest rate will step up by 0.10% from the day following the interest payment date that occurs immediately after the date of determination through the redemption date. Interest rate terms are linked to performance against the SPT, functioning as an incentive for achieving the SPT and reinforcing Kao's commitment to decarbonization, one of the Kao Actions. If SPT achievement cannot be confirmed, the SPT will be considered unmet.

3-4 REPORTING

Overall comment on the section (if applicable):
For details, please refer to “4. Reporting” in the report above.

Information reported:

- | | |
|--|--|
| <input checked="" type="checkbox"/> performance of the selected KPIs | <input checked="" type="checkbox"/> verification assurance report |
| <input type="checkbox"/> level of ambition of the SPTs | <input checked="" type="checkbox"/> Other (please specify):
Information that may affect SPT achievement
(e.g., formulation and update of sustainability
strategies) |

Frequency:

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

Means of Disclosure

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

Where appropriate, please specify name and date of publication in the “useful links” section.

Level of Assurance on Reporting

- | | |
|---|---|
| <input checked="" type="checkbox"/> limited assurance | <input type="checkbox"/> reasonable assurance |
| <input type="checkbox"/> Other (please specify): | |

USEFUL LINKS (e.g. to review provider methodology or credentials, to issuer’s documentation, etc.)

Section 4. Post-issuance verification

Overall comment on the section *(if applicable)*:

For details, please refer to "5. Verification" in the report above.

Information reported:

- | | |
|---|--|
| <input checked="" type="checkbox"/> limited assurance | <input type="checkbox"/> reasonable assurance |
| | <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> : | |

Material change:

- | | |
|--|---|
| <input type="checkbox"/> Perimeter | <input checked="" type="checkbox"/> KPI methodology |
| <input checked="" type="checkbox"/> SPTs calibration | |