

SOCIAL BOND / SOCIAL BOND PROGRAMME INDEPENDENT EXTERNAL REVIEW FORM

Section 1. Basic Information

Issuer name:	Gakken Holdings Co., Ltd.
Sustainability Bond ISIN or Issuer Sustainability Bond Framework Name, if applicable:	1st unsecured corporate bonds
Independent External Review provider's name:	Japan Credit Rating Agency, Ltd.
Completion date of this form:	March 6, 2020
Publication date of review publication:	March 6, 2020

Section 2. Review overview

SCOPE OF REVIEW

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

The review assessed the following elements and confirmed their alignment with the SBPs:

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

ROLE(S) OF Independent External REVIEW PROVIDER

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

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

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

Based on the belief of founder Hideto Furuoka that "post-war reconstruction is nothing but education," the Gakken Group was established in 1946 as Gakken Co., Ltd. which providing educational services. In April 2004, the company established Gakken Cocofump (now Gakken Cocofump Holdings Co., Ltd.), a nursing care provider, and incorporated medical and welfare to its business. In October 2009, Gakken Co., Ltd. became a holding company and changed name to Gakken Holdings Co., Ltd. with the reorganization of the company. The Company's management policy is "Make inroads in developing the next generation using two growth engines." The two growth engines are "education" and "medical and welfare" fields. Based on the policy, the Company oversees the Group's overall businesses, including educational services such as cram schools, publishing and selling publications and childcare products, and the operation of housing with services for the elderly and nursing facilities and childcare support facilities such as group homes for the dementia. In the field of education, in particular, new educational methods, such as EdTech and STEAM education, not only cultivate the next generation of human resources who can create value for the future, but also recognize the importance of education to foster humanity that can reach out to greeters and people who have difficulties, and are practicing it at various educational sites. The company also aims to create a society (Gakken Comprehensive Community Care System) in which people can continue to live in recurrent education and communities where they are living until the end of their lives, with an eye toward human life lasts around 100 years.

The subject of this evaluation is the Bonds that Gakken Holdings plans to issue. JCR evaluates whether the Bonds is consistent with the Social Bond Principles (SBP) (2018 edition) and SDGs targets. The principles of social bonds are the "principles" voluntarily published by the International Capital Markets Association and are not regulations, and therefore are not binding, but are widely referenced globally at this time. JCR evaluates their conformity with these principles. In addition, the social bond principles emphasize the use of proceeds and their impacts, as well as the alignment of international sustainability goals and national policies. Therefore, the SDGs and social project categorization mappings developed by the Society are used as reference indicators for evaluations.

The use of proceeds is planned to be dedicated to the reimbursement of Medical Care Services Company, Inc. (hereafter, MCS), which operates long-term care activities mainly in the eligible care group homes for the elderly with dementia (hereafter, Group homes), and the reimbursement of borrowing and the operational cost of the project (funding for MCS). In Japan, where the number of dementia patients is increasing, enrichment is one of the policy priorities. Also, healthcare facilities for the elderly, including the project, are becoming a social challenge in Japan's rapid aging society in following aspects such as (1) the shortage of medical and nursing homes due to the increase in single elderly households, etc. and (2) providing useful solutions to the shortage of workers and the delay in the social development of women, etc.

As a result of its high importance as a social infrastructure, JCR evaluates that the use of proceeds contributes to "Access to essential services (healthcare)" for the elderly and "socioeconomic advancement and empowerment" for women in the Social Bonds Principle. It also contributes to Goal 3 "Ensure healthy lives and promote well-being for all at all age," Goal 11 "Make cities and human settlements inclusive, safe, resilient and sustainable", Goal 5 "Achieve gender equality and empower all women and girls" and Goal 8 "Promote inclusive and sustainable economic growth, employment and decent work for all" in the Sustainability Development Goals. In the "Specific Measures to Achieve Sustainability Development Goals" established by the Government of Japan, JCR confirmed that these measures are consistent with the "Creation of a society with dynamic engagement of all citizens: Social security that provides reassurance," which is a policy closely related to SDGs Goal 3, etc. It is also evaluated as contributing to the "Principles of Promoting Measures for Dementia (June 18, 2019)." by the Ministry of Health, Labour and Welfare.

Gakken Holdings identifies social issues related to the residential and nursing care facilities of the elderly as important issues. In addition to the education business, which the company has been focusing on since its foundation, the elderly housing with services operated by Cocofump, the business of group homes run by MCS, the Group addresses structuring a comprehensive community care system as a priority management issue. JCR also confirmed that appropriate selection criteria and risk management methods have been established for projects for which funds are to be used, that the departments in charge and management are appropriately involved in the selection process, and that the tracking and management of funding management has been clearly defined. Reporting is scheduled to include the funding status and the selection and disclosure of appropriate key impact indicators. From the above, JCR evaluates that the management system for the use of proceeds is appropriate and that the items to be reported to investors and to be disclosed are transparent. As a result, based on the JCR social finance evaluation methodology, JCR assigned "s1" for the evaluation of "Social Impact Evaluation (Use of Proceeds)" and "m1" for the evaluation of "Management, Operation and Transparency Evaluation." Consequently, JCR assigned "Social 1" for the overall evaluation. The bonds fully meet the standards for the requirements of the Social Bond Principles and are consistent with the SDGs Goals and specific measures for the SDGs Goals of the Government.

Section 3. Detailed 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.

1. USE OF PROCEEDS

Overall comment on section (if applicable):

- i The purpose of the Bonds is to refinance investments, new investments, and operating expenses in companies (MCS) that operate nursing care facilities for the elderly, etc. that contribute to the improvement of problems caused by the rapidly aging society, which is a serious social problem in Japan. In particular, the Group Home business, which is the core business of MCS, is a facility that greatly contributes to the mental and physical care of dementia patients, which is increasing both in Japan and overseas, and to the prevention of deterioration of their condition. JCR believes that this facility has a high social significance. It also contributes to the promotion of specific measures in Japan related to SDGs goals and the Outline for the Promotion of Dementia Measures established by the Ministry of Health, Labour and Welfare.
- ii The funds will be used to provide "Access to essential services (healthcare)" for "dementia patients and the older person requiring care" and "socioeconomic advancement and empowerment" for "women" within the eligible social-bond project categories.

Use of proceeds categories as per SBP:

- | | |
|--|---|
| <input type="checkbox"/> Affordable basic infrastructure | <input checked="" type="checkbox"/> Access to essential services |
| <input type="checkbox"/> Affordable housing | <input type="checkbox"/> Employment generation (through SME financing and microfinance) |
| <input type="checkbox"/> Food security | <input checked="" type="checkbox"/> Socioeconomic advancement and empowerment |
| <input type="checkbox"/> Unknown at issuance but currently expected to conform with SBP categories, or other eligible areas not yet stated in SBPs | <input type="checkbox"/> Other (<i>please specify</i>): |

If applicable please specify the environmental taxonomy, if other than SBPs:

2. PROCESS FOR PROJECT EVALUATION AND SELECTION

Overall comment on section (if applicable):

The Issuer has a clear environmental and social goal, project selection criteria and process to determine the proceeds, which are shown in the evaluation report composed by JCR.

Evaluation and selection

- | | |
|---|---|
| <input checked="" type="checkbox"/> Credentials on the issuer's environmental sustainability objectives | <input checked="" type="checkbox"/> Documented process to determine that projects fit within defined categories |
| <input checked="" type="checkbox"/> Defined and transparent criteria for projects eligible for Social Bond proceeds | <input checked="" type="checkbox"/> Documented process to identify and manage potential ESG risks associated with the project |
| <input checked="" type="checkbox"/> Summary criteria for project evaluation and selection publicly available | <input type="checkbox"/> Other (<i>please specify</i>): |

Information on Responsibilities and Accountability

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

3. MANAGEMENT OF PROCEEDS

Overall comment on section (*if applicable*):

JCR evaluates that the management of proceeds is appropriate given that fund procurement to be carried out is expected to be allocated for social projects, that fund procurement is managed in an appropriate manner within the company, that an internal control system is in place, and that there are no particular concerns about the management of unallocated funds.

Tracking of proceeds:

- | |
|---|
| <input checked="" type="checkbox"/> Social Bond proceeds segregated or tracked by the issuer in an appropriate manner |
| <input type="checkbox"/> Disclosure of intended types of temporary investment instruments for unallocated proceeds |
| <input type="checkbox"/> Other (<i>please specify</i>): |

Additional disclosure:

- | | |
|---|---|
| <input type="checkbox"/> Allocations to future investments only | <input checked="" type="checkbox"/> Allocations to both existing and future investments |
| <input type="checkbox"/> Allocation to individual disbursements | <input type="checkbox"/> Allocation to a portfolio of disbursements |

Disclosure of portfolio balance of unallocated proceeds

Other (please specify):

4. REPORTING

Overall comment on section (if applicable):

a. Reporting on proceeds allocation

Disclosure regarding predetermined items will be made on the issuer's website. Also, in the event of the sale of the acquired company before the Social Bond is redeemed and the need to be re-appropriated, Gakken plans to disclose the entire amount of the funding annually on our website until the project meets the eligible criteria.

b. Reporting on society improvement effects

The indicators which the issuer will disclose as output indicator and impact indicator are appropriate. The qualitative targets are consistent with Japan's policies on care and JCR evaluates that they are enough to show their social significance.

Use of proceeds reporting:

Project-by-project

On a project portfolio basis

Linkage to individual bond(s)

Other (please specify):

Information reported:

Allocated amounts

Social Bond financed share of total investment

Other (please specify):

frequency:

Annual

Semi-annual

Other (please specify):

Impact reporting:

Project-by-project

On a project portfolio basis

Linkage to individual bond(s)

Other (please specify):

frequency:

Annual

Semi-annual

Other (please specify):

Information reported (expected or ex-post):

Number of beneficiaries Target populations

Other ESG indicators (please specify):
Number of healthcare facilities owned by MCS
Group home occupancy rate

Means of Disclosure

Information published in financial report Information published in sustainability report
 Information published in ad hoc documents Other (please specify):
#N/A
 Reporting reviewed

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

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

Website of the Issuer	https://ghd.gakken.co.jp/english/csr/index.html
JCR's website about social bond evaluation methodology	https://www.jcr.co.jp/en/greenfinance/social/

SPECIFY OTHER EXTERNAL REVIEWS AVAILABLE, IF APPROPRIATE

Type(s) of Review provided:

Second Party Opinion Certification
 Verification Scoring/Rating
 Other (please specify):

Review provider(s): Japan Credit Rating Agency, Ltd.

Date of publication: March 6, 2020

ABOUT ROLE(S) OF REVIEW PROVIDERS AS DEFINED BY THE GBP AND THE SBP

- 1. Second Party Opinion:** An institution with sustainability expertise that is independent from the issuer may provide a Second Party Opinion. The institution should be independent from the issuer's adviser for its Sustainability Bond framework, or appropriate procedures such as information barriers will have been implemented within the institution to ensure the independence of the Second Party Opinion. It normally entails an assessment of the alignment with the Principles. In particular, it can include an assessment of the issuer's overarching objectives, strategy, policy, and/or processes relating to sustainability and an evaluation of the environmental and social features of the type of Projects intended for the Use of Proceeds.
- 2. Verification:** An issuer can obtain independent verification against a designated set of criteria, typically pertaining to business processes and/or sustainability criteria. Verification may focus on alignment with internal or external standards or claims made by the issuer. Also, evaluation of the environmentally or socially sustainable features of underlying assets may be termed verification and may reference external criteria. Assurance or attestation regarding an issuer's internal tracking method for use of proceeds, allocation of funds from Sustainability Bond proceeds, statement of environmental or social impact or alignment of reporting with the Principles may also be termed verification.
- 3. Certification:** An issuer can have its Sustainability Bond or associated Sustainability Bond framework or Use of Proceeds certified against a recognised external sustainability standard or label. A standard or label defines specific criteria, and alignment with such criteria is normally tested by qualified, accredited third parties, which may verify consistency with the certification criteria.
- 4. Social Bond Scoring/Rating:** An issuer can have its Sustainability Bond, associated Sustainability Bond framework or a key feature such as Use of Proceeds evaluated or assessed by qualified third parties, such as specialised research providers or rating agencies, according to an established scoring/rating methodology. The output may include a focus on environmental and/or social performance data, process relative to the Principles, or another benchmark, such as a 2-degree climate change scenario. Such scoring/rating is distinct from credit ratings, which may nonetheless reflect material sustainability risks.