

Green Bond / Green Bond Programme

Independent External Review Form

Section 1. Basic Information

Issuer name:

DAIKEN Corporation

Green Bond ISIN or Issuer Green Bond Framework Name, if applicable:

1st unsecured bond

Independent External Review provider's name:

Japan Credit Rating Agency, Ltd.

Completion date of this form:

August 9, 2019

Publication date of review publication:

August 9, 2019

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 GBPs:

- | | |
|--|--|
| <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 (please specify): | |

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)

DAIKEN Corporation (hereafter, "the Company") is a major manufacturer of housing materials founded in 1945. Since its founding, it has been involved in the wood processing business, and in order to make effective use of this business, it has long been contributing to realize a circular economy through the effective use of waste and unused materials, such as starting from the early stage of manufacturing insulation boards that reuses waste materials. Our business activities consist of the three segments of "Industrial Materials," "Building Materials," and "Engineering." In the Industrial Materials Business, the Company tries to make effective use of wood and mineral resources from the perspective of sustainability.

The Company's long-term vision, "GP25," was established in 2015 to celebrate the 70th anniversary of its founding. The first goal and goal of this vision is to "contribute to the realization of a sustainable society through the efficient use of limited resources." Also, in the current Medium-Term Management Plan (FY2019-2021), which is the second stage for realizing this Long-Term Vision, as its basic policy, it is aiming to increase corporate value by "pursuing solutions to social issues through businesses" and "implementing ESG management" as one of the measures to strengthen its management foundations. In particular, the Company has set ambitious numerical targets for environmental issues, and it has set a target of achieving CO2 reductions of 26% from the FY2013 level by FY2021 ahead of schedule, which was set as the target to be achieved by 2030 at the time of the formulation of the Long-Term Vision.

The use of funds for the bonds (the Bonds) is for capital investment and refinancing of the funds for the "Insulation boards" that we produce by reusing construction waste materials, the "Rock Wool Inorganic Board (hereinafter, "Dai-lotone")" that we produce by-product of steel manufacturing of mineral resources, and the "Dai-lotone" and "Dai-lite (Wall Base underlayment Volcanic Vitreous Double Glaze Board)" manufacturing plants (Okayama and Takahagi plants) that utilize the unused resource of volcanic soil, named "Sirasu". The use of proceeds contributes significantly to the construction of a circular society by contributing to the reduction and minimization of waste through the effective use of resources and the use of recycled resources. Regarding the potential negative environmental impacts of the plant, such as CO2 emissions and water pollution generated in the manufacturing process, the Company is working to minimize such negative impacts by introducing biomass boilers using domestic wood chips and water purification and other equipment at the plants. Based on the above, JCR concludes that the use of proceeds subject to this evaluation as having a high environmental improvement effect.

With regard to the management and operation system, we confirmed through hearings and related materials that the proceeds will be allocated for the capital investment of the two targeted factories within one year, that the allocation status will be tracked and managed appropriately by the department in charge, and that the funds will be subject to internal and external audits. In addition, prior explanations and reporting to investors were also well planned. JCR confirmed that the management and operation system for the Green Project, the funding source for the Bonds, was properly established and highly transparent. We also confirm that the organization's environmental efforts are being actively carried out through its mid-and long-term plans and the appropriate operation of the quality environmental management system.

Based on the JCR Green Bond Evaluation Method, JCR assigns "g1" for "Greenness Evaluation (Use of Proceeds)" and "m1" for "Management, Operation and Transparency Evaluation". Consequently, JCR assigns "Green1" as an overall evaluation result to the bonds. Detailed evaluation results are discussed in detail in the next chapter. The Bonds are considered to meet the standards for the items required by the Green Bond Principles and the Green Bond Guideline of the Ministry of the Environment of Japan.

<https://www.jcr.co.jp/en/greenfinance/>

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):

a. On the environmental improvement effects of the project

- i. 100% of the proceeds are new investments or refinancing in production facilities for circular economy adapted products that contribute to realize a sustainable society with the reduction of waste, and thus is highly effective in improving the environment.
- ii. The proceeds are used for "Pollution prevention and control (waste reduction, waste reduction, and waste recycling)", "circular economy adapted products " as defined in the Green Bond Principles or the Ministry of the Environment's Green Bond Guidelines, which are recognized as regional, national or international standards or certified.

b. Negative impact on Environment

- Biomass boilers are installed to reduce CO₂ emissions. Fuels consist of wood chips procured in Japan and wood chips generated in the company owned factories' production lines. It use biomass boilers at all nine plants, and uses biomass boilers to cover 50% of the total energy consumption at our domestic production sites.
- From the viewpoint of reducing the amount of water used in the production process and preventing water pollution, a recycled and purification facility is in place.
- In addition to the safety, health, fire prevention, 6S, and production maintenance activities at individual plants, we have introduced a Groupwide "Mutual Plant Safety Diagnosis" in an effort to raise the group of safety and raise awareness at production sites.
- The company has formulated procurement policies, CSR procurement standards, and green procurement standards for procurement of materials, and conducts surveys of domestic suppliers regarding the green procurement of CSR materials in an effort to ensure appropriate procurement of raw materials.
- The Company recycles waste, for example by reusing defective products generated in the Group's manufacturing process as raw materials for products or thermal fuel for products that cannot be used as product materials. In fiscal 2018, the recycling rate of waste was 90%.¹

JCR evaluates that through this project, the Company takes appropriate countermeasures or mitigation measures against potential adverse impacts on the environment and society.

Use of proceeds categories as per GBP:

- | | |
|--|--|
| <input type="checkbox"/> Renewable energy | <input type="checkbox"/> Energy efficiency |
| <input checked="" type="checkbox"/> Pollution prevention and control | <input type="checkbox"/> Environmentally sustainable management of living natural resources and land use |
| <input type="checkbox"/> Terrestrial and aquatic biodiversity conservation | <input type="checkbox"/> Clean transportation |

¹ Figures contained in the DAIKEN Report as a whole
Resource recovery ratio = Amount recycled ÷ Total amount of waste generated × 100%
Amount recycled = Amount of valuable resources + Amount of materials used + Amount of thermal materials used

- | | |
|--|--|
| <input type="checkbox"/> Sustainable water and wastewater management | <input type="checkbox"/> Climate change adaptation |
| <input checked="" type="checkbox"/> Eco-efficient and/or circular economy adapted products, production technologies and processes | <input type="checkbox"/> Green buildings |
| <input type="checkbox"/> Unknown at issuance but currently expected to conform with GBP categories, or other eligible areas not yet stated in GBPs | <input type="checkbox"/> Other <i>(please specify)</i> : |

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

2. PROCESS FOR PROJECT EVALUATION AND SELECTION

Overall comment on section *(if applicable)*:

The Company has clear environmental goal, project selection criteria and process to determine the proceeds, which will be described in the evaluation report 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 Green 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 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)*:

1. The issue of the Bonds will be managed in cash or cash equivalents and will be fully allocated within one year of the issue.
2. The company plans to prepare and track a list of procurement funds based on acceptance and payment data from the Treasury Department. The report is scheduled to be reported quarterly to the head of the Finance Department, who is a senior executive officer, including confirmation of progress.
3. Such fund management is subject to internal and external audits.

4. The filing period is longer than the redemption period.
5. Until the full allocation, the Company will manage the unallocated funds in cash or cash equivalents. It is disclosed to the investors through shelf registration documents.

Tracking of proceeds:

- ☒ Green Bond proceeds segregated or tracked by the issuer in an appropriate manner
- ☒ Disclosure of intended types of temporary investment instruments for unallocated proceeds
- ☐ Other *(please specify)*:

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 |
| <input type="checkbox"/> Disclosure of portfolio balance of unallocated proceeds | <input type="checkbox"/> Other <i>(please specify)</i> : |

4. REPORTING

Overall comment on section *(if applicable)*:

- a. Reporting on proceeds allocation
The Company will disclose a summary of the funded eligible projects and the allocated and unallocated amounts until the funding is fully allocated on its website. If there is a significant change in circumstances after all the funding has been allocated. The Bonds is scheduled to be fully allocated within one year.
- b. Impact reporting for environmental benefits
The Company plans to disclose on its website the following indicators of environmental improvement effects once a year until the redemption of the Bonds.
 1. Amount of unused resources (shirasu) used for the products
 2. Amount of recycled resources (rock wool) used for the products
 3. Amount of recycled resources (woodchips) used for the products
 4. Amount of carbon sequestration

Of the above impact reporting, item (1) through (3) are appropriate as quantitative indicators for the recycling and reuse of waste or the minimization of waste through the effective use of unused resources. Item (4) is appropriate as an indicator to quantitatively show the amount of CO₂ reduction as a result of lengthening the lifecycle of timber.

Use of proceeds reporting:

- | | |
|--|--|
| <input checked="" type="checkbox"/> Project-by-project | <input type="checkbox"/> On a project portfolio basis |
| <input type="checkbox"/> Linkage to individual bond(s) | <input type="checkbox"/> Other <i>(please specify)</i> : |

Information reported:

- | | |
|--|--|
| <input checked="" type="checkbox"/> Allocated amounts | <input type="checkbox"/> Green Bond financed share of total investment |
| <input type="checkbox"/> Other <i>(please specify)</i> : | |

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):

☐ GHG Emissions / Savings

☐ Energy Savings

☐ Decrease in water use

☒ Other ESG indicators (please specify):

• Amount of unused and recycled resources

• Amount of Carbon fixation

Means of Disclosure

☐ Information published in financial report

☐ Information published in sustainability report

☐ Information published in ad hoc documents

☒ Other (please specify):
Showing on the Company's website

☒ 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.)

DAIKEN Corporation's Corporate Philosophy and long term vision
<https://www.daiken-ad.com/en/philosophy.html>

JCR's website about green finance evaluation methodology
<https://www.jcr.co.jp/en/greenfinance/>

SPECIFY OTHER EXTERNAL REVIEWS AVAILABLE, IF APPROPRIATE

Type(s) of Review provided:

- ☐ Second Party Opinion
- ☐ Verification
- ☐ Other (*please specify*):

- ☐ Certification
- ☒ Scoring/Rating

Review provider(s):

Japan Credit Rating Agency, Ltd.

Date of publication:

August 9, 2019

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

1. **Second Party Opinion:** An institution with environmental expertise, that is independent from the issuer may issue a Second Party Opinion. The institution should be independent from the issuer's adviser for its Green 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 Green Bond Principles. In particular, it can include an assessment of the issuer's overarching objectives, strategy, policy and/or processes relating to environmental sustainability, and an evaluation of the environmental 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 environmental criteria. Verification may focus on alignment with internal or external standards or claims made by the issuer. Also, evaluation of the environmentally 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 Green Bond proceeds, statement of environmental impact or alignment of reporting with the GBP, may also be termed verification.
3. **Certification:** An issuer can have its Green Bond or associated Green Bond framework or Use of Proceeds certified against a recognised external green 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. **Green Bond Scoring/Rating:** An issuer can have its Green Bond, associated Green 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 performance data, the process relative to the GBP, or another benchmark, such as a 2-degree climate change scenario. Such scoring/rating is distinct from credit ratings, which may nonetheless reflect material environmental risks.