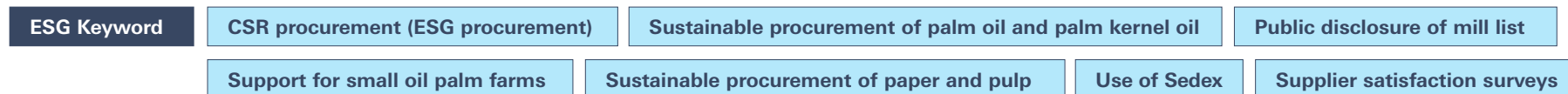


Responsibly sourced raw materials 102-12, 102-15, 103-1, 103-2



Source our raw materials in a way that protects natural resources, the environment and human rights through supply chain traceability and collaboration with suppliers.



Kao's creating value to address social issues

Social issues we are aware of

In procuring raw materials for products, environmental destruction and loss of biodiversity due to indiscriminate development at the producing area has become a serious issue.

Protecting the human rights of laborers, safety and hygiene management, the forced relocation of local residents from producing areas, and damage to health are also pressing issues in our supply chain, which provides raw materials and services.

Kao's creating value

Our business is highly dependent on natural capital. Undertaking ESG-driven management requires us to conduct ESG procurement with full consideration for both the environment including resource conservation, climate change and preservation of biodiversity, and society including human rights. At the same time, stable procurement for the stable provision of products to consumers and customers is also vitally important when promoting *Yoki-Monozukuri*. With these two considerations as priorities, our Procurement Division is conducting responsible procurement.

As a result of these activities, stable procurement

of materials that take ESG into consideration becomes possible, and we are able to provide products that consumers and customers can use with reassurance.

Risks related to realization of What Kao Aims to Be by 2030

Procurement risks include risks relating to the stable procurement of raw materials and the risk that we will be questioned about whether we are fulfilling our social responsibilities by practicing ESG procurement.

Opportunities related to realization of What Kao Aims to Be by 2030

In light of the aforementioned risks, it is ESG procurement that can contribute to a sustainable society. We are conducting human rights due diligence based on the Kao Human Rights Policy, and supplier risk assessments based on the Guidelines for Supplier's Assessment for social issues, and promoting procurement of palm oil, paper and pulp based on the Guidelines for Sustainable Procurement of Raw Materials for environmental issues. We set mid- to long-term targets to be achieved by 2030 under the Kirei Lifestyle Plan and are undertaking responsible procurement.

We believe that this approach will facilitate stable procurement from suppliers that take into consideration social and environmental factors, and as such can even lead to corporate growth and enhancement of corporate value.

Contributions to the SDGs





Policies

We have formulated Guidelines for Supplier's Assessment and Guidelines for Sustainable Procurement of Raw Materials to facilitate the practical implementation of procurement activities in accordance with our Policies for Procurement.

The Policies for Procurement include items relating to fairness and equity in trading, adherence to laws and ethics, and social responsibility. With regard to social responsibility, we seek to contribute to the establishment of a sustainable society, provide for due consideration for protection of natural resources, environmental preservation and human rights, and support ESG procurement along with compliance with laws and ethics.

We conduct procurement activities based on our Guidelines for Supplier's Assessment, which position suppliers as an essential partner in *Yoki-Monozukuri*. In our procurement activities, we give priority to those suppliers that place importance on social responsibilities, including compliance with laws, regulations and social norms, protection of human rights, assurance of health and safety and fair trade, and to those suppliers that collaborate fully on environmental issues such as the environmental management system that we consider to be important. We also prioritize eco-friendly procurement of raw materials and packaging. Our standard contract with suppliers clarifies provisions concerning the aforementioned issues including the environment, human rights and labor.

We are also pursuing sustainable procurement based on the Guidelines for Sustainable Procurement

of Raw Materials, which takes into account environmental problems including global warming and the loss of biodiversity as well as resource constraints, human rights and other pertinent issues.

We understand that our business depends on natural capital, and that a natural resource-dependent supply chain entails the risk of damage to that capital. We pursue zero deforestation at the source in our procurement of raw materials including palm oil and paper. We also support the NDPE* and request that suppliers and supplier group companies comply with it. Over the mid- to long term, we will be taking measures to reduce the amount of raw materials that needs to be used, and other measures to switch over to the use of non-food biomass sources such as algae, striving to promote sustainable and responsible procurement that gives due consideration to the ethical issues that have been thrown into relief by the process of globalization.

* NDPE: No Deforestation, No Peat and No Exploitation



- ➔ Policies for Procurement
www.kao.com/content/dam/sites/kao/www-kao-com/global/en/sustainability/pdf/procurement-policy.pdf
- ➔ Guidelines for Supplier's Assessment
www.kao.com/content/dam/sites/kao/www-kao-com/global/en/sustainability/pdf/procurement-supplier-guidelines.pdf
- ➔ Guidelines for Sustainable Procurement of Raw Materials
www.kao.com/content/dam/sites/kao/www-kao-com/global/en/sustainability/pdf/procurement-raw-materials-guidelines.pdf

Education and promotion

To carry out responsible procurement, each of our Procurement Division employees must acquire the needed knowledge, and ensure that they understand and adhere to the Policies for Procurement and related guidelines. To this end, we conduct various training and awareness-raising activities. We use new employee training for recent graduates and mid-career hires, training for young employees, and other training programs, for example, to deepen understanding of ESG procurement, stable procurement and strategic procurement.

Collaboration and engagement with stakeholders

We are promoting opinion exchanges with suppliers through vendor summits, quality improvement meetings and other initiatives. We utilize Sedex for supplier monitoring, and by mandating Sedex membership and response, we are undertaking to assess risk for our entire supply chain. We are strengthening coordination with our suppliers through various initiatives including the Carbon Disclosure Project (CDP) Supply Chain Program, and developing our global procurement activities.

In addition, we engage in continuous dialogue with NGOs and respond in good faith to points raised from a variety of perspectives.

We also participate in such organizations as SUSTAIN and JaSPON, which strive to realize sustainable procurement and traceability, engaging in active opinion exchange with other enterprises and organizations.



Contents | Editorial Policy | CEO Message | Kirei Lifestyle Plan KPI definitions | Independent assurance report

Kirei Lifestyle Plan

Making my everyday more beautiful

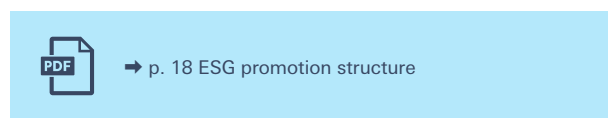
Making thoughtful choices for society

Making the world healthier & cleaner

Walking the right path

Framework

The Procurement Division underwent a reorganization in January 2020. By strategically coordinating three policies—ESG procurement, stable procurement and strategic procurement for enhancing competitiveness, we are promoting responsible procurement to all stakeholders. The strategy and activities of the Procurement Division are reported to the Board of Directors via reports to the Management Committee. The Global Procurement Meeting is held once each year to share information on our procurement strategy, ESG Strategy, supply chain management methods and other topics. In 2020, however, the meeting was postponed to prevent the spread of COVID-19 and because of organizational restructuring.



Mid- to long-term targets and performance

Mid- to long-term targets

1. Promoting the sustainable procurement of raw materials

We recognize risks associated with sustainable development based on resource constraints, global warming and other environmental problems, loss of biodiversity and human rights issues, and are working to sustainably procure raw materials.

We take into consideration preservation of biodiversity and pursue zero deforestation in our procurement of palm oil and palm kernel oil. In addition, we seek to procure 100% RSPO certified palm oil for consumer and industrial applications by 2025 and to complete confirmation of traceability back to small oil palm farms, also by 2025. With regard to paper and pulp procurement as well, we take into consideration preservation of biodiversity, pursue zero deforestation, and are working toward 100% procurement of certified paper products and pulp used in consumer products by 2025.

2. Human rights initiatives

We established the Kao Human Rights Policy in 2015 to address various risks associated with human rights issues. In addition to our own activities, we also request that our suppliers' activities embody respect for human rights based on the Guidelines for Supplier's Assessment, and we conduct human rights due diligence accordingly.

To conduct this risk assessment, in 2014 we joined Sedex, a platform for sharing information on ethical practices by global companies. We have been

also encouraging our suppliers to join Sedex. We aim to achieve 100% implementation of due diligence by suppliers by 2025.

Anticipated benefits from achieving mid- to long-term targets

Business impacts

Achieving these targets will reduce various related environmental and social risks and contribute to cost reductions. It will also enhance our brand image and social trust.

Social impacts

We will be able to supply the products that support daily life and are indispensable for sustainable living so that they can be used when needed.



Performance in 2020

Performance

1. Promoting the sustainable procurement of raw materials

- Palm oil and palm kernel oil procurement
 - Confirmation of traceability to the palm oil mills based on supplier information: Completed
 - Disclosure of mill list (mill names and locations): Completed
 - Procurement of certified oil: Procurement of a volume of RSPO certified oil equivalent to the total volume of palm oil for consumer applications



→ FY2020 mill list
www.kao.com/content/dam/sites/kao/www-kao-com/global/en/sustainability/pdf/progress-2020-001.pdf

- Paper and pulp procurement*1
 - 100% confirmation of traceability
 - Of this, 94% of certified paper and pulp*2 (as of December 2020)

*1 Covers paper and pulp used in Kao products (excludes some products)

*2 The ratio of certified materials among paper / pulp materials is tabulated based on the ratio by weight of certified materials for each procured item.



→ p. 83 Our initiatives: Initiatives toward sustainable procurement of palm oil and palm kernel oil

→ p. 85 Our initiatives: Initiatives toward sustainable procurement of paper and pulp

2. Human rights initiatives

We have been conducting assessments based on Sedex since 2017. We expanded these assessments in 2018 to cover all of our global business.

- Overall evaluation of supplier risk assessment based on Sedex (as of December 2020): S evaluation: 17%, A evaluation: 37%



→ p. 85 Our initiatives: Using Sedex in supplier monitoring

In 2020, Kao, Apical Group and Asian Agri launched the Smallholder Inclusion for Better Livelihood & Empowerment program (SMILE), a small oil farms support program in Indonesia, a palm oil producing region, to solve social issues including forest destruction, poor working environments for workers on palm oil farms and child labor.



→ p. 84 Our initiatives: Support for small oil palm farms

Reviews of performance

With regard to confirming traceability to palm oil production regions (palm farms), we have completed tracing to palm oil mills and farms owned and managed by oil suppliers. We will continue to pursue traceability confirmation for small- and medium-scale farms in coordination with suppliers, farmers, NGOs, specialists and third-party organizations. In addition, we are steadily performing confirmation of palm oil mills identified as requiring observation through risk assessments. Concerning procurement of RSPO certified oil, we procured a volume of RSPO certified oil equivalent to the total volume of palm oil for consumer applications. Going forward, we will expand procurement to include industrial applications.

We once again achieved nearly 100% traceability for paper and pulp producing areas, maintaining the results from 2019, and the certified product ratio was 94%. We will continue to introduce certified products for small-scale suppliers and encourage confirmation of sustainability with the aim of achieving 100% by 2025.

To address human rights, we request that all direct materials suppliers worldwide join Sedex, respond to Sedex questionnaires and set up data access rights. As of the end of 2020, suppliers accounting for 83% of global transactions (on a monetary value basis) were Sedex members (including Kao SAQ, an alternate program). We will continue to encourage Sedex membership in the future and request improvements by suppliers whose assessment results are low (scores of B or C and response rates below 80%).



Our initiatives

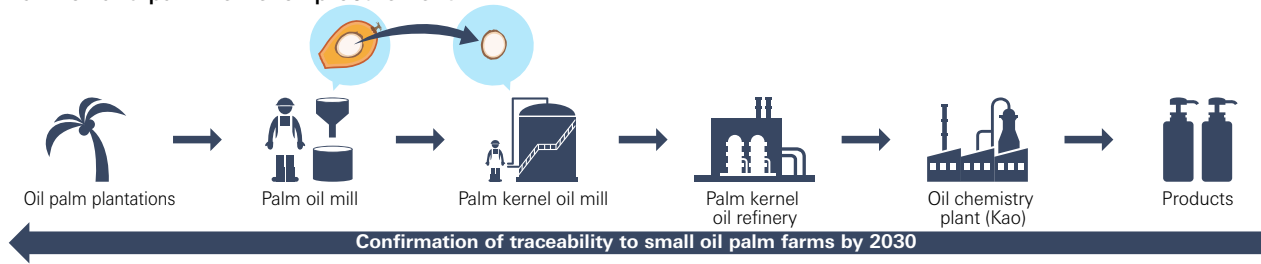
Initiatives toward sustainable procurement of palm oil and palm kernel oil

With respect to Guidelines for Sustainable Procurement of Raw Materials, we comply with the NDPE^{*1}. We strongly request that suppliers and supplier group companies comply with the NDPE and do not tolerate violence, improper accusations or threats against defenders of human rights. We also place priority on purchases from suppliers that comply with the NDPE policy and HCSA^{*2} concepts. In addition, we conduct third-party audits (SMETA audits) of suppliers to confirm the status of compliance.

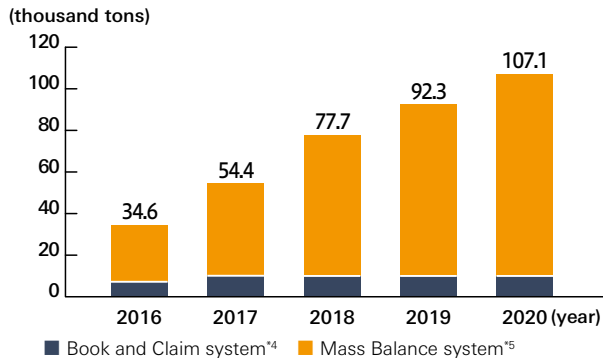
In accordance with the above policies, we strive to procure sustainable palm oil and palm kernel oil by confirming traceability to the place of origin and through activities as an RSPO member.



Palm oil and palm kernel oil procurement



Certified palm oil purchases^{*3} (Kao Group)



*1 NDPE: No Deforestation, No Peat and No Exploitation
 *2 HCSA: High Carbon Stock Approach
 *3 Total of palm oil, palm kernel oil and their derivatives
 *4 Book and Claim system

RSPO-certified palm oil credit trading system. By purchasing "certification credits" issued in proportion to the amount of palm oil produced and registered by plantations certified by the RSPO, users of palm oil are considered to have purchased the amount of certified palm oil corresponding to the amount of credits. This system encourages plantations to produce certified oil.

*5 Mass Balance system
 A certification system that permits mixing of RSPO-certified palm oil with non-certified palm oil

Targets under the sustainable palm oil procurement guidelines and 2020 results

When procuring palm oil and palm kernel oil, we give due consideration to the preservation of biodiversity, pursue zero deforestation, and take action to achieve four targets.

Targets	Performance in 2020
1 By the end of 2015, purchase only sustainable palm oil traceable to the mill for use in Kao Group consumer products.	Completed traceability confirmation for the mills
2 By 2020, adequately confirm zero deforestation at the source through cooperation with plantations, suppliers (mills and refineries) and third-party organizations. In addition, we will not take part in procurement activities that use high conservation value (HCV ^{*1}) forests, high carbon stock (HCS ^{*2}) forests or peatlands.	Completed mill identification, deforestation monitoring for surrounding areas Continued investigation of high-risk mills Disclosure of mill list on website
3 By 2020, purchase only sustainably sourced palm oil that is traceable to the plantation for use in Kao Group consumer products.	Procurement of a volume of RSPO-certified oil equivalent to the volume of palm oil used in consumer products in 2020. Expansion of industrial applications will be promoted in the future. Completed tracing to farms owned and managed by oil suppliers and continued confirmation to small- and medium-scale farms
4 By 2020, work to obtain RSPO SCCS certification of Kao Group manufacturing sites in order to build a traceable supply chain for the group.	Acquisition of RSPO SCCS certifications: Completed acquisition for group plants and offices within and outside Japan in 2018

*1 HCV: High conservation value

*2 HCS: High carbon stock

Responsibly sourced raw materials 308-2, 414-2



Support for small oil palm farms

Kao, Apical Group (a company that manufactures and sells oil and fat products) and Asian Agri (a plantation company) seek to create a sustainable supply chain for palm oil. We announced the launch of the SMILE program, which seeks to improve and sustain the productivity of small-scale palm farms and supports acquisition of certification for sustainable palm oil in Indonesia.

In Indonesia, a palm oil production region, the destruction of forests and wildlife habitats from new plantation development, human rights violations of indigenous people, the working environments of workers on palm plantations and child labor have become serious social problems.

On small oil palm farms in particular, which account for approximately 40% of palm kernel production in Indonesia, productivity is low due to a lack of information concerning production technologies and there are various other issues including poverty and poor living environments, and the path to solving these problems is not yet clear.

The three companies are collaborating to provide support for solving the problems that small oil palm farms are facing. We are providing guidance on farm management techniques and technologies to increase productivity while engaging in dialogue with producers. We are also working to curb the development of new farms by increasing yields, supporting acquisition of certification for sustainable palm oil, and improving and enhancing the lives of producers.

Overview of support

• Details of support

We established highly experienced farm management and technical support groups for the small oil palm farms eligible for support. The groups visit the farms and carry out the following three measures.

1. Educate farmers on how to improve their yields and sustainably manage their farms, as well as on the importance of staying committed to sustainable practices such as no-deforestation and zero-burning, no exploitation
2. Provide support for RSPO certification
3. Provide training on how to implement robust safety measures across their estates, and safety equipment (including safety helmets, gloves and fire extinguishers)

• Implementation period

11 years from 2020 to 2030

• Implementation regions

Provinces of North Sumatra, Riau and Jambi

• Targets

Number of small oil palm farms eligible for support: Approximately 5,000 (farm area: Approximately 18,000ha)

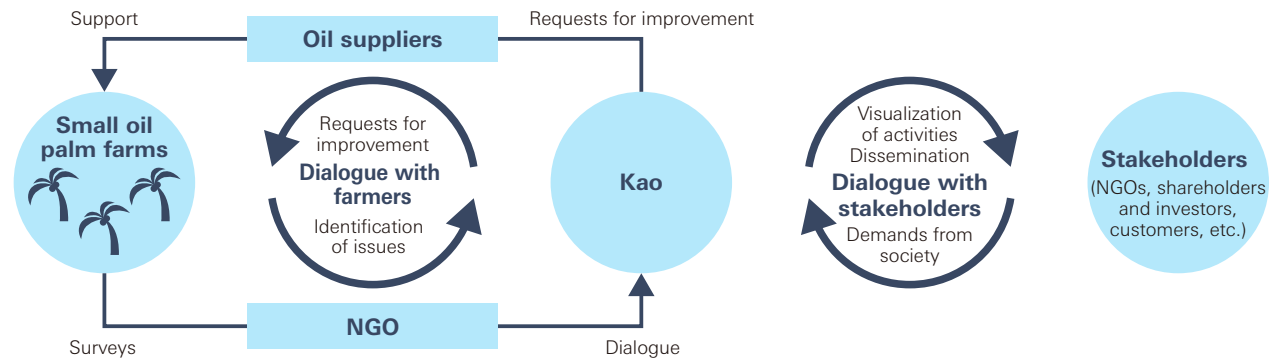
Provision of *Adjuvant* series of agricultural materials

In addition, support unique to Kao includes the provision of the *Adjuvant* series of agricultural materials (a functional spreader) created through Kao's many years of surface science research. Through the use of *Adjuvant*, which supports the efficient distribution of agricultural chemicals, we seek to reduce the amount of chemicals used, reduce costs, stabilize farm income and reduce environmental impact.



→ Kao, Apical and Asian Agri Launch 'SMILE' Program to Help Oil Palm Smallholders Improve Yields, Acquire Certifications, and Secure Premiums
www.kao.com/global/en/news/sustainability/2020/20201014-001/

Overall image of support measures for small oil palm farms



By engaging in direct dialogue with production sites and undertaking supply chain improvement measures through collaboration with partners and making those activities visible and publicly disclosing them we seek to create a global platform for procurement of sustainable palm oil.

Responsibly sourced raw materials 308-2, 414-2



Initiatives toward sustainable procurement of paper and pulp

We have committed to including considerations for biodiversity preservation and our pursuit of zero deforestation in paper and pulp procurement.

Targets	Performance in 2020	Rate of achievement (%) of the 2020 target
By 2020, we will purchase only recycled paper and paper produced with due consideration for sustainability for the paper and pulp used in Kao Group products, packaging materials and office paper. When using pulp other than waste pulp (virgin pulp), we will purchase only pulp that is traceable to the source, and confirm zero deforestation at producers of wood materials through cooperation with suppliers and third-party organizations.	Traceable paper and pulp: 100% (certified paper and pulp: 94%)	100%
	Copy paper (green procurement product: domestic): 99%	99%

We are pursuing procurement of sustainable paper and pulp raw materials based on our Guidelines for Sustainable Procurement of Raw Materials.

With regard to the introduction of FSC-certified paper, in 2013 we began introduction of packaging for our products, and in 2016, we became the first company in Japan to use FSC-certified corrugated board.

In 2020, 94% of our paper and pulp products were certified* (by FSC, PEFC, or other organizations). In Japan, we have switched 99% of the copy paper used to paper that takes sustainability into consideration (green procurement products).

* Covers paper and pulp used in Kao products (excludes some products). The ratio of certified materials among paper / pulp materials is tabulated based on the ratio by weight of certified materials for each procured item.

Using Sedex in supplier monitoring

We use Sedex in confirming compliance with the Guidelines for Supplier's Assessment, which define initiatives in such areas as the environment, safety, conformance with laws and social norms, and human rights and labor problems, and in risk assessments. After joining in 2014, we began full-scale use in 2016, and we request that all direct materials suppliers worldwide join Sedex, respond to Sedex questionnaires and set up data access rights.

As of the end of 2020, suppliers accounting for 83% of global transactions (on a monetary value basis) were Sedex members (including Kao SAQ, an alternate program*). We will continue to raise the proportion of transactions with Sedex members in the future.

We also perform risk assessments using Sedex risk assessment tools of those suppliers that have set access rights on Sedex. We provide feedback of the assessment results to suppliers and request revisions to items that require improvement so that the suppliers can receive an overall evaluation of A or better.

For suppliers that find it difficult to join Sedex, we also use an original survey form (Kao SAQ) as an evaluation tool to supplement Sedex. We have fully revised the items involving confirmation of corporate social responsibility such as compliance, human rights and business practices, as well as items involving confirmation of environmental protection such as environmental policies, environmental objectives and various categories of environmental management, including pollution prevention (air, water, etc.). In 2018, we began to apply this revised standard to some direct material suppliers to our group companies outside Japan, to domestic machinery suppliers, and to indirect material suppliers

(gift item manufacturing and sales companies). In 2019, we expanded the standard to some domestic direct material suppliers.

We are also performing this assessment when onboarding new suppliers.

* EcoVadis and other survey programs used as alternatives to Sedex

Results of 2020 supplier risk assessments based on Sedex*1

Overall evaluation	SAQ response rate*2	Sedex risk assessment*3	Percentage
S	80% or more	3.0 or more	17%
A	80% or more	2.0 to less than 3.0	37%
B	80% or more	Less than 2.0	27%
C	Less than 80%	—	19%

*1 The scope of assessment is 656 sites that responded to the Sedex new Self-Assessment Questionnaire (SAQ)

*2 Sedex new SAQ response rate

*3 Management control score values using Sedex assessment tools (ranging from 0 to 5; the higher the score, the better management is)

Increasing raw material ordering operations efficiency by using IT

We reviewed the operational flows for ordering raw materials and adopted IT to automatically calculate raw material demand forecasts based on sales plan and established a system to share this information with suppliers.

This enables us to share raw material demand forecasts with suppliers up to one year in advance and is expected to prevent raw material shortages and reduce disposal of leftover products resulting from excess production. This is expected to reduce raw materials (resources), energy (CO₂ emissions) and waste in conjunction with excess production and disposal of leftover products and to enable reductions in the labor force.

Operation began with cosmetic products in 2021, and we plan to expand this to raw materials for all Kao products in stages.

We are also developing a system to share

Responsibly sourced raw materials 102-12, 102-43, 404-2



information on raw material risks, production plant site information and ESG information with suppliers and have started partial operation. Through these systems, we will continuously share the latest risk information with suppliers and plan to identify procurement risks at an early stage and respond to them in advance.

Kao vendor summits

We hold vendor summits to provide a venue for sharing information and exchanging opinions with suppliers within and outside Japan. Each year, a specific theme is chosen for the vendor summits, and we seek to foster communication in regard to that theme.

In 2020, unfortunately, the meeting was postponed to prevent the spread of COVID-19.

Number of companies that participated in the vendor summits (Unit: firms)

	Held in Japan	Held outside Japan	Total
2016	246	279	525
2017	245	258	503
2018	243	230	473
2019	239	267	506
2020	Suspended	Suspended	—

CDP Supply Chain Program*1

We recognize risks associated with sustainable development based on resource constraints, loss of biodiversity, global warming and other environmental problems as well as problems such as human rights, and are working to sustainably procure raw materials. These initiatives must be managed across the entire supply chain. With regard to climate change, water and forests, we are participating in the CDP Supply

Chain Program and asking our key suppliers to disclose relevant information. In 2020, the supplier response rate was 73% in regard to climate change, 74% in regard to water and 78% in regard to forests.

In regard to forests, we are conducting risk assessments by providing information to the CDP Forest Program*2.

*1 CDP Supply Chain Program

The CDP is a nonprofit organization operated by institutional investors that requests corporations and other organizations to disclose information relating to climate change, water and forests. The CDP Supply Chain Program is an initiative in which participating enterprises ask the firms that make up their supply chain to disclose information relating to climate change, water resource use and forest resource use via the CDP platform.

*2 CDP Forest Program

A CDP initiative in which enterprises are asked to disclose information regarding forest resource management and usage status, etc.

Surveying supplier satisfaction

We conduct supplier satisfaction surveys every three years in order to ensure that we are carrying out procurement activities fairly and equitably.

In 2020, we conducted a survey and received valuable feedback from 210 suppliers on topics including vendor selection, quality, ordering, customer service and communication.

We received high evaluations concerning fairness in price negotiations and vendor selection, customer service attitudes and corporate ethics. At the same time, we identified issues concerning changes after an order is placed, disclosure of the reasons for non-selection of vendors and mutual exchanges of information. We are working to improve the situation regarding changes after an order is placed by sharing information with the relevant divisions. With regard to disclosure of the reasons for non-selection of vendors and exchanges of information, we will provide thorough explanations that satisfy suppliers.

Number of companies responding to the satisfaction survey (Unit: companies)

	Raw material suppliers	Packaging and packing material suppliers	Machinery and indirect material suppliers	Total
2007	48	37	44	129
2010	55	68	44	167
2013	71	59	45	175
2016	78	69	52	199
2020*	105	69	36	210

* 2019 was in implementation year under the initial plan, but a decision was made to implement the survey in 2020 due to organizational changes in the Procurement Division.

Examples of education and promotion

Employee training and awareness-raising (Japan)

We educate new Procurement Division employees in our basic approach to procurement, which includes fairness and equity, adherence to laws and ethics and social responsibility. Through such education, we strive to encourage our employees to understand global social issues such as human rights and labor, which are fundamental to the United Nations Global Compact and ISO 26000 principles. In 2020, we conducted education on our basic approach to procurement for eight employees newly assigned to the Procurement Division.

Promoting certification testing (Japan)

So that all Procurement Division employees understand the relationship between society and the environment, and as education to modify their behavior accordingly, we encourage them to take certification examinations. In 2020, we encouraged employees to take the Certification Test for Environmental Specialists® (Eco Test®*), and the cumulative number of employees who have passed the test accounted for 78% of division employees in 2020.

* Eco Test®

This test promotes an environmentally and economically sustainable society.



→ For more details about human rights in the supply chain, see p. 164 Walking the Right Path > Respecting human rights