

# Supply Chain ESG Promotion Guidelines

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We are committed to securing the traceability of its supply chain by working together with our suppliers. We will work to source our raw materials in a way that protects natural resources, the environment, safety and human rights, with the aim of realizing a more vibrant and caring society.

Our commitment to compliance with laws and regulations and fulfilling our corporate social responsibility extends to our suppliers, and we prioritize procurement from suppliers who adhere to these principles. We also ensure that our Guidelines for Supplier's Assessment are understood by all of our suppliers and check their compliance through audits and other means. If our suppliers are found to be in contravention of these guidelines, we take appropriate action such as requesting improvements or discontinuing our business relationship with them. We will identify supply chains in our raw material procurement where there are significant risks to human rights or the environment. We will identify these risks through on-site dialogue, determine the nature of the issues, and implement activities to solve the issues together with our business partners and NGOs. Our progress will be tracked and reported.

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## 1. Initiatives with our suppliers to promote ESG in the supply chain

We will engage in sustainable procurement of raw materials together with our suppliers. We work with suppliers that accept the standards upheld in Kao's Policies for Procurement and Guidelines for Supplier's Assessment. Suppliers are required to respect and protect human rights and the environment, and comply with laws and regulations throughout their procurement supply chain. The status of compliance of our suppliers will be monitored through third-party audits and other means.

### Supplier engagement

- 1) We will increase traceability across our supply chain up to the procurement of raw materials by working together with our suppliers.
- 2) We will identify risks related to human rights and the environment in our supply chain and implement activities to mitigate them by working together with our suppliers.
- 3) We request our suppliers to join Sedex\*<sup>1</sup> (including alternative programs, such as Kao SAQ\*<sup>2</sup>), participate in the CDP Supply Chain Program\*<sup>3</sup> and promote due diligence in terms of human rights and the environment. We will work with suppliers to make improvements when their efforts are found to be insufficient.
- 4) We conduct third-party audits of our suppliers (such as the SMETA\*<sup>4</sup> audit) and disclose the number of suppliers audited.

- 5) We promote the procurement of raw materials using third-party certification systems (RSPO, FSC, etc.) by working together with our suppliers.
- 6) We make efforts to reduce CO2 emissions relating to procurement for all raw materials by working together with our suppliers.
- 7) We will develop a system using digital technologies to effectively share information with our suppliers to build capacity for early response to issues as they arise by working together with our suppliers.

We define suppliers involved in the procurement of natural resources (natural oils and fats, paper and pulp, etc.) and those that conduct inadequate due diligence in terms of human rights and the environment as high-risk suppliers. Purchases from these suppliers must be approved by the Executive Officer in charge of purchasing on an annual basis. We prioritize conducting third-party audits of the high-risk suppliers to identify issues and request improvements to the identified issues.

**\*1 Sedex (Supplier Ethical Data Exchange)**

A large-scale, global platform for the sharing and verification of information relating to labor standards, health and safety, environmental protection and business practices, aimed at promoting the adoption and maintenance of ethical business practices in global supply chains.

**\*2 Kao SAQ, alternative programs**

KAO SAQ: Kao's proprietary survey form that complements Sedex  
Alternative programs: Alternative research programs to Sedex such as EcoVadis

**\*3 CDP Supply Chain Program**

CDP is a nonprofit organization (with its headquarters in London) that is operated by institutional investors that requests business enterprises 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.

**\*4 SMETA (Sedex Members Ethical Trade Audit)**

An audit format that covers the four pillars of Sedex: labor, health and safety, environment and corporate ethics.

## 2. Initiatives to identify high-risk supply chains and their fundamental solutions

We identify high risk supply chains in our raw materials procurement, from the following perspectives.

- Business perspective: Procurement amount and the possibility of replacement with alternative raw materials, etc. (identification of critical suppliers)
- Geographical perspective: The risks associated with the location of the supply chain up to the raw material
- ESG perspective: Results of supplier due diligence

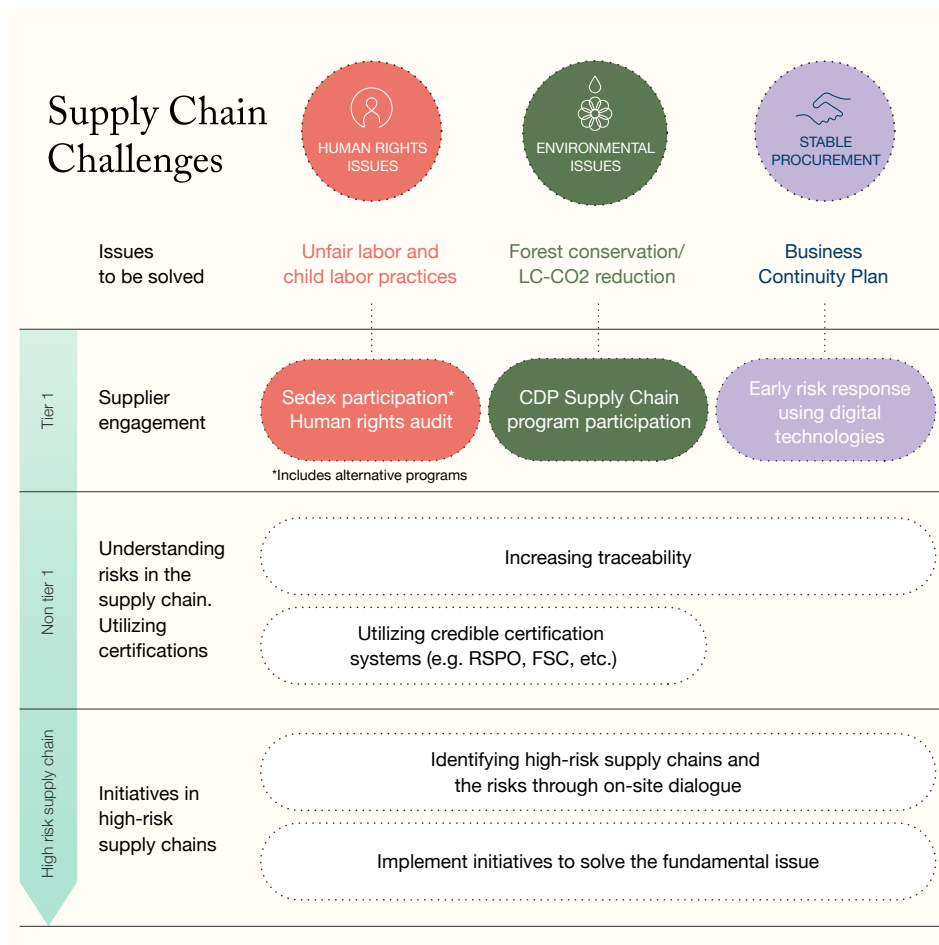
Based on the above three perspectives, high-risk supply chains are identified and reviewed annually with the approval of the Executive Officer in charge of purchasing.

We identify risks through on-site dialogue within high-risk supply chains and take the initiative to conduct activities (training programs) with suppliers and NGOs to resolve the fundamental issue. We will track and report on the progress.

We identify supply chains related to palm oil and paper and pulp as high-risk supply chains and implement initiatives aimed at resolving their fundamental issues.



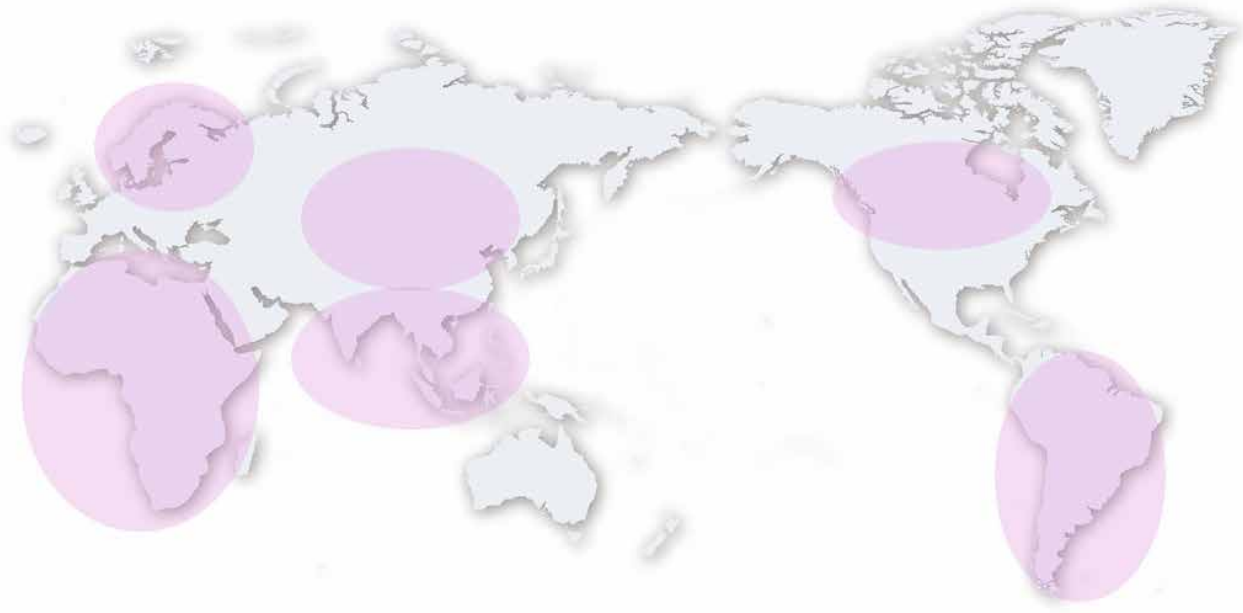
<https://www.kao.com/global/en/sustainability/topics-you-care-about/procurement/procurement-progress/>



Tier 1: Our direct suppliers of raw materials

Non-Tier 1: All supply chains involved in our procurement of raw materials, excluding direct suppliers

Areas of potential human rights and environmental risk in our procurement supply chain



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