

# Responsibly sourced raw materials 102-12, 102-15, 103-1, 103-2, 103-3

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

Major issues in product raw materials procurement include local environmental destruction and loss of biodiversity due to indiscriminate development, protection of workers' human rights, safety and health management, forced migration of local residents and health hazards in the supply chain.

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

Procurement risks may include, among others, the inability to procure raw materials as planned due to fluctuations in prices caused by various factors including abnormal weather, natural disasters, geopolitical influences and international conflicts. Procurement risk may also arise when rapid changes in demand, or problems originating with suppliers, destabilize procurement and disrupt the supply of products to the market.

In addition, our raw materials are heavily dependent on natural capital such as palm oil, paper and pulp. We must fulfill our corporate social responsibility by achieving sustainable procurement and fully considering environmental issues including resource conservation, global warming prevention and biodiversity conservation, as well as social issues such as safety, health, the labor environment and

human rights. If, as we make efforts to achieve these goals, our commitment to sustainable and responsible procurement comes to be viewed as insufficient due to an issue or issues originating in the supply chain, our brand image and credibility may be damaged.

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

ESG procurement is important if we are to contribute to a sustainable society.

In terms of ESG procurement for the environment, we promote procurement of palm oil, pulp and paper based on our "High-Risk" Supply Chain Management and Sourcing. In terms of ESG procurement for society, we conduct human rights due diligence in line with the Kao Human Rights Policy, and supplier risk assessments based on our Partnership Requirements for Suppliers. In addition, the Kirei Lifestyle Plan sets mid- to long-term targets centered on ESG procurement through 2030, and promotes responsible procurement.

By continuing these activities, we aim to become number one in ESG procurement.

### Kao's creating value

Along with ESG procurement, stable procurement is also vitally important in promoting *Yoki-Monozukuri* to provide a stable supply of products to consumers and customers. Our Procurement Division is conducting responsible procurement along the two axes of ESG

procurement and stable procurement, in addition to competitiveness-enhancing procurement.

By promoting these three procurement-related priorities in concert with our suppliers, we can ensure that consumers and customers can use our products with peace of mind.



### Contributions to the SDGs



# Responsibly sourced raw materials

## Policies

We have formulated Partnership Requirements for Suppliers, “High-Risk” Supply Chain Management and Sourcing and ESG Promotion Activities with Suppliers 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. 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.

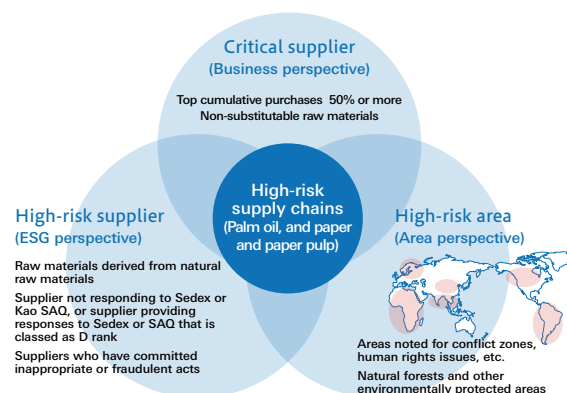
Our Partnership Requirements for Suppliers require suppliers to observe their social responsibilities, including complying with laws, regulations and social norms, protecting human rights, ensuring health and safety, and promoting fair trade. Our guidelines also enjoin suppliers to consider the environment in such areas as environmental management systems, biodiversity conservation and resource conservation. Our standard contract with suppliers clarifies provisions concerning the aforementioned issues including the environment, human rights and labor.

We are also committed to sustainable procurement based on the “High-Risk” Supply Chain Management and Sourcing. We pursue zero

deforestation at the source in our procurement of raw materials including palm oil and paper. We support the NDPE\* and request that suppliers and supplier group companies comply with it.

\* NDPE: No Deforestation, No Peat and No Exploitation

Moreover, in June 2021, we issued our ESG Promotion Activities with Suppliers. To further promote the resolution of social issues, we will make the Partnership Requirements for Suppliers known to all suppliers, and monitor compliance through such means as third-party audits. If we identify a violation, we will take appropriate action, including providing guidance for improvement or suspending transactions. In addition, with respect to raw materials procured by Kao, we will identify supply chains that entail significant human rights or environmental issues as high-risk supply chains. Through on-site dialogue, we will identify risks, determine the nature of



any issues, work with suppliers and NGOs to resolve them, and publicly report our progress.



### Policies for Procurement

[www.kao.com/content/dam/sites/kao/www-kao-com/global/en/sustainability/pdf/procurement-policy.pdf](http://www.kao.com/content/dam/sites/kao/www-kao-com/global/en/sustainability/pdf/procurement-policy.pdf)

### Partnership Requirements for Suppliers

[www.kao.com/content/dam/sites/kao/www-kao-com/global/en/sustainability/pdf/procurement-partnership-requirements.pdf](http://www.kao.com/content/dam/sites/kao/www-kao-com/global/en/sustainability/pdf/procurement-partnership-requirements.pdf)

### ESG Promotion Activities with Suppliers

[www.kao.com/content/dam/sites/kao/www-kao-com/global/en/sustainability/pdf/procurement-esg-promotion-activities.pdf](http://www.kao.com/content/dam/sites/kao/www-kao-com/global/en/sustainability/pdf/procurement-esg-promotion-activities.pdf)

### “High-Risk” Supply Chain Management and Sourcing

[www.kao.com/content/dam/sites/kao/www-kao-com/global/en/sustainability/pdf/procurement-supply-chain-management.pdf](http://www.kao.com/content/dam/sites/kao/www-kao-com/global/en/sustainability/pdf/procurement-supply-chain-management.pdf)

### Basic Policy on Biodiversity

[www.kao.com/content/dam/sites/kao/www-kao-com/global/en/sustainability/pdf/biodiversity-basic-policy.pdf](http://www.kao.com/content/dam/sites/kao/www-kao-com/global/en/sustainability/pdf/biodiversity-basic-policy.pdf)



Fundamental section > Biodiversity

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# Responsibly sourced raw materials 102-13, 102-20, 102-43, 404-2

## 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 requesting 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 CDP Supply Chain Program, and developing our global procurement activities.

We are also working with our international business partners to provide essential solutions to social issues.

We also continue to engage in dialogue with NGOs and respond sincerely to opinions and advice from a variety of perspectives. We are actively exchanging opinions with other companies and external organizations, such as participating in JaSPON in Japan and SUSTAIN internationally, with the aim of realizing sustainable procurement and traceability.

## Framework

By strategically coordinating three policies—ESG procurement, stable procurement and strategic procurement for enhancing competitiveness, the Procurement Division is promoting responsible procurement to all stakeholders. In 2020, to practice responsible procurement, the Procurement Division's organizational structure was reorganized broadly into a Strategic Sourcing Department and an Operational Excellence Department.

The Strategic Sourcing Department's principal mission is to formulate and implement mid- to long-term procurement strategies based on the three procurement policies, while the Operational Excellence Department's main mission is to innovate in terms of efficiency and timely information-sharing along the supply chain.

These Strategic Sourcing and Operational Excellence activities are reported to the Board of Directors via reports to the Management Board.

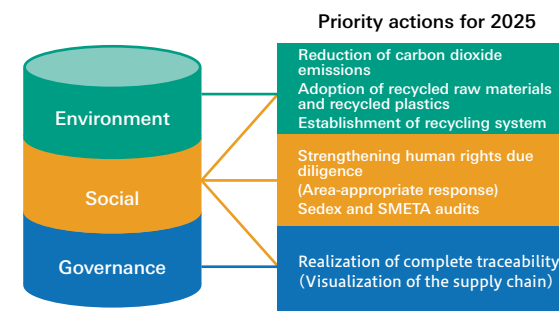
## Mid- to long-term targets and performance

### Mid- to long-term targets

On the environmental side of ESG procurement, we will work to reduce carbon dioxide gas emissions from raw materials, use recycled raw materials and recycled plastics, and establish a recycling system for containers.

In social terms, we will strive to strengthen human rights due diligence on the part of suppliers by promoting Sedex and SMETA audits.

In governance terms, we aim to ensure traceability of raw materials back to their origin and make the supply chain visible.



# Responsibly sourced raw materials

With particular respect to palm and palm kernel oil procurement, we are strengthening our initiatives to address business issues, ranging from promoting the purchase of RSPO-certified oil and ensuring traceability to supporting small farms, establishing a grievance mechanism, and disclosing forest footprints. (See Our initiatives section for details.)

→ Our initiatives  
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## 1. Ensuring traceability

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. We will also continue to confirm traceability to the origin.

\* RSPO: Roundtable on Sustainable Palm Oil

## 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 Partnership Requirements for Suppliers, 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. In addition, we will request that suppliers that are rated as high risk conduct SMETA audits and act on them to address issues.

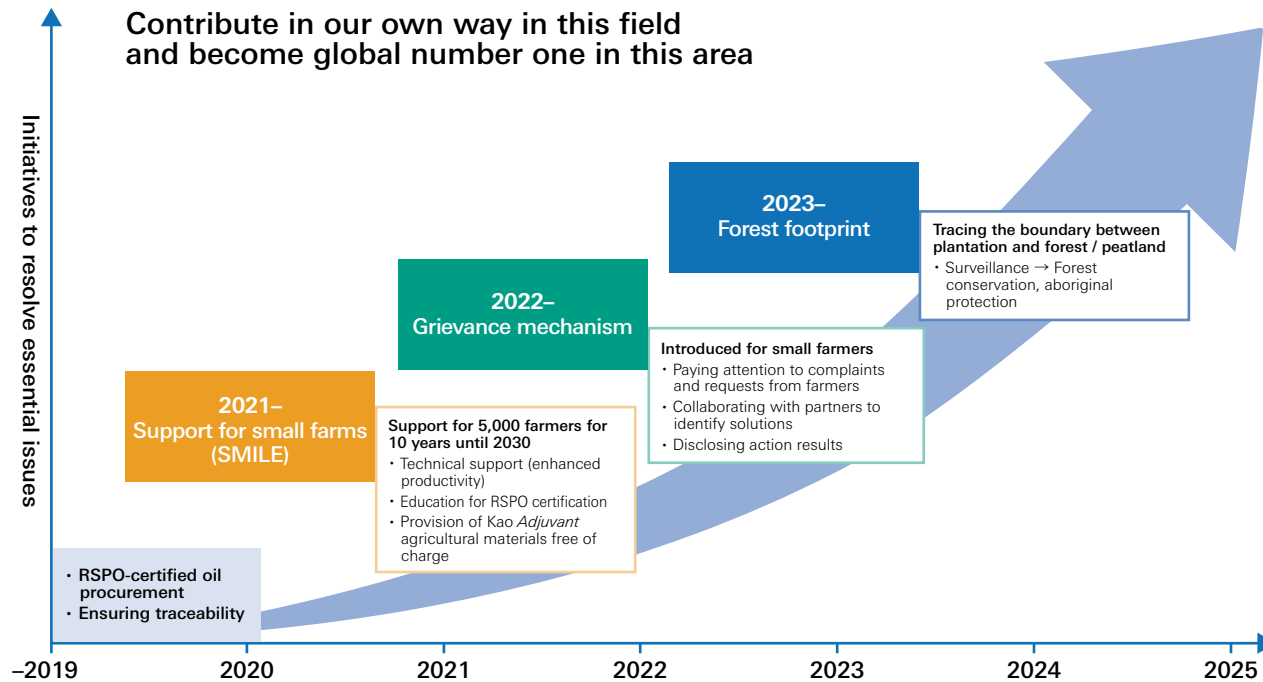
### Anticipated benefits from achieving mid- to long-term targets

#### Social impacts

Through dialogue and improvement activities with suppliers, we will contribute to solving social issues by building a sustainable supply chain world.

#### 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.



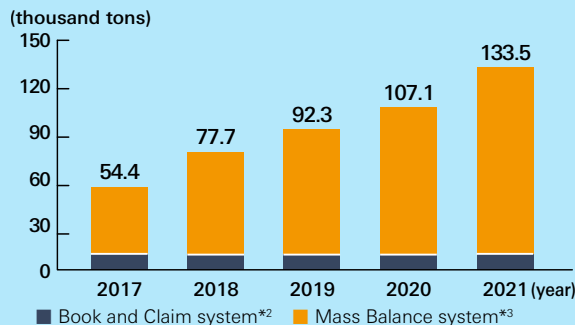
# Responsibly sourced raw materials

## Performance in 2021

### 1. Ensuring traceability

- Palm oil and palm kernel oil procurement  
Confirmation of traceability to the farms owned and managed by oil and fat suppliers: Completed  
Disclosure of mill list (mill names and locations): Completed  
Procurement of certified palm oil: Ratio of RSPO-certified oil to total palm oil: 27%

### Certified palm oil purchases\*<sup>1</sup> (Kao Group)



\*1 Total of palm oil, palm kernel oil and their derivatives

\*2 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.

\*3 Mass Balance system  
A certification system that permits mixing of RSPO-certified palm oil with non-certified palm oil

- Paper and pulp procurement\*<sup>4</sup>  
100% confirmation of traceability  
Of this, 96% of certified paper and pulp\*<sup>5</sup> (as of December 2021)

\*4 Covers paper and pulp used in Kao products (excludes some products)

\*5 The ratio of certified materials among paper / pulp materials is tabulated based on the ratio by weight of certified materials for each procured item.

### 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\*<sup>6</sup>.

- Overall evaluation of supplier risk assessment based on Sedex (as of December 2021):  
S evaluation: 19%, A evaluation: 40%

Overall evaluation	SAQ response rate* <sup>7</sup>	Sedex risk assessment* <sup>8</sup>	Percentage
S	80% or more	3.0 or more	19%
A	80% or more	2.0 to less than 3.0	40%
B	80% or more	Less than 2.0	30%
C	Less than 80%	—	11%

\*6 The scope of assessment is 1,043 sites that responded to the Sedex new Self-Assessment Questionnaire (SAQ)

\*7 Sedex new SAQ response rate

\*8 Management control score values using Sedex assessment tools (ranging from 0 to 5; the higher the score, the better management is)

In addition, SMETA audits were initiated for high-risk suppliers in 2021. Two companies found to be noncompliant underwent SMETA audits and were required to improve their internal systems.

# Responsibly sourced raw materials

## 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 2020, and the certified product ratio was 96%. We will continue to introduce certified products for small-scale suppliers and encourage confirmation of sustainability with the aim of achieving the 100% by 2023, even earlier than our original 2025 target.

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 2021, suppliers accounting for 89% of global transactions (on a monetary value basis) were Sedex members (including Kao SAQ, an alternate program). In the future, besides continuing to encourage suppliers to join Sedex, we will also request improvements from suppliers whose assessment results are low (scores of B or C).

SMETA audits of high-risk suppliers were conducted for only two companies in 2021 due to COVID-19, but will be expanded to a target of 30 companies in 2022.

# Responsibly sourced raw materials

## Our initiatives

### Palm, the most precious natural resource for Kao

For Kao, the most important natural resource is palm, and we are working toward sustainable palm oil procurement.

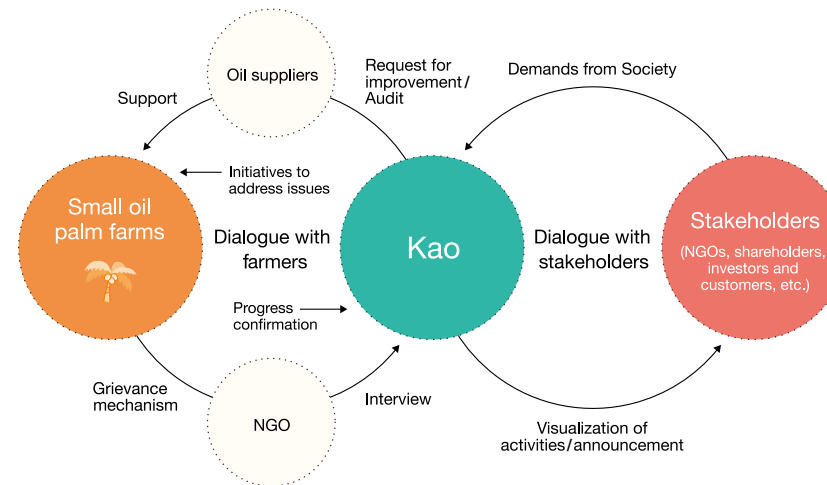
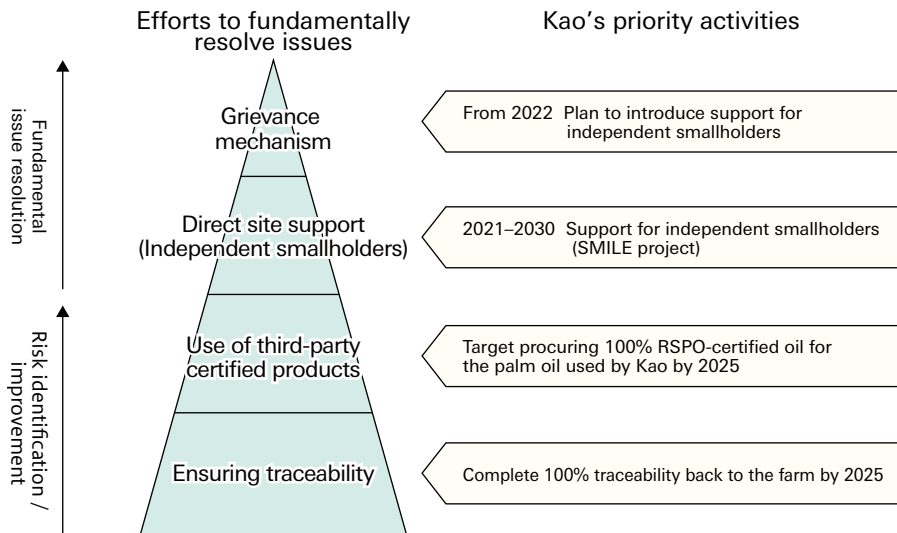
We are promoting thorough compliance with the NDPE policy and HCSA\* concepts among our oil and

fat suppliers and their group companies. In addition, we aim to expand the use of RSPO-certified oil and complete traceability to small oil palm farms in cooperation with palm suppliers and NGOs by 2025.

\* HCSA  
High Carbon Stock Approach



Initiatives to procure sustainable palm oil (high-risk supply chain initiatives)  
[www.kao.com/global/en/sustainability/topics-you-care-about/procurement/procurement-progress/progress-2021/](http://www.kao.com/global/en/sustainability/topics-you-care-about/procurement/procurement-progress/progress-2021/)



# Responsibly sourced raw materials

## 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) are implementing Smallholder Inclusion for Better Livelihood & Empowerment (SMILE), a program to help small oil palm farms in Indonesia improve productivity and obtain certification for sustainable palm oil, with the aim of establishing a sustainable palm oil supply chain.

These activities aim to enhance the living standards of local farmers and reduce deforestation. By 2030, a team of education specialists will enhance the living standards of approximately 5,000 farmers by providing technical training to increase productivity (target yield doubling) and education to obtain RSPO certification (RSPO basic principles, safety education and yield management methods). Furthermore, doubling the oil palm productivity of all independent small-scale Indonesian farms would have the effect of reducing new deforestation equivalent to the area of existing palm plantations in Borneo (approximately 4 million hectares).

In 2021, a dedicated plantation manufacturer education team conducted RSPO training sessions as well as safety, fire response, and volume and shipment bookkeeping education for approximately 700 farmers in Sumatra. We also introduced our proprietary technology, *Adjuvant*, and began testing its use locally in February 2022.



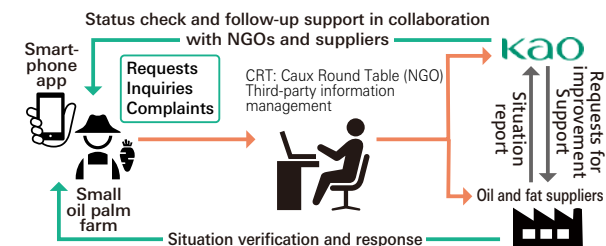
Kao, Apical and Asian Agri Launch 'SMILE' Program to Help Oil Palm Smallholders Improve Yields, Acquire Certifications, and Secure Premiums  
[www.kao.com/global/en/news/sustainability/2020/20201014-001/](http://www.kao.com/global/en/news/sustainability/2020/20201014-001/)

## Initiatives ahead of the introduction of a grievance mechanism

Starting in 2022 we are preparing to introduce a grievance mechanism for independent small farmers in Indonesia, which will enable us to respond promptly to human rights issues. The grievance mechanism is an initiative to identify and investigate issues (complaints) in the field (farms) in collaboration with NGOs, resolve the issues proactively, and follow up to confirm resolution.

In 2021, in cooperation with NGOs and as a preliminary survey of claims from small farmers, we conducted a survey of 250 independent small farmers in Riau Province, Indonesia, regarding occupational health and safety, farmland and market access.

Based on local farmer feedback gathered by the survey, and in cooperation with oil and fat suppliers and NGOs, we are preparing to start operation in July 2022 by formulating an action plan to respond to anticipated requests and complaints.



We will thus bolster our activities to resolve the roots of issues to enhance sustainability, with dialogue in the field (farms) as the starting point. Our aim is to then communicate these activities to external stakeholders (NGOs, etc.), and through dialogue, achieve further improvement.



# Responsibly sourced raw materials 102-12, 102-43, 414-2

## Collaboration with suppliers

### Supplier monitoring

We use Sedex in confirming compliance with the Partnership Requirements for Suppliers, 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.

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. Kao SAQ comprises such social responsibility items as compliance, human rights and business practices, and such environmental conservation items as environmental policies, environmental objectives and various categories of environmental management, including pollution prevention (air, water, etc.).

We are also performing this assessment when onboarding new suppliers.

As of the end of 2021, suppliers accounting for 89% of global transactions (on a monetary value basis) were Sedex members (including Kao SAQ, an alternate program\*1). 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. The results of this assessment are fed back to suppliers, who are asked to review items requiring improvement to achieve an overall evaluation of A or better.

\*1 EcoVadis and other survey programs used as alternatives to Sedex

### CDP Supply Chain Program\*2

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 2021, the supplier response rate was 78% in regard to climate change, 77% in regard to water and 84% in regard to forests.

In regard to forests, we are conducting risk assessments by providing information to the CDP Forest Program\*3.

\*2 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.

\*3 CDP Forest Program

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

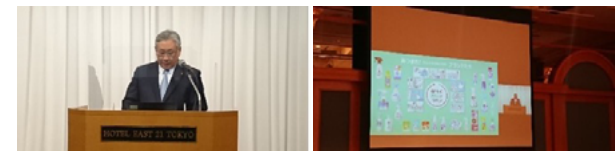
### Kao vendor summits

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, the meeting was postponed to prevent the spread of COVID-19, but in 2021 was held remotely in Japan, Taiwan and Indonesia. At the 2021 vendor summit, we and our suppliers presented our initiatives and activities, and called for collaboration to strengthen ESG procurement (including joining Sedex, conducting SMETA audits and participating in the CDP Supply Chain Program), and stable procurement (including raw material traceability and BCP compliance). In addition, we also launched a supplier commendation program in 2016 to recognize outstanding suppliers in terms of quality, price, delivery, information provision and management / ESG.

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

	Held in Japan	Held outside Japan	Total
2017	245	258	503
2018	243	230	473
2019	239	267	506
2020	Suspended	Suspended	—
2021	246	108	354



# Responsibly sourced raw materials 308-2, 404-2

## 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 2021, we conducted education on our basic approach to procurement for ten 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 2021, 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 82% of division employees in 2021.

\* Eco Test®: This test promotes an environmentally and economically sustainable society.

### Employees' voice

#### From unraveling the history of social issues to creating a sustainable society



**Kenta Suzuki**

Strategic Sourcing – Indirect Materials & Services, Procurement, Kao Corporation

“Eco” is a term that has become familiar to everyone in today’s society, and with the introduction of plastic shopping bag fees, I believe that many have adopted an environmental perspective in their lives.

Yet concerning the history and origins of this perspective and humanity’s approach to it, the problems are enormous, and there are few who can characterize them.

In addition to equipping me to grasp familiar general knowledge, my preparation for the Eco Test® has also enabled me to grasp the history of complicated social issues and the current positioning of these issues in a systematic way. We will utilize these certification tests and external educational opportunities to raise the level of basic knowledge in the entire Procurement Division, and promote ESG-conscious procurement activities to realize a sustainable society, with everyone in the division playing a central role rather than trusting that “someone else will handle the problem.”