

Governance GRI 2-12, 2-13

Our ESG governance functions under the supervision of the Board of Directors and is managed by the President & CEO and subordinate organizations. The governance structure is designed to reflect the objective and progressive viewpoints of outside committee members, enable precise decision-making by management, and implement activities rapidly.

Kao's ESG governance

We have a flexible and robust ESG governance structure in order to respond swiftly to the major changes taking place globally, ensure the expansion of business, and solve social issues. This ESG governance will support the realization of Kao Group Mid-term Plan K25 and Long-term Vision K30.

Characteristics of this structure include an organization with participation by outside committee members that functions to provide oversight and advice, and the swift and targeted implementation of management decisions broken down into innovation and initiatives.

The Board of Directors is responsible for supervising ESG issues, including risks and opportunities, under which the President & CEO and subordinate organizations are responsible for executing business operations.

Supervision by the Board of Directors

The Board of Directors consists of individuals with the appropriate knowledge, experience, and competence to oversee ESG. In addition to a number of directors and auditors who are well versed in ESG matters, the board also consists of directors and auditors with the diverse expertise required for ESG supervision (→ p. 267). In addition to the regular reports twice a year, reports are made to the Board of Directors on the execution of ESG-related matters, depending on the content of the agenda as appropriate. Contents of the report include policies and strategies as well as the targets, KPIs, and

progress of activities. The ESG-related KPIs are discussed by the Compensation Advisory Committee for Directors and Executive Officers, and approved by the Board of Directors.

Overall ESG management

The overall execution of ESG is done under a structure in which the ESG Managing Committee is the highest authority. The ESG Managing Committee discusses and decides the direction of activities related to the ESG Strategy, and reports the status of activities to the Board of Directors. Comprising outside experts, the ESG External Advisory Board provides external viewpoints that are input into our ESG activities. The ESG Promotion Meeting works to achieve the ESG Strategy, the ESG Steering Committees strive to ensure reliable and timely execution for priority issues, and the ESG Task Force proposes activities for focus themes. Under this ESG governance, each division implements activities.

The ESG Managing Committee is chaired by the President & CEO, and its members consist of senior management. The ESG Promotion Meeting is chaired by the Director and Managing Executive Officer of the ESG division, and is attended by the heads of business divisions, regions, and functional and corporate divisions. They are able to make swift management decisions on ESG matters, and the structure enables each division to conduct ESG activities. The ESG Steering Committees are owned by board-level executives who are given a certain level of decision-making authority, and are characterized by their ability to work in tandem with the ESG Managing Committee to

ensure that ESG initiatives are implemented in a reliable and timely manner. The priority issues are decarbonization, plastic packaging, human rights and DE&I, and Chemical stewardship.

The ESG External Advisory Board is made up of external experts who provide advice and suggestions to issues raised by the ESG Managing Committee and offer outside viewpoints that are input into management.

Management of ESG-related risks and opportunities

ESG-related risk management is controlled by the Risk & Crisis Management Committee, one of the relevant committees under the Internal Control Committee, which regularly monitors the materiality of risks and manages key ones.

ESG-related opportunity management is conducted by the ESG Promotion Meeting (which meets ten times a year) and the ESG Steering Committees (held as appropriate for each steering committee) under the ESG Managing Committee.

Expansion into ESG initiatives

The themes covered by this ESG governance system are basically ESG in general, but we promote strategic ESG by focusing mainly on KLP themes. The company-wide goals and KPIs formulated for each KLP theme are incorporated into the activities of each division, and the progress of activities and KPIs are aggregated and monitored by each of the committees mentioned above.

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We are building effective governance and integrating ESG into divisional policies, targets, and plans by having divisions engage in ESG-driven operations based on divisions taking responsibility for management and reporting in the organization. Divisions also conduct these operations for global Kao Group companies, with individual group companies conducting activities as appropriate according to the content.

In this way, we are interlinking the activities of the ESG Managing Committee, the ESG Promotion Meeting, and the ESG Steering Committees, connecting the activities of the responsible divisions for the 19 Kao Actions and other divisions, and incorporating ESG activities into divisions, including their global operations.

In order to promote the implementation of ESG initiatives by each employee and as an organization, ESG is incorporated in the human resource evaluation system. The human resource evaluation system is called Objectives and Key Results (OKR), and it began in 2021. All employees, including directors, audit & supervisory board members and executive officers, set a portion of their total targets as ESG targets, and they are evaluated based on the degree of challenge in the undertaken activities. Using this system, all employees will work together to tackle ESG issues and ramp up the level of activity.

Implementing the Kao Actions in the KLP

- The responsible divisions design the details of the respective actions, devise the mid- to long-term targets, regularly consolidate data on divisional progress, and manage the company-wide progress.
- The target divisions devise and implement their divisional targets and activity plan for each action.

ESG promotion at divisions

- Each division creates its promotion structure. They devise their divisional targets and activity plan, and implement the PDCA cycle.
- The progress of divisional activities is reported to the ESG Promotion Meeting, which then gives the divisions feedback, including requests to revise plans.
- Global implementation by divisions is the general rule, with support for implementation by individual Kao Group companies provided as needed.
- The members of the ESG Promotion Meeting in each division give direction and guidance on incorporating the company-wide ESG Strategy into divisional strategy.
- The level of ESG activities is ramped up by linking them with the OKR framework.

Governance GRI 2-9, 2-13, 2-17

Roles, structure, frequency of meetings and agenda of each organization

Organization	Roles	Structure	Performance (2022)	
			Frequency of meeting	Main deliberated items
ESG Managing Committee	<ul style="list-style-type: none"> Develop policy and strategy for Kao's ESG activities Gain an understanding of the issues, risks and opportunities for the sustainability of Kao and the world at large, and for ESG Deliberate and decide on matters raised by the ESG Promotion Meeting and the ESG Steering Committees Make decisions on investments for promoting ESG activities Confirm the status of company-wide ESG activity implementation and take action accordingly Report to the Board of Directors on the status of ESG activities throughout the company 	Chair: President & CEO Members: Senior managing executive officers, managing executive officers, other executives	Six times/year	<ul style="list-style-type: none"> Discussion and approval of Basic Policy on Biodiversity, etc. Deliberated on and approved the revised draft of the mid- to long-term targets for the KLP Examined the proposals from the ESG External Advisory Board Discussed and approved ESG investment projects Reviewed the progress made on each Kao Action in the KLP Held lectures by external experts (twice)
ESG External Advisory Board	<ul style="list-style-type: none"> Give advice and recommendations for issues raised by the ESG Managing Committee from outside viewpoints Provide information to the ESG Managing Committee to enable development and implementation of world-class plans Provide opportunities for collaboration and cooperation with external parties 	Members: External influential experts <ul style="list-style-type: none"> Rika Sueyoshi CEO, Ethical Association Specialization: Ethical consumption, etc. Ruma Bose Chief Growth Officer, Clearco Specialization: Human rights, entrepreneurship support, etc. Jalal Ramelan Chairman, ESG Indonesia Specialization: Sustainable development field Helmut Schmitz Director of Communication and Public Affairs, Der Grüne Punkt - Duales System Holding GmbH & Co. KG Specialization: Recycling systems for packaging, etc. Laura Palmeiro Sustainable Finance Director, Danone Specialization: Sustainability, finance, etc. 	Twice/year	<ul style="list-style-type: none"> Proposed expectations for and risks to Kao based on the social climate Reviewed and evaluated the progress made on the KLP
ESG Promotion Meeting	<ul style="list-style-type: none"> Promote implementation of the ESG Strategy based on the direction decided by the ESG Managing Committee and its directives and suggestions Confirm the status of divisional ESG activities and take action accordingly Establish task forces as necessary to implement focus themes 	Chair: Person responsible for the ESG Division Members: Responsible persons at business divisions, regions, functional divisions and corporate divisions	Ten times/year	<ul style="list-style-type: none"> Formulated the draft Basic Policy on Biodiversity, etc. Drafted proposed revisions to the mid- to long-term targets in the KLP Confirmed the progress and future plan for each Kao Action in the KLP Confirmed the progress of division ESG activities Held lectures by external experts (twice)

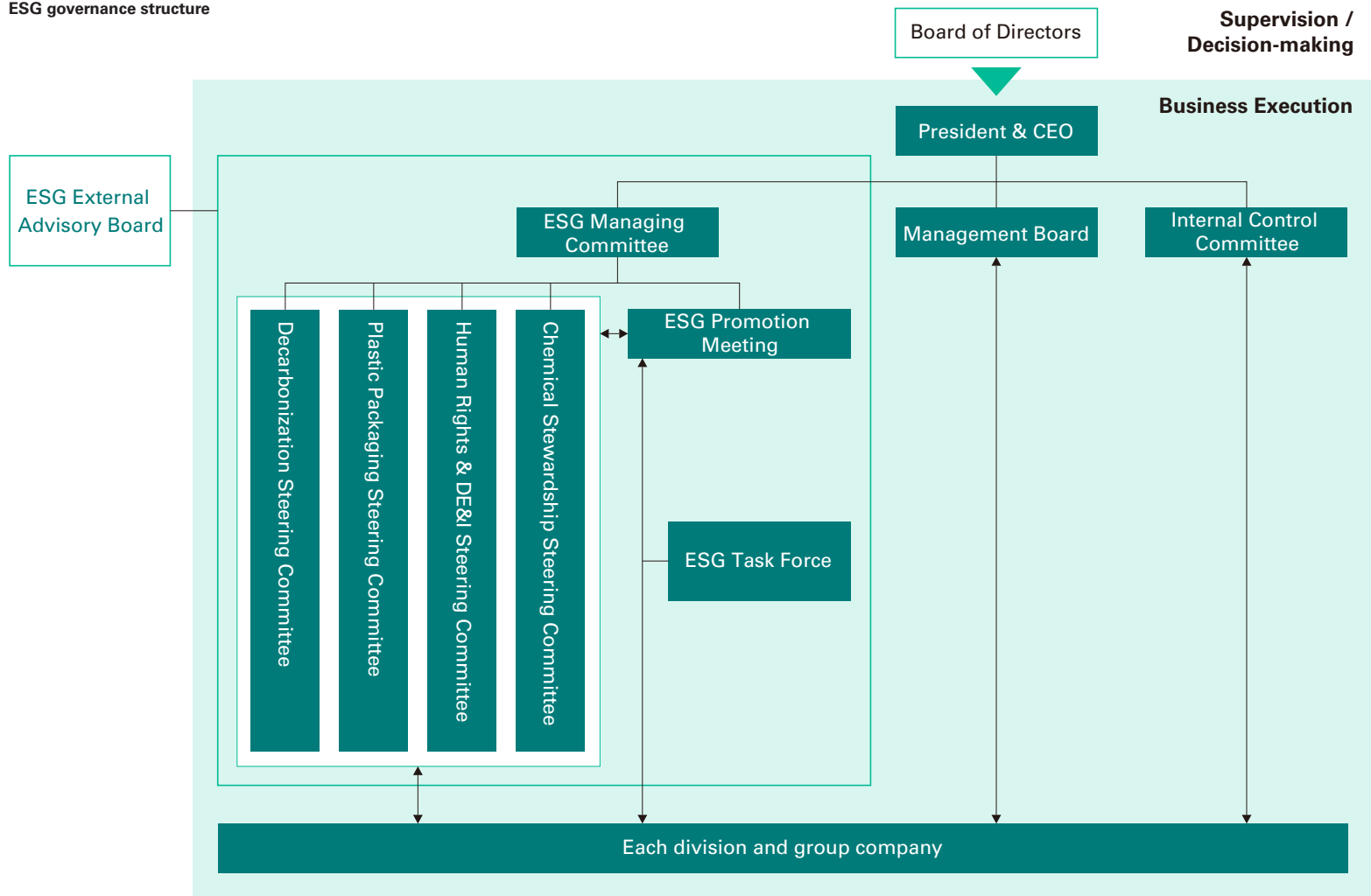
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Organization	Roles	Structure	Performance (2022)		
			Frequency of meeting	Main deliberated items	
ESG Steering Committee	Decarbonization	<ul style="list-style-type: none"> Promote rapid decarbonization activities through centralized discussions on decarbonization response measures and business opportunities for mitigation and adaptation to achieve carbon zero in 2040 Appropriate management of climate change risks based on the results of scenario analysis 	Owner: General Manager, R&D Members: Staff of R&D, Procurement, Supply Chain Management, CP Business, Chemical Business, ESG	Three times/year	<ul style="list-style-type: none"> Development of a policy for the activities of the Decarbonization Steering Committee Reorganization of opportunities and risks Discussion on 2030 GHG reduction potential
	Plastic packaging	<ul style="list-style-type: none"> Discuss activities related to plastic packaging, a key issue for KLP Action "Zero Waste" to realize a circular society, in a centralized manner and promote activities strongly and promptly. Promote activities in conjunction with the Decarbonization Steering Committee, Water Conservation, and Biodiversity 	Owner: Deputy General Manager, R&D Members: Staff of CP Business, R&D, and Procurement	Three times/year	<ul style="list-style-type: none"> Discussed and approved project proposals for Innovation for Recycling initiatives Confirmed Innovation for Reduction initiatives Discussed responses to the Plastic Resource Circulation Act of Japan
	Human rights and DE&I	<ul style="list-style-type: none"> Under the supervision of the ESG Managing Committee, promote and manage the Kao Group's human rights-related activities, including human rights due diligence, in an integrated manner in accordance with the Kao Human Rights Policy Under the supervision of the ESG Managing Committee, formulate the Kao Group's policy on DE&I, and centrally promote and manage activities based on the policy 	Owner: Executive officer in charge for the Human Capital Development Members: Staff of Human Capital Development, ESG, Procurement, Supply Chain Management, CP Business	Once/month	<ul style="list-style-type: none"> Developed draft DE&I policies Developed a draft human rights risk map Developed activities and proposed KPIs for DE&I promotion throughout the value chain, including within the Kao Group
	Chemical stewardship	<ul style="list-style-type: none"> Promote voluntary management of chemical substances throughout the product lifecycle by the SAICM Promotion Committee Develop policies and reduction/phase-out plans for chemical ingredients contained in products, taking into account progress of regulations, science, and other factors Disclose information on our approach to the use of chemicals and the results of safety assessments, and communicate with stakeholders 	Owner: General Manager, Product Quality Management Members: Staff of ESG, R&D, and Product Quality Management	As needed	<ul style="list-style-type: none"> Developed reduction and phase-out plans for selected chemical ingredients (microplastics, propylparaben, butylparaben, etc.) Promoted initiatives to disclose Kao's approach to ingredients of high social concern Participated in discussions with government agencies and others to develop international targets for chemical substance and waste management after 2020
ESG Task Force	<ul style="list-style-type: none"> Establish for individual focus themes when an inter-divisional structure is needed. Propose activities based on the detailed plan developed by the ESG Promotion Meeting 	Members: Staff of the division relevant to the focus themes	As needed	Launched a project to build a global ESG data platform by the Transparency Task Force and began various design and development activities, and partially systematized the flavor ingredient disclosure function.	

Note: Refer to p. 270 for the Board of Directors and p. 278 for the Internal Control Committee and Risk & Crisis Management Committee.

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ESG governance structure



* As of December 2022

Governance

Message from the ESG External Advisory Board



Ms. Rika Sueyoshi
CEO, Ethical Association

I am now in my third year serving on the ESG External Advisory Board. During this time, Kao has worked earnestly to boost its sustainability while pushing the Kirei Lifestyle Plan forward. International affairs had a particularly heavy impact on companies in 2022, though Kao demonstrated many efforts that reflected the current global situation, such as its support for refugees from Ukraine and its actions taken against the COVID-19 pandemic.

In terms of “S,” society, within ESG, Kao’s efforts in the past few years for the social challenges surrounding palm oil deserve particular recognition. Kao has carried out a full range of multilayered initiatives and human rights due diligence activities, bringing it to a position for leading and teaching the entire industry in terms of traceability, sustainable procurement, alternative ingredients, farm support, and other areas. Kao’s activities for supporting oil palm smallholders have gained attention from outside the company for the way it has solved human rights issues in a distinctive way. I believe there is demand for Kao to communicate in more detail to the outside world about the challenges it faced through these initiatives, as well as the kinds of (collaborative) actions it is taking.

In terms of “E,” the environment, Kao has made a broad range of efforts related to plastic packaging toward its goal for decarbonization. Plastic materials in packaging were

a competitive field in the past, but I expect a shift toward non-competitiveness in this field going forward. I also predict that there will be demand for collaborative efforts with competitors and local governments to build systems for collection (reverse logistics) and other initiatives. Kao’s distinctive qualities have enabled it to swiftly sense changes like these, and I believe the company can lead the industry and demonstrate its capabilities as a rule maker going forward. Also, while it is important to achieve a circular economy for plastic materials to the greatest degree possible, I would also like Kao to break away from a worldview that is predicated on plastic. On top of addressing issues within the realm of the existing business model, Kao should also step outside of the box with new challenging ideas that change the founding principles of the business and work to create new markets.

Last but not least, my most crucial suggestion for Kao is to not only reduce its impact on the natural environment to near-zero, but to also revive areas of the natural environment that were destroyed through economic activities rooted in mass production and consumption. This involves incorporating the regenerative approach that is currently gaining attention in many other fields. In other words, I encourage Kao to pursue a structure for activities that directly result in restoring the natural environment as the company engages in its main business. Take, for example, the common agricultural practice of using large quantities of chemicals, pesticides and synthetic fertilizers, which have harmed both the land and workers’ health. It is of course crucial to avoid the use of such chemicals, but apart from this, Kao could adopt no-till farming, cover crops and other agricultural methods based on more natural techniques to grow produce, while also taking a regenerative organic approach to revive the soil.

I would like Kao to explore a business method in which making more products brings greater contributions toward restoring the environment. Action along these lines would

help bring Kao’s vision of leading the world within reach. The same goes for human rights as well. The goal is not to simply avoid human rights violations within the supply chain. Rather, it is crucial to build an ecosystem through raw material procurement and other business activities with a view toward economically enriching the community involved with these activities while at the same time causing no harm to the environment or people’s health. By realizing an ecosystem like this, consumer will contribute to the solution by using more of Kao’s products, rather than being part of the problem. I hope that Kao will seriously reconsider a regenerative approach for the environment, human rights and other fields, and that it will incorporate this approach into its business going forward.

Message from Kao about the comments

The 2023 message expressed expectations that we incorporate the concept of “Regenerative” into our business management. On this point, in April 2022, we revised our Basic Policy on Biodiversity, publicly announcing our aim to take action leading to the conservation and restoration of biodiversity and the regeneration of the natural environment, as well our goal to help create a future based on co-existence with nature. As an example of our “Regenerative” business, we have developed and introduced a durable asphalt pavement modifier made using waste PET. In 2022, we launched a mosquito repellent product using Kao’s unique technology in Thailand, kicking off our #GUARD OUR FUTURE project, which seeks to protect future lives from mosquitoes. We will continue to conduct business activities that help to regenerate both the environment and society at large through the use of our products.

Governance

Message from the ESG External Advisory Board



Ms. Ruma Bose
Chief Growth Officer, Clearco

As a new member of Kao's ESG Advisory Board, I have been so impressed by how serious and pioneering the company is in its commitment to leadership on this transformational journey. Although there remains scope for further improvement, ESG is now deeply embedded in Kao's DNA, in the C-Suite and throughout the workforce. Increasingly this commitment is appreciated by all of Kao's many stakeholders.

This is a time when globally what constitutes best practice in ESG is evolving and deepening rapidly. This change is taking place at different rates in each of the E, S and G categories. Additionally, 2022 has been a year when ESG has become increasingly controversial, especially in the United States, as those who claim it is too politically correct vie with those who believe too much ESG is only skin deep. I am encouraged that this controversy has not shaken Kao's commitment nor slowed down its efforts to go deeper. Nor has it been significantly slowed by what remain difficult economic conditions in much of the world.

On the environmental front, across the business community the move to zero carbon has become a "gold standard," along with a growing focus on protecting nature and biodiversity. Kao is clearly committed to leading on both

these fronts, not least by adopting this year an internal price for carbon that is among the most demanding in the corporate world. It is also moving fast on its embrace of a low waste "circular economy" strategy and is asking the right questions about how it can make its impact on nature positive and sustainable.

Kao has also made many significant contributions to "S," society, including this year supporting refugees from the war in Ukraine. Yet in common with most businesses it now needs to achieve greater coherence, and alignment with its higher corporate purpose, in its S work.

Compared with E, there is little agreement among and across the business and investor communities about what constitutes best practice in S, let alone what to measure and what benchmarks to set. Yet I expect to see greater clarity on this front quite soon; Kao has a great opportunity to be a leading company in shaping this important new consensus. Kao's existing workforce sustainability initiatives are a good starting point, as are recent initiatives to empower even the tiniest contributors to its supply chain, such as its new grievance procedure for small palm oil farmers.

I am also looking forward to Kao building on its recent communications work to educate consumers about how they can help advance ESG, such as new "*mottainai*" (wastefulness) advertising campaign. From a societal leadership perspective I like how these adverts try to encourage broad behavioral change by consumers rather than narrowly promoting Kao products.

I am also encouraged by conversations I have had with Kao leadership about how it can better tell the story of its remarkable progress on ESG to the broader community of influence, so that it is looked to for inspiration by other companies around the world trying to figure out ESG for

themselves. This is a proudly humble company, but the outside world has much to learn from its progress on ESG. I look forward to engaging with Kao more deeply on this important narrative work in 2023.

Message from Kao about the comments

The 2023 message contained expectations that we communicate to consumers how they can contribute to promoting ESG themselves through using our products. In response, we launched a series of corporate advertisements in July 2022 to convey our corporate approach and initiatives for creating a sustainable world. Through the message of "Wastefulness—*Mottainai*. Never today, nor tomorrow," the series informs consumers about our products, services, and corporate approach that stem from "ESG-driven *Yoki-Monozukuri*," our strategy for contributing to a circular society. The series aims to encourage consumers to notice small instances of wastefulness in their daily lives and take action to eliminate them, and to spread this positive behavior throughout society as a whole.

Governance

Message from the ESG External Advisory Board



Mr. Jalal Ramelan
Chairman, ESG Indonesia

As I write this message, Kao Corporation has just been announced that it has received an A rating from CDP in the areas of Climate Change, Water Security, and Forests. In 2022, only 12 of the 15,000+ companies assessed by the CDP will receive an A rating in all three categories. This number decreased compared to 2021 where 14 companies received it, while in 2020 there were 10. Kao Corporation has been declared Triple A for three consecutive years.

For those familiar with CDP's rating methodology, I do not need to explain anything about what these ratings mean. However, most stakeholders need to be informed about this. As can be read on the CDP page, "To earn an A score from CDP, organizations must show environmental leadership, disclosing action on climate change, deforestation or water security. They must demonstrate best practice in strategy and action as recognized by frameworks such as the TCFD, Accountability Framework and others. As well as having high scores in all other levels these companies will have undertaken actions such as setting science-based targets, creating a climate transition plan, developing water-related risk assessment strategies, or reporting on deforestation impacts for all relevant operations, supply chains and commodities."

As someone who studied how the methodology was created and utilized by CDP, I cannot help expressing admiration for those who manage environmental issues at Kao Corporation. And my admiration is even higher when I remember that various awards in other environmental fields have also been obtained by Kao Corporation in its operations throughout the world.

Furthermore, Kao Corporation's efforts in managing social issues have also shown high performance. Likewise in issues related to corporate governance. Therefore, it is not surprising that this company has been in the FTSE4Good Index since 2008, has also been a constituent of the MSCI ESG Leaders Indexes since 2017, and many more. As 2022 draws to a close, ESG Book lists the 100 companies (out of 10,000+ with a market capitalization of over USD10 billion) with the highest ESG score, and Kao Corporation is ranked 25th. Again, a high appreciation from third parties who independent and highly credible.

However, I see that Kao Corporation has not been optimal in utilizing its ESG performance, or more precisely its sustainability performance, in communications with the stakeholders. Most companies with sustainability performance equal to, or even lower than, Kao Corporation, use sustainability issues more frequently in their communications. I just checked the Kao Corporation website and found that neither the latest CDP assessment for 2022 nor the ESG Book ratings that I mentioned above have been included in the External Evaluation section. For practitioners of corporate sustainability communications everywhere, this must be a real shock.

Therefore, I will never tire of encouraging Kao Corporation to further utilize its environmental, social and governance performance through intensive and extensive communication with all stakeholders. Kao Corporation also

needs to keep looking to find room for improvement and communicate all progress. ESG is built on the belief that companies that manage material sustainability issues well will tend to have strong financial performance. And, that relationship will only exist if the sustainability performance of Kao Corporation is communicated to the wider public at the right level and in the right way.

Message from Kao about the comments

The 2023 message included expectations that we provide more information on our environment, social, and governance (ESG) performance in our external communication with stakeholders. It was indicated that some stakeholders were not receiving information, that certain information still needed to be provided, and that there was room for improvement in the communication about our ESG performance. Going forward, we will employ methods for wider communication in accordance with the characteristics of our stakeholders and work to provide information on ESG performance in a timely and transparent manner. We are also improving the Kao website to ensure the latest information is available online in a form that is easily to understand.

Governance

Message from the ESG External Advisory Board



Mr. Helmut Schmitz

Director of Communication and Public Affairs,
Der Grüne Punkt - Duales System Holding
GmbH & Co. KG

2022 has brought us light and shadow, severe energy crises and war, but also successes in the fight against the pandemic and a growing awareness of plastic sustainability issues.

Plastic packaging plays an important role for Kao's business in many areas. For packaging in the FMCG-sector this ranges from the project with the start-up "Talking Hands" and the Guhl brand to the recycling activities with partner KOSÉ. Partnerships like the one with KOSÉ in plastics recycling or with Costco and Cainz in a reusable packaging project reflect good first steps into a complex strategy for sustainable solutions. But it is just a first step.

An integrated circular economy for plastic has to be based on three key principles: **eliminate and innovate all problematic and unnecessary plastic items, so that plastic needed is reusable, recyclable or compostable and circulate all plastic items in use to keep them in the economic and technical system.**

This approach, if sincere and built on realistic steps, requires time, creativity, persistent commitment and cooperation. Kao's dialogue in this area indicates this willingness.

It is good for sure to communicate about one's own activities and commitments, but the question of credibility

should not be underestimated. A well-known global commitment is led by the Ellen MacArthur Foundation, in collaboration with the UN Environment Programme. It is worrying, however, when the Foundation's current Progress Report (2022), with a view to the targets set by the participating FMCG companies themselves for 2025, states that the ambitions with regard to recycled content or recyclability, for example, are great, but performance is rather poor and the majority of the targets set will not be achieved by 2025.

This is where Kao's communication and activities stand out. No promises are made that turn out to be unrealistic after just a few years and damage credibility.

An interesting and promising strategic example from the Kao report of 2022 is the reusable foldable container systems used in cooperation with Costco and Cainz. The transition requires some logistical adjustments, but there are international suppliers and reliable data on the positive impact is already available from many countries.

Voluntary commitments are key to accelerate progress but they cannot be the only mechanism to create systemic change towards a circular economy. Policies and regulations play a crucial role to create the needed level playing field, necessary for markets and competing companies.

Here, engaged companies like Kao can also speed up the process through taking initiative. In March 2022, the UN decided to negotiate a global plastics agreement by 2024 to address the pressing problem of plastic use and pollution. The inaugural conference with representatives from 150 countries took place in Uruguay in November 2022.

It was interesting at the conference to see that more and more companies want to play a central role in implementing the circular economy of plastics using Extended Producer Responsibility (EPR) as an important

instrument. In Uruguay, for example, EPR organizations from more than 40 countries, including from Asia Packaging Recycling Organization Vietnam, described in a common position paper what contribution companies can make via EPR.

Cooperation and involvement of all stakeholders in all parts of the world is key to achieve the common goal towards a circular economy.

Message from Kao about the comments

The 2023 message expressed expectations that we will continue to work with other companies to create a circular economy based on an integrated approach to plastics. In response, we have carried out initiatives to circulate plastic resources in collaboration with other companies in our industry and affiliated organizations. In 2022, to create a new framework for collecting and upcycling plastic resources, we established the "RecyCreation Lab" through a co-creation project with Keio University, Kamakura City, and other participating companies and organizations. In addition, in collaboration with small and medium-sized enterprises, we introduced collapsible containers as recyclable packaging materials, and have commenced a trial to demonstrate their effectiveness in terms of reducing environmental impact and improving work efficiency. We will continue to explore initiatives for industry, government, academia, and private-sector collaboration in an effort to develop solutions that help to create a sustainable world.

Governance

Message from the ESG External Advisory Board



Ms. Laura Palmeiro

Sustainable Finance Director, Danone

By the end of my first year of collaboration with Kao, I must say I am impressed by its long track record of performance in the ESG arena.

2022 has been a year full of important achievements, such as being the only Asian company included in the CDP Triple A List, the collaboration with Unilever to reduce the CO₂ footprint of palm-derived ingredients, the launch of *Bioré GUARD Mos Block Serum* that I will help save lives from mosquitoes in South-East Asia, as well as other original initiatives to tackle waste, pack recycling and water sanitation.

But what impresses me the most is the fact that ESG topics seem to be embedded in all aspects of the organization's operational activities, in the core of its culture, including collaborating with partners. All this, enhanced by their deep-rooted Japanese legacy of respect, care and hygiene put Kao within a group of very selected few companies in the world in terms of ESG expertise and performance. Yet, Kao remains quite humble regarding its achievements, probably because they perceive it as their duty, just the right thing to do.

But in a world that is in desperate need for new technical solutions, new legislation, and new indicators to

guide investments, I believe that the time has come for system-changing advocacy to be considered as integral part of the duty of leaders.

I believe Kao should not shy away from the historic call of both duty and opportunity to leave a footprint in the international arena. An opportunity to gain greater global recognition for its achievements, to advocate within the new worldwide standards-setting processes and to unequivocally establish its ESG performance as a business and financial competitive advantage.

Regarding the latter, having consecrated my professional career to both finance and ESG topics, I can only conceive future business models being done in a sustainable way, that is, encompassing both value creation for a myriad of diverse stakeholders, including shareholders.

Transforming business' activities into more environmentally or socially responsible ones requires new financing that puts great pressure on organizations' financial equation. In theory, these investments should support future-fit organizations that are better protected from environmental and social risks, preferred by its customers and consumers, more attractive in the labor market and so forth. Still, in the transition times we are living today, these business and financial advantages are not yet so obvious because of a lack of relevant tools, indicators, and case-studies to prove it.

I can only think of a handful of companies that could be as prepared as Kao to take on this global challenge, proving the alignment of purpose and profit as a way of creating value for everyone.

This demands internal rigor to consider ESG indicators as part of every business decision-making process, seamless collaboration among ESG, R&I and Operations departments, something that Kao is already doing. Adding

the Finance department to systematically analyze the business case for these investments and discussing these concrete, data-based findings with investors could have an impact in the system that defines how these actions can be rewarded by stronger and/or preferential flow of capital.

In a nutshell, the day that the business community will find the way to prove that doing good for the planet and people equals superior ROI, financial markets will follow the evidence and we will have collectively made a gigantic step forward.

I dream of Kao taking the leadership role it deserves in this global endeavor.

Message from Kao about the comments

The 2023 message expressed that in the current era where there is strong demand for considering ESG indicators in business decision-making, to attract stronger and more beneficial capital throughout the entire industry, we must systematically analyze investment target projects and discuss survey results based on concrete data with investors. While we have actively engaged with investors in the past, to address this point, we will work to enhance disclosures and dialogue by deepening discussion through our ESG Steering Committees. These discussions will be based on information and data that is better integrated with our business, and will focus on our social and environmental impact as well as business growth and shareholder returns. While various standards for ESG disclosures are continuing to be put in place across the globe, we will strive to enhance disclosures to meet the demands of society.

Governance GRI 2-29

Stakeholder engagement

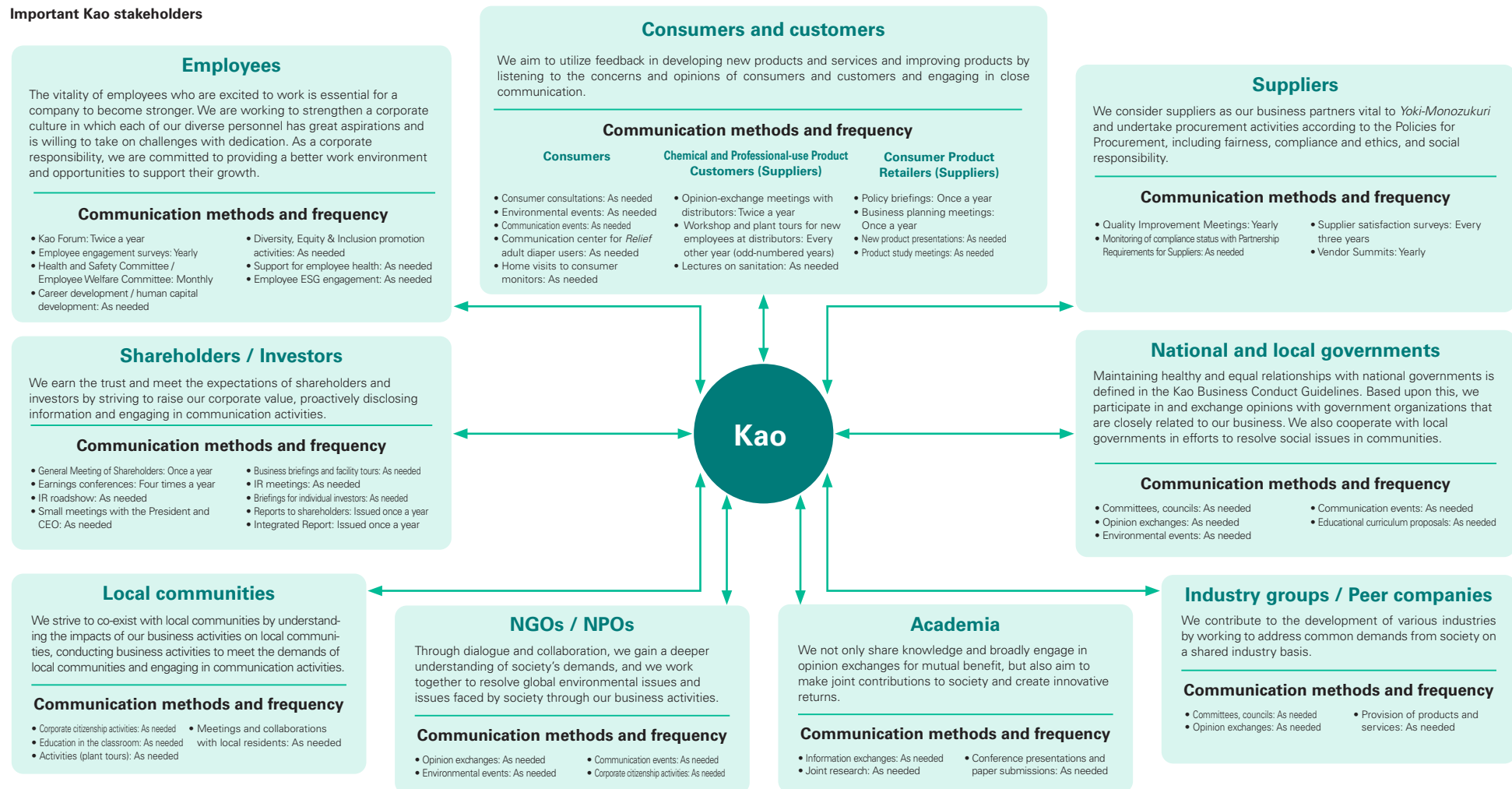
Kao's important stakeholders include consumers and customers as well as suppliers, employees, local communities, national and local governments, non-governmental and non-profit organizations (NGOs / NPOs), academia, industry groups and peer companies, and shareholders and investors.

In the Kao Way, our corporate philosophy, we define our vision as this: "By deeply knowing and understanding our world and its people, we aim to improve people's lives

beyond their expectations for a future where humans and nature thrive together." Through two-way communication with stakeholders, we deepen mutual understanding and provide information useful to society and in daily life, and use feedback we receive to improve our management, corporate activities and services, including by reporting on feedback to the Management Board and Board of Directors and having feedback reflected in deliberations of material matters.

Specific collaboration/engagement initiatives with stakeholders are described in each activity report.

Important Kao stakeholders



Governance

Specific collaboration/engagement initiatives with stakeholders are described in each activity report. Click on the name of each activity under “Specific Activities” for more information.

Collaboration & engagement with stakeholders

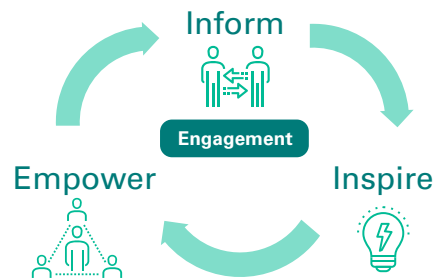
Stakeholders	Initiatives			
Employees	<ul style="list-style-type: none"> ○Employee ESG engagement ○Realization of the Kao Way ○Improved quality of life ○Habits for cleanliness, beauty & health ○Universal product design ○Safer healthier products ○Sustainable lifestyle promotion ○Purpose driven brands 	<ul style="list-style-type: none"> ○Transformative innovation ○Responsibly sourced raw materials ○Decarbonization ○Zero waste ○Water conservation ○Air & water pollution prevention ○Effective corporate governance ○Full transparency 	<ul style="list-style-type: none"> ○Respecting human rights ○Human capital development ○Inclusive & diverse workplaces ○Employee wellbeing & safety ○Responsible chemicals management ○Risk and crisis management ○Responsible care (RC) ○Product quality management 	<ul style="list-style-type: none"> ○Information security ○Strategic digital transformation (DX) ○Intellectual property ○Tax strategies ○Biodiversity ○Communication with consumers ○Process safety and disaster prevention ○Corporate citizenship activities
Consumers and customers	<ul style="list-style-type: none"> ○Improved quality of life ○Universal product design ○Safer healthier products ○Sustainable lifestyle promotion ○Purpose driven brands 	<ul style="list-style-type: none"> ○Responsibly sourced raw materials ○Decarbonization ○Zero waste ○Water conservation ○Air & water pollution prevention 	<ul style="list-style-type: none"> ○Effective corporate governance ○Full transparency ○Respecting human rights ○Employee wellbeing and safety ○Responsible chemicals management 	<ul style="list-style-type: none"> ○Responsible care (RC) ○Product quality management ○Strategic digital transformation (DX) ○Biodiversity ○Communication with consumers
Suppliers	<ul style="list-style-type: none"> ○Sustainable lifestyle promotion ○Responsibly sourced raw materials ○Decarbonization ○Zero waste 	<ul style="list-style-type: none"> ○Water conservation ○Effective corporate governance ○Full transparency ○Respecting human rights 	<ul style="list-style-type: none"> ○Responsible chemicals management ○Risk and crisis management ○Product quality management ○Information security 	<ul style="list-style-type: none"> ○Biodiversity
Shareholders/Investors	<ul style="list-style-type: none"> ○Corporate governance 	<ul style="list-style-type: none"> ○Investor Relations websites https://www.kao.com/jp/investor-relations/ 		
National and local governments	<ul style="list-style-type: none"> ○Habits for cleanliness, beauty & health ○Safer healthier products ○Sustainable lifestyle promotion ○Purpose driven brands ○Transformative innovation 	<ul style="list-style-type: none"> ○Decarbonization ○Zero waste ○Water conservation ○Air & water pollution prevention ○Respecting human rights 	<ul style="list-style-type: none"> ○Employee wellbeing & safety ○Responsible care (RC) ○Information security ○Intellectual property ○Tax strategies 	<ul style="list-style-type: none"> ○Biodiversity ○Communication with consumers ○Corporate citizenship activities
Local communities	<ul style="list-style-type: none"> ○Habits for cleanliness, beauty & health ○Universal product design ○Purpose driven brands ○Decarbonization 	<ul style="list-style-type: none"> ○Zero waste ○Water conservation ○Air & water pollution prevention ○Respecting human rights 	<ul style="list-style-type: none"> ○Employee wellbeing and safety ○Responsible care (RC) ○Biodiversity ○Communication with consumers 	<ul style="list-style-type: none"> ○Process safety and disaster prevention ○Corporate citizenship activities
NGOs / NPOs	<ul style="list-style-type: none"> ○Responsibly sourced raw materials ○Decarbonization 	<ul style="list-style-type: none"> ○Water conservation ○Full transparency 	<ul style="list-style-type: none"> ○Respecting human rights ○Inclusive & diverse workplaces 	<ul style="list-style-type: none"> ○Biodiversity ○Corporate citizenship activities
Academia	<ul style="list-style-type: none"> ○Improved quality of life ○Transformative innovation 	<ul style="list-style-type: none"> ○Water conservation ○Full transparency 	<ul style="list-style-type: none"> ○Inclusive & diverse workplaces ○Employee wellbeing & safety 	<ul style="list-style-type: none"> ○Biodiversity ○Corporate citizenship activities
Industry groups / Peer companies	<ul style="list-style-type: none"> ○Improved quality of life ○Universal product design ○Safer healthier products ○Sustainable lifestyle promotion ○Air & water pollution prevention 	<ul style="list-style-type: none"> ○Full transparency ○Respecting human rights ○Human capital development ○Inclusive & diverse workplaces ○Employee wellbeing & safety 	<ul style="list-style-type: none"> ○Responsible chemicals management ○Risk and crisis management ○Product quality management ○Intellectual property ○Tax strategies 	<ul style="list-style-type: none"> ○Communication with consumers ○Corporate citizenship activities

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Employee ESG engagement

In order to achieve the goals set forth in K25 and our ESG Strategy, the Kirei Lifestyle Plan (KLP), we believe it is important that all Kao Group employees identify with the Kirei Lifestyle vision and become Kirei Ambassadors themselves to drive activities. Looking towards achieving the Kao Way mission of realizing a Kirei Lifestyle for all, we continue to provide information and inspiration to all employees, and implement engagement measures in order to motivate and empower them. In 2022, we established the ESG *Yoki-Monozukuri* College, a platform to boost ESG education together with engagement tools and content to accelerate the integration of ESG into our business. In addition, we launched the ESG Coffee Chat project, which provides each *Genba* with the opportunity to engage in dialogue around ESG, and introduce best practices and stories about KLP promotion activities at each site.

The three aspects of employee engagement



Continuing to increase ESG literacy amongst all employees

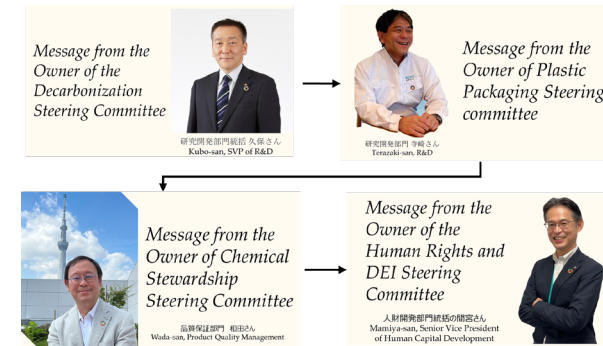
In addition to posting the ESG Trends Newsletter on our internal portal, we have continued to distribute it via e-mail to ensure that it reaches all employees around the globe. Designed to inspire the advancement of ESG-driven *Yoki-Monozukuri*, the newsletter features information on the latest ESG trends globally, as well as ESG activities at various Kao Group locations and a message from the Senior Vice President of the ESG Division touching on internal and external trends.

To further foster an ESG-focused mindset among our employees, in 2022 we published special issues on important ESG themes to coincide with key global events. Of these, the Earth Day special issue, which included a decarbonization quiz in addition to an introduction to the KLP lecture described below, resulted in high engagement with a 48% open rate.

We also launched a new project in which the executive leaders of the ESG Steering Committees address all employees through the ESG Trends Newsletter. The aim of this was to continue to highlight the directionality of ESG management throughout the Kao Group and accelerate business operations in which ESG is continuously incorporated at the *Genba*. In addition, we launched a project that introduces activities carried out by each division towards realizing a Kirei Lifestyle for all.

Owing to the above and other measures, the average open rate of the ESG Trends Newsletter rose sharply from 24% last year to 41% this year, with comments from senior management such as "I appreciate receiving a wide range of global ESG information every month," and "it is very easy to understand and I learn something new every time" from employees.

In order to continuously improve and evolve content, we will carry out a survey on our awareness-raising and communication tools for employees globally.



Top message project by ESG Steering Committee executive leaders (2022)

Kirei Actions

Yukio Otsuka
Consumer Products Business

Cosmetics have the power to uplift people and put a smile on their faces. If we can enhance this power while creating cosmetics that are good for society and the environment, I believe we can make even more people smile for years to come. My goal is to contribute to the sustainable development of the cosmetics industry by increasing the value of cosmetics while being considerate of the environment.

Chemically recycled PET material (ord JEPLAN, INC.)

Cosmetics bottles made of chemically recycled PET

Horizontal recycling cycle for cosmetics PET bottles

Pursuing Kirei Through PET Cosmetics Bottles

We strive to offer excitement to our customers by expressing a brand's charm through its products which as cosmetics innately include the design characteristics – the color and texture of the packaging. However, until now, we have struggled with the issue of recycling the colored and decorated plastic bottles used in cosmetics. That's where "chemical recycling technology" came in. As a first stage, we made cosmetics bottles using "chemically recycled PET material" resourced from used beverage PET bottles and were able to produce packaging that was just as beautiful as before. Now, in our second stage, we are partnering internally and externally to take on the challenge of realizing "horizontal recycling" of used cosmetics bottles, creating resources from them, that means bottles to bottles in the cosmetics industry. We will continue to pursue Kirei for our customers, our society, and our planet.

Kirei Actions to introduce KLP activities promoted at *Genba*

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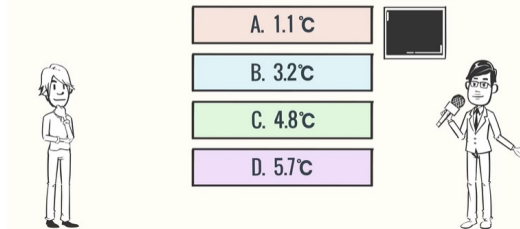
Empowering all employees with the knowledge of “how” to implement the KLP

We have been creating content for the KLP Lectures, an e-learning program comprising the knowledge needed to implement the KLP, since 2020. The purpose of these lectures is to further educate employees about background information and related knowledge for the Kao Actions in the KLP, global perspectives and standards, and about our activities.

It has been two years since the first Decarbonization program was created, and there have been significant changes in social conditions as well as an evolution in Kao's approach. Therefore, we created a second Decarbonization program to provide explanations of the latest global trends and Kao's decarbonization goals and actions, in a way that is clear and easy to understand. This was published on the intranet and in the ESG Trends Newsletter. The KLP Lecture has been offered in each division in Japan as well as in other Asian countries and AEMEA, in Japanese and English, resulting in the programs being viewed a total of 7,516 times.



Q1. If nothing changes, by up to how many degrees is the average temperature of the earth expected to rise by the year 2100, compared to pre-industrial levels?



Decarbonization 2 e-learning program using live-action and animated videos

Understanding the “why” and “how” of ESG and business integration and exploring business solutions from an ESG perspective

We have been conducting Kirei Lifestyle Plan Caravan activities to foster an understanding of the “why” behind Kao's shift to ESG management at each division in Japan and at each company in Asia, and have been working to improve employee engagement through online sessions with key people in each country.

In 2022, we launched ESG Coffee Chat, an informal dialogue session between the Senior Vice President of the ESG Division and managers across the business, to help them understand not only why but also how to integrate ESG into business and explore solutions from an ESG perspective.

Eleven sessions have been held to date, attended by a total of 52 managers from AEMEA's Consumer Care and Salon businesses and ESG leaders from Asia. In a post-session survey, one participant commented, “I enjoyed getting the ESG division's Dave's insights and perspectives in person.” “I also liked the small group sessions where everyone was able to ask questions and participate together.” Almost all respondents were

“satisfied” with the session and highly appreciated the opportunity.

In future, we plan to expand this project to the Asian region, including Japan, and into the Chemical business.



ESG Coffee Chat with the Senior Vice President of the ESG Division

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Employees' opinions

ESG and Kao's creation of a sustainable world



Susawee Ondam

Kao Industrial (Thailand)

In the new era, making profits is not the only way to build sustainable growth of the company. Building relationships and a sustainable society becomes the new crucial part to be built into business strategies. When the consumers recognize our intention of delivering sustainable happiness of people and the planet, this goodwill will benefit the company and will help to remind them every day and every time they use our products. However, to make it happen Kao Thailand puts an effort into implementing ESG's actions internally to deliver the happiness externally through many activities.

Building ESG society within Kao Thailand, starting with giving knowledge, building their understanding of the definition of the Kirei Lifestyle Plan through in-house training that aligns with Kao Corporation's

ESG Strategy, communicating ESG activities through our own internal channels such as the ESG newsletter and Kao Journal to engage employees with our purpose and realize that they are not additional tasks. Lastly, we demonstrate through activities such as collaboration projects to prevent the spread of dengue fever in Thailand, promoting collection and segregation of plastic waste to be a profitable activity and encouraging people in communities surrounding our factory to appreciate the value of waste. All of these exhibits our purpose and commitment to realizing a Kirei Lifestyle, and that we have to take little but steady steps to earn successful outcomes. To be a part of sustainable society creation for Thai society and Kao, is what we are really proud of.