

Responsibly Sourced Raw Materials GRI 3-3

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

Social issues

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

Policies

To promote ESG procurement activities in accordance with our Policies for Procurement, we amended the existing guidelines in June 2022 and developed our Partnership Requirements for Suppliers, ESG Promotion Activities with Suppliers, and High-Risk Supply Chain Management and Sourcing.

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.

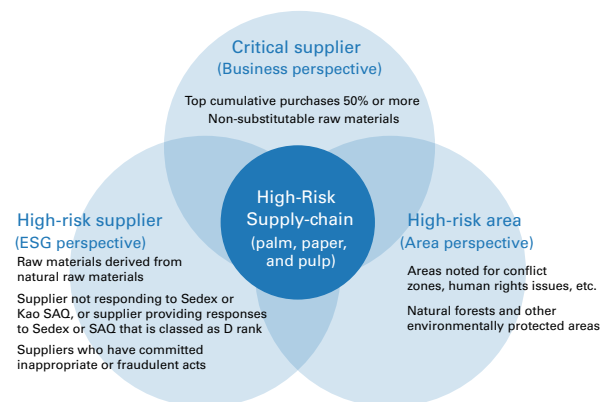
Our Partnership Requirements for Suppliers seek compliance from our supplier in areas such as rules and ethics, human rights and labor, fairness and equity, supply chain management, environmental management, and sustainability. Our standard contract with suppliers clarifies provisions concerning the aforementioned

issues including the environment, human rights and labor.

ESG Promotion Activities with Suppliers encourages the development of a sustainable supply chain, work on a High-Risk Supply Chain, and strengthen collaboration with our business partners. This ensures the traceability of the entire supply chain and contributes to the resolution of social issues such as resource protection, environmental conservation, security and human rights.

High-Risk Supply Chain Management and Sourcing outlines an initiative for sustainable procurement of natural resources, provides the action policy for the procurement of palm oils, paper and pulp, and describes the approach for solution of fundamental issues. Particularly with regard to zero deforestation, we support the NDPE* and request and confirm that our suppliers and their group companies, as well as their portfolio companies, comply with it.

* NDPE
No Deforestation, No Peat and No Exploitation



Policies for Procurement

<https://www.kao.com/content/dam/sites/kao/www-kao-com/global/en/sustainability/pdf/procurement-policy.pdf>

Partnership Requirements for Suppliers

<https://www.kao.com/content/dam/sites/kao/www-kao-com/global/en/sustainability/pdf/procurement-partnership-requirements.pdf>

ESG Promotion Activities with Suppliers

<https://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

<https://www.kao.com/content/dam/sites/kao/www-kao-com/global/en/sustainability/pdf/procurement-supply-chain-management.pdf>

Basic Policy on Biodiversity

<https://www.kao.com/content/dam/sites/kao/www-kao-com/global/en/sustainability/pdf/biodiversity-basic-policy.pdf>

P327 Biodiversity

Strategy

Risks and opportunities

Risks

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

Responsibly Sourced Raw Materials GRI 3-3

procurement and disrupt the supply of products to the market.

In addition, the Kao Group's 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 natural resources saving, global warming prevention and biodiversity conservation, as well as social issues such as safety, hygiene, 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

ESG procurement of raw materials 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.

Strategy

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

procurement. As part of our commitment to identify and eliminate risks in the supply chain, we will work to ensure farm traceability and move to 100% RSPO certified oil. We will also implement a support system for oil palm smallholders (SMILE program) and a grievance mechanism to resolve fundamental issues.

P97 Main initiatives

In addition, we undertake a risk assessment based on the ESG survey to identify suppliers' human rights risks. We will request that suppliers that are rated as being high-risk conduct SMETA audits and act on them to address issues.

Social impact

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



Business impact

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.

Governance

Framework

Risk management in relation to responsibly sourced raw materials is carried out by the Internal Control Committee and opportunity management is carried out by the ESG Managing Committee, under the supervision of the Board of Directors. These committees are both headed by the President & CEO.

Responsibly Sourced Raw Materials GRI 2-28, 3-3, 404-2

Risk management related to responsibly sourced raw materials is conducted by the Internal Control Committee (which meets twice a year) and its subordinate unit, the Risk & Crisis Management Committee (meeting four times a year). These committees are headed by the Executive Officer Responsible for Corporate Strategy.

The ESG Managing Committee (which meets six times a year) is responsible for managing opportunities related to responsibly sourced raw materials. Comprising outside experts, the ESG External Advisory Board provides advice and suggestions on issues raised by the ESG Managing Committee and offers outside viewpoints to be reflected into management, and the ESG Promotion Meeting executes the strategies.

In addition, the Human Rights and DE&I Steering Committee, under board-level ownership, have also undertaken strategy formulation and implementation planning, working to ensure reliable and rapid execution.

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

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

P18 Our ESG Vision and Strategy > Governance

Education and promotion

To carry out responsible procurement, each of our Procurement employees must acquire the necessary 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 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 suppliers to obtain 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 NGOs in dialogue 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.

Risk management

On behalf of the Kao Group, the secretariat of the Risk & Crisis Management Committee (Risk Management & Responsible Care) conducts comprehensive and topical risk surveys on each division and subsidiary to identify key risks and adjust measures. In principle, the division in charge takes the lead in addressing these risks, but cross-organizational and common risks are addressed in collaboration with related divisions to strengthen the response and are treated as corporate risk issues as appropriate.

P33 Our ESG Vision and Strategy > Risk Management

Responsibly Sourced Raw Materials

Targets and metrics

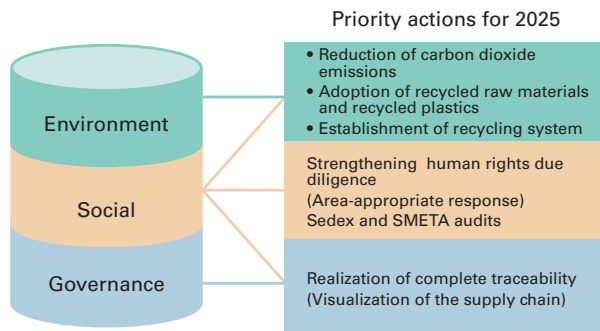
Mid- to long-term targets and 2022 results

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.



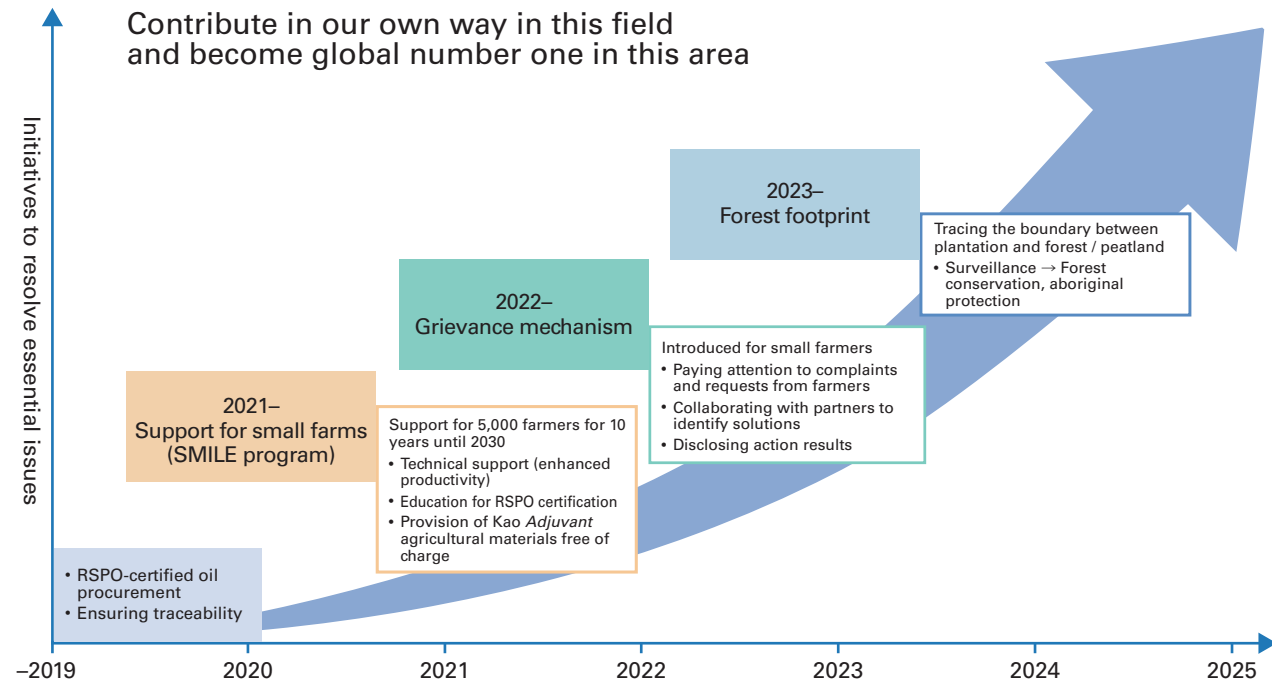
In particular, in relation to procuring palm oil and palm kernel oil, we are expanding our initiatives to solve essential problems in the supply chain, ranging from promoting the purchase of RSPO*-certified oil and ensuring traceability to supporting small palm farms, establishing a grievance mechanism, and disclosing forest footprints to the public.

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 aim to procure only RSPO-certified palm oil by 2025 and to complete confirmation of traceability back to oil palm landholders, also by 2025.

With regard to paper and pulp procurement, 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



Responsibly Sourced Raw Materials

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 the activities of our suppliers embody respect for human rights based on our Partnership Requirements for Suppliers, and we conduct human rights due diligence accordingly.

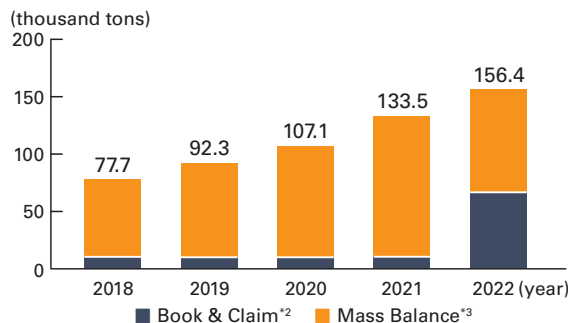
To conduct this risk assessment, in 2014 we joined Sedex, a platform for sharing information on ethical practices by global companies. We have been also encouraging our suppliers to join Sedex. We aim to achieve 100% implementation of due diligence by suppliers by 2025. In addition, we will request that suppliers that are rated as being high-risk conduct SMETA audits and act on them to address issues.

2022 results

1. Ensuring traceability

- Palm oil and palm kernel oil procurement Confirmation of traceability to the farms owned and managed by oil and fat suppliers: Complete
- Disclosure of mill list (mill names and locations): Complete
- Procurement of certified palm oil: Ratio of RSPO-certified oil to total palm oil: 34%
- Support for oil palm smallholders: 390 farms received RSPO certification.
- Introduction of the grievance mechanism: Operation started in September 2022.

Certified palm oil purchases*¹ (Kao Group)



*1 Total of certified palm oil, certified palm kernel oil, and certified palm-derived raw materials

*2 Book & Claim

A certification model in which RSPO-certified credits are traded online between producers and end-product manufacturers/sellers

*3 Mass Balance

A certification model in which certified oil is mixed with non-certified oil during the distribution process, but the quantity of certified oil is guaranteed.

- Paper and pulp procurement*⁴ Confirmation of traceability: 100% Of this, 97% is certified paper and pulp*⁵ (as of December 2022)

*4 Covers paper and pulp used in Kao products (excluding 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*⁶.

- Overall evaluation of supplier risk assessment based on Sedex (as of December 2022): S evaluation: 24%, A evaluation: 38%

Overall evaluation	SAQ response rate* ⁷	Sedex risk assessment* ⁸	Percentage
S	80% or more	3.0 or more	24%
A	80% or more	2.0 to less than 3.0	38%
B	80% or more	Less than 2.0	29%
C	Less than 80%	—	9%

*6 The scope of assessment is 1,221 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 the management)

In addition, SMETA audits were initiated for high-risk suppliers in 2021. In 2022, 29 high-risk suppliers—including those found to be non-compliant—underwent SMETA audits and were required to improve their internal systems.

Reviews of 2022 results

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. Regarding traceability back to farms, we will continue to pursue traceability confirmation for small- and medium-scale farms in collaboration with various stakeholders such as suppliers, farmers, NGOs. Regarding support for oil palm smallholders, 390 farms received the Roundtable on Sustainable Palm Oil (RSPO) certifications. The grievance mechanism was introduced and started in September 2022 for 50 farms in North Sumatra, Indonesia.

We once again achieved nearly 100% traceability for paper and pulp producing areas, maintaining the results from 2021, and the certified product ratio was 97%. We will continue to introduce certified products for small-scale suppliers and encourage confirmation of

Responsibly Sourced Raw Materials

sustainability with the aim of achieving the 100% by 2023, even earlier than our original target of 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 2022, suppliers accounting for 88% 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 targeting high-risk suppliers were initiated with two companies during the COVID-19 pandemic in 2021. In 2022, we gained understanding through sufficient dialogue with target companies and conducted audits in 29 companies, almost achieving our goal. We plan to complete audits of suppliers in Japan considered to be high-risk suppliers as of this moment in 2023.

Responsibly Sourced Raw Materials

Main initiatives

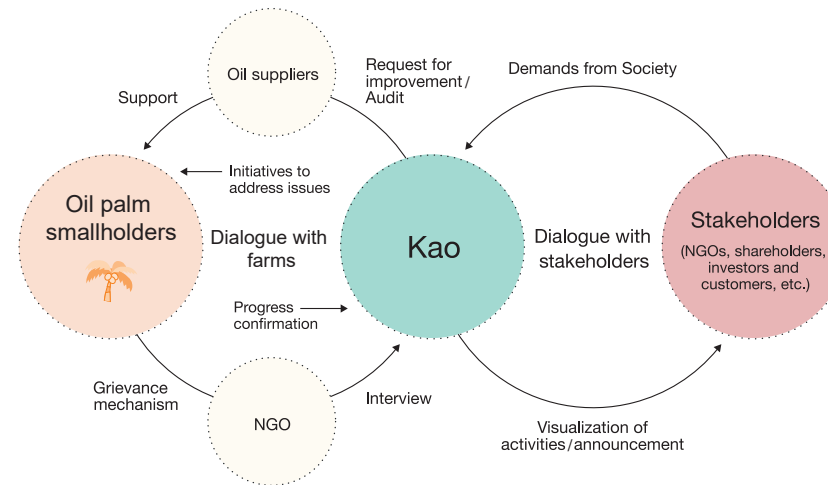
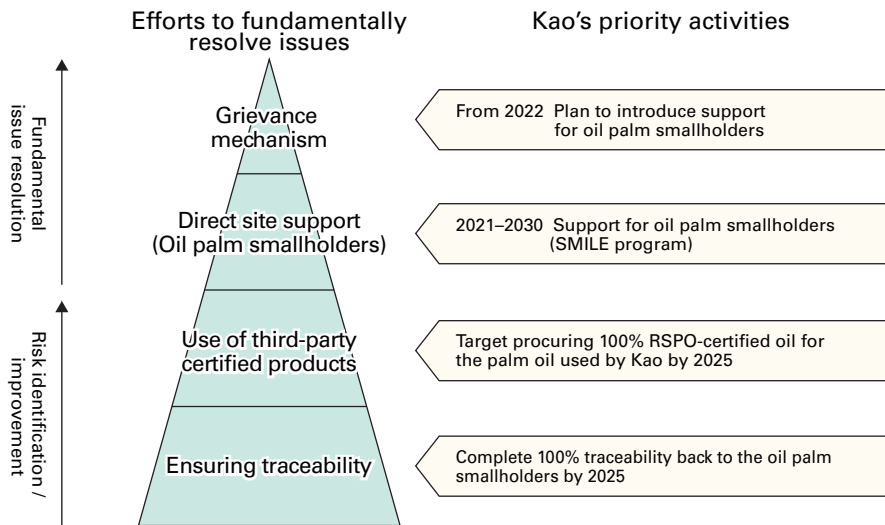
Palm, the most precious natural resource for Kao

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

We are promoting demand and confirmation of thorough compliance with the NDPE policy and HCSA* concepts among our oleo-chemical suppliers and their group companies, as well as their portfolio companies.

In addition, by 2025 we aim to expand the use of RSPO-certified oil and complete traceability to oil palm smallholders in collaboration with palm suppliers and NGOs.

* HCSA: High Carbon Stock Approach



Responsibly Sourced Raw Materials

Support for oil palm smallholders

Kao, Apical Group (a company that manufactures and sells oleo chemicals) and Asian Agri (a plantation company) are implementing Smallholder Inclusion for Better Livelihood & Empowerment (SMILE program) to help oil palm smallholders 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 plantation manufacturer's team of education specialists will enhance the living standards of approximately 5,000 farms by providing technical training to increase productivity (doubling the target yield) and education to obtain RSPO certification (RSPO basic principles, safety education and yield management methods). Furthermore, doubling the oil palm productivity of all 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).

Phase 1, which began in 2020, provided education on farm management, labor safety, fire management, and RSPO certification to 628 farms in Sumatra.

As a result, 390 plantations have obtained RSPO certification by 2022, and Kao purchases all the certification credits from these certified small oil palm farms. Certification credits for small oil palm farms enables those farms to receive certification premiums directly, thereby providing a steady income for the farmers. In addition, we started phase 2, a risk survey of farmland on 1,688 new farms and a fact-finding survey of farms in November.

In addition, Kao's proprietary *Adjuvant** technology has been introduced, and instructions are provided on

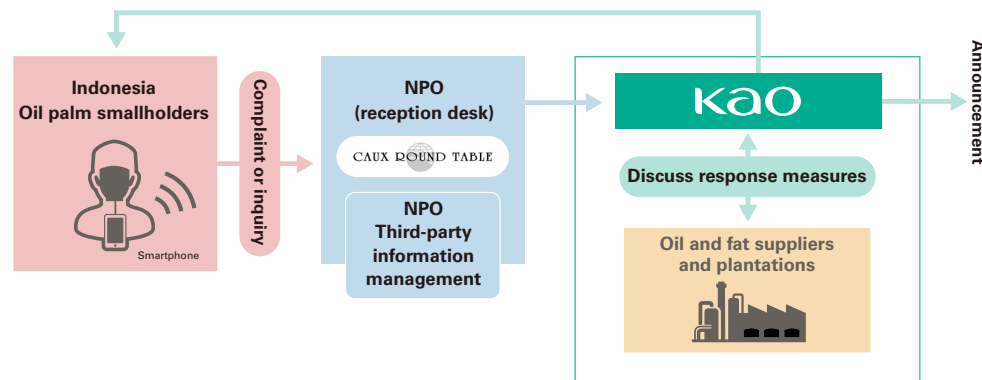
its use. We began testing its use in North Sumatra Province in February 2022, and will gradually provide it to oil palm smallholders as we verify its effectiveness.

* A high-performance agrochemical spreader developed by Kao that is derived from plant materials. Spread the chemical on the plant surface so that it is wetted and spread during agrochemical application.



Kao grievance mechanism for oil palm smallholders

- Direct dialogue with owners of oil palm smallholders
- Confirmation, investigation and response to complaints and inquiries
- Follow-up in collaboration with NPOs and suppliers



Initiative to implement a grievance mechanism

We have initiated the grievance mechanism as a way to rapidly address human rights issues in small oil palm farms in Indonesia, which we will support with SMILE program starting in 2022. The grievance mechanism is an initiative to identify and investigate issues (complaints) in the *Genba* (farms) in collaboration with NPO, resolve the issues proactively, and follow up to confirm resolution.

We started operating the system in September 2022 for 50 farms in North Sumatra, Indonesia, and received about 100 requests and inquiries about the certification system, palm production, and sustainable plantations. We are addressing the inquiries in collaboration with NPO.

We will keep bolstering our activities to solve the roots of issues to enhance sustainability, with dialogue

Responsibly Sourced Raw Materials GRI 308-2, 414-2

in the *Genba* (farms) as the starting point. Our aim is to then communicate these activities to external stakeholders (NGOs, etc.), and through dialogue, achieve further improvement.

Collaboration with suppliers

Supplier monitoring

We use Sedex in confirming compliance with our 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 2022, suppliers accounting for 88% 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 issues as well as issues 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 2022, the supplier response rate was 81% in regard to climate change, 90% in regard to water and 97% 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.

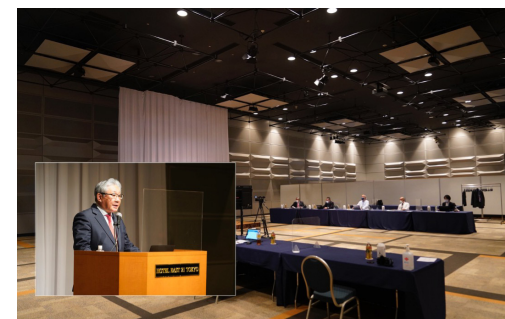
Kao vendor summits

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.

The 2022 summit was held remotely as with the previous year (Japan and Taiwan). At the 2022 vendor summit, we and our suppliers presented our initiatives and activities, and called for collaboration to strengthen ESG procurement for responsible procurement (including joining Sedex, conducting SMETA audits, participating in the CDP Supply Chain Program and LC-CO₂ initiative), and stable procurement (including raw material traceability and information security). The supplier award, which was established in 2016, was given to suppliers that demonstrated outstanding achievement in strategic partnerships, ESG, and stable supply, which have replaced the previous categories since 2022.

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

	Held inside Japan	Held outside Japan	Total
2018	243	230	473
2019	239	267	506
2020	Suspended	Suspended	—
2021	246	108	354
2022	273	29	302



Responsibly Sourced Raw Materials GRI 404-2

Education and promotion

Employee training and awareness-raising (Japan)

We educate new Procurement 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 2022, we conducted education on our basic approach to procurement for five employees newly assigned to the Procurement Division.

Promoting certification testing (Japan)

So that all Procurement 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 2022, 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 84% of division employees in 2022.

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