

Full Transparency

Through product transparency Kao aims to build stronger trust with consumers. We believe that sharing information consumers need in a suitable and easily understood way is important if they are to make the right choices for themselves and lead rich lives. We disclose information in a timely manner through our websites and various opportunities to engage with stakeholders.

Social issues

In modern society, individuals are highly motivated to obtain information that is necessary and important to them. At the same time, the development of social media has made obtaining a wide range of information easy. Ethical consumption, where products and services created with environmental and social considerations in mind are chosen and consumed, is growing on the part of consumers. Consumers are also seeking information about corporate activities with the desire to purchase not only individual products of high quality, but also products from companies they can trust.

However, information about companies and the products and services they offer is still often fragmentary, preventing consumers from making choices that are right and satisfactory for themselves.

Policies

Regarding transparency, we conduct activities founded on the Kao Way, Kao Business Conduct Guidelines (BCG), and Disclosure Guidelines so that people can easily get the information they need when they need it. This makes it easier to make for individuals to make the right choices for themselves, society, and the planet. And based on that accurate information, we can deepen our dialogue with stakeholders. We will disclose information to all stakeholders in a timely, accurate and

fair manner, aiming to be a company that is trusted and supported by society.

First, transparency must be mainstreamed in all business activities within Kao. We hope that activities can then be expanded and upgraded a step ahead of the scope and level of transparency required by the times, and that transparency will be promoted through the voluntary efforts of employees. We expect that individual movements that began voluntarily blend right in and work together well with each other so that consumers' security and safety will be ensured and a relationship of trust and empathy between companies and consumers will ensue, thereby leading to worthwhile choices for people, society, and the planet.

We will also encourage the integration of each database, which was designed individually for the primary purpose of storing and managing information, and require systemic measures to ensure a smooth two-way flow of information with internal and external stakeholders. We believe that by further enhancing transparency, we can move beyond merely disclosing required information to actively promoting communication and interactive activities that will realize the Kirei Lifestyle Plan (KLP) and lead to "ESG-driven *Yoki-Monozukuri*." We also hope to move closer to the vision set forth in the Kao Way: To be closest to the individual and beyond their expectation.

Since the global COVID-19 pandemic in 2020, many people have become aware of the new value of digital technology, and their daily lives have been changing significantly as a result of the widespread adoption of non-contact and non-face-to-face digital technology in various social activities. Part of that change is how they

access the information they need to guide their consumption behavior and what they actually consume. As such, businesses now place more emphasis on providing value to consumers promptly and in an appropriate way. From that perspective, the power of digital that enables communication not constrained by a specific time or place is essential. We will therefore promote Digital Transformation (DX) for our ESG activities as part of our efforts toward full transparency.

As an enterprise that acts with walking the right path, we aim to become a sustainable company together with various stakeholders, people, society and the planet through the provision of valuable information for science-based products that support consumers' enriched lifestyles.

Strategy

Risks and opportunities

Risks

If a company is unable to share information that is sufficient in terms of both quality and quantity, at the right time, with a quickly changing market, and with consumers, and if that information is not compatible with the company and the products it offers, then the products to be purchased, or even the company itself, may be excluded from consumers' choices.

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Opportunities

People say that the ethical market in Japan is lagging behind that of that in the West in terms of maturity. One cause is that companies in Japan have not provided much information useful for consumers to select ethical products.

“Ethical,” which means performing Earth-, social- and community-conscious behaviors, is an important concept. And it is the concept shared by Kao’s Kirei Lifestyle. If we can integrate appropriate information disclosure with “ESG-driven *Yoki-Monozukuri*” and promptly improve the environment in which consumers can make the right choices in their daily lives, Kao could be a primary driver in developing the ethical market in Japan.

Although Kao has been working for years based on the idea that we should give high priority to providing information to consumers, to date our efforts have not been enough.

Regarding product information, we already provide information about ingredients as well as containers / packaging and environmental impact. This means there is a lot of information we need to manage.

The movement toward transparent information disclosure by businesses is fast becoming more complex. Examples include information that must be disclosed, such as laws and regulations, information on chemicals management, questions about ESG-related information from various rating agencies, the Taskforce on Climate-related Financial Disclosures (TCFD^{*1}) and the Taskforce on Nature-related Financial Disclosures (TNFD^{*2}), which is being developed right now. If we are unprepared for such movements around the world, we will not be able to meet disclosure requirements, leading to a loss in reliability as a company.

On the other hand, if we can respond to what is happening overseas and improve transparency hopefully half a step ahead of our time, we believe it will be possible not only to improve our reliability but to provide outstanding products and services based on feedback from consumers, markets, and investors on the basis of common information.

To stay current with the widespread adoption of non-contact and non-face-to-face digital technology in today’s social activities, we will advance the DX promotion for our ESG activities as part of our initiatives to reach full transparency.

*1 TCFD: Taskforce on Climate-related Financial Disclosures

*2 TNFD: Taskforce on Nature-related Financial Disclosures

Strategy

Kao will further promote *Monozukuri* that factors in ESG perspectives and information in advance (“ESG-driven *Yoki-Monozukuri*”). As such, in addition to the physical performance axis we have always shown, we want to deliver to public view the background and thoughts underlying our products and services.

We also want to develop our transparency-related activities from just responding to external demand (transmitting and answering) to a bilateral communication tool for realizing the KLP. In the response phase, we will need to promote information disclosure, ensure traceability, and develop a user-friendly, readily accessible interface. In the bilateral communication phase, on the other hand, we foresee the need to convey and share our philosophy and suggest customizability to meet consumers’ wants and offer them better lifestyles.

Although we will have to invest a lot of effort even during the response phase in this rapidly changing modern society, we see this project as a short-term, basic goal.

At the same time, we want to lead our transparency-related activities to the following:

- Reduce business risks relevant to ESG and create business opportunities
- Accelerate the integration of ESG with business
- Revitalize in-house activities such as Research and Development

What we think is important here is that improved transparency will be mainstreamed in all business activities within Kao. This means we will have more target items for promoting transparency through the voluntary efforts and new activities that will be established. In doing so, we will surely need to harness the power of digital as mentioned earlier. This will require building a database of valid science-based information and keep it at the ready.

We are proud that the Kao Group’s *Monozukuri* is supported by thorough essential research based on the latest scientific knowledge. For this reason, we can say that Kao’s individual data is extremely reliable, and expect to link that data organically and to create new value and business opportunities.

Full Transparency GRI 3-3

Social impact

Obtaining necessary information makes it easier for consumers to choose safe and secure products and services, and lead comfortable lives. In addition, the individual choices of consumers contribute to the SDGs without them being aware of it, and we believe in the need for the environmental impact of these activities to stay within the range that our natural world can safely absorb.

And by providing innovation and new value to the world with appropriate information, we will create new markets and help realize a world that is sustainable and filled with trust.

We expect these efforts to eliminate asymmetries between companies and consumers with respect to the information displayed on products, and increase the number of product choice selection criteria. We believe that consumers and companies accessing the same information will contribute to ESG-driven *Yoki-Monozukuri* in plan & action and the building of a better society.

When consumers choose products that have meaning for them and are safe and reliable based on correct information, it creates opportunities for changed behavior not only for Kao, but for other companies as well. We believe that this will lead to a society where people choose sustainable lifestyles, products, and services that are friendly to the environment and promote biodiversity.

We also believe that as information about issues that arise is shared with the public and becomes visible, new collaborations will form among the individuals, companies and organizations that are entering the market and have the means to resolve those issues.

Contributions to the SDGs



Business impact

We believe that when consumers have access to the information they need, and can select products that have meaning for them and are safe and reliable, this will generate opportunities for market expansion, and lead us to take action and develop the right products to meet demand.

In addition, certain retailers select products that incorporate information not only concerning fragrance ingredients, but on other ingredients and the impact they have on the environment. For Kao, undertaking sustainable manufacturing that is friendly to the environment and promotes biodiversity, and promoting product information disclosure, will become more and more important.

Moreover, responding wholeheartedly to increasingly intensified, accelerated, and complex demands for disclosure, such as TCFD and TNFD, and answering written questions to various rating agencies will lead to improved reliability. This will allow us to provide better livelihood support products and services based on feedback from consumers, markets, and investors. Kao regards this trend of demand for disclosure as a benchmark for judging whether we have successfully been solving social issues through our business activities.

Governance

Framework

We believe that conveying Kao accurately to all stakeholders will help ensure full transparency. Each managing division promotes activities to enhance transparency.

Of particular importance was our decision to accelerate promotion of these activities from a global, inter-divisional perspective for information relating to products that consumers come in frequent contact with.

To this end, in 2019 we established a task force for disclosing product information in the ESG Promotion Meeting, an organization under the ESG Committee (now the ESG Managing Committee), and it has begun conducting activities focusing first on fragrance ingredient disclosure, for which there is strong global demand. In February 2020, the ESG Committee deliberated on and approved proposals to disclose our Fragrance Policy, and to begin disclosing the names of fragrance ingredients in line with this policy disclosure, as well as deliberating on and approving the targets for 2030.

As of 2022, we have assembled three teams to promote disclosure activities: a team to formulate the general policy and strategy, manage progress, and take care of infrastructure development, and two teams to pursue activities in each business area. Considering the business plan, we are formulating a disclosure plan and moving ahead with organizing information to disclose. We share each other's progress in a plenary meeting held every six months. At the "ESG-driven *Yoki-Monozukuri*" meeting, we shared information on how the issue of information disclosure for products is progressing around the world, and reported on the plan

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GRI 3-3, 404-2, 417-1

for activities at Kao (as of March) and the progress (as of November) for FY2022 to encourage the members to speed up our disclosure of information. The KPI progress in actual performance for that year has been reported by the ESG Managing Committee.

We also held a meeting about other individual issues once every two weeks to once a month and implemented the PDCA cycle.

P18 Our ESG Vision and Strategy > Governance

Education and promotion

Integrity, or walking the right path, is fundamental to the Kao Way, and the basis for the My Kirei Lifestyle. Along with strict observance of laws and regulations, it is considered extremely important that each Kao employee acts with social integrity in accordance with ethics. This attitude is inculcated in Kao employees not only through specific training opportunities, but also through their daily work, and is practiced thoroughly in their daily life.

In addition, in accordance with the “*Genba*-driven” viewpoint set forth in the Kao Way, we learn through dialogue with stakeholders what information consumers the world over need.

Collaboration with stakeholders

Collaboration with suppliers is essential for enhancing transparency, and we work closely with industry groups to promote product information disclosure.

Moreover, we gather the latest scientific knowledge through ongoing interaction with academics.

We strive to understand the needs of society and the market, not only through direct inquiries from, and

consultations with, consumers relating to product information, but also through dialogue with distributors, NPOs, and NGOs.

Risk management

Activities related to full transparency will be managed by a task force set up under the ESG Promotion Meeting, a subordinate organization of the ESG Committee.

For this reason, the progress of our activities is reported as needed, and if any problems arise while the activities are underway, they will be reported to and discussed by the superior committee.

P33 Our ESG Vision and Strategy > Risk Management

Targets and metrics

Mid- to long-term targets and 2022 results

We defined brands as transparent brands when the information that consumers need is available in both quality and quantity. And, we have set the target of making all our brands selling consumer products transparent brands by 2030. We are also looking at how to disclose information in ways that consumers find easier to understand.

2022 results

We expanded new disclosure with three brands in total in the Hygiene & Living Care business and Cosmetics business, resulting in a 18% KPI progress rate as of the end of 2022.

Also, we added for disclosure were some items for *SENSAI* in the Cosmetics business, and began disclosure for *athletia* and *SUQQU*.

In order to facilitate more accurate and timely disclosure of fragrance ingredients, we are committed to improving the infrastructure and building an IT system for this purpose.

When we started disclosing names of fragrance ingredients, we would manually carry out all the tasks from the creation of a list of names of fragrance ingredients for disclosure to the reflection of the list on the web page, which required an immense amount of time and effort. Therefore, it was difficult to reflect information in a timely way and we were at risk of human error. To solve these problems, we introduced a function that automatically creates a list of names of fragrance ingredients from the database in July 2021. Since then, we have been using the function for new disclosure and updates.

What we focused our efforts on in 2022 was improving systems related to automatic transfer of the list of names of fragrance ingredients. Passing and receiving data between systems without human intervention offers benefits such as preventing unintended posting errors and cutting the time from creation of information to be disclosed to the disclosure of that information. From November 2021 to September 2022, we had a periodic meeting nearly once a week and advanced the system’s development. In December 2022, we built a mechanism that can reflect data to a specific website with one click.

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Kao online product catalog
<https://www.kao.com/jp/en/products/>

However, this mechanism has not yet been introduced in some regions in AEMEA (the Americas, Europe, the Middle East and Africa) and Asian countries, so we disclose information only through our brand websites in these regions. In terms of prompt information disclosure, we still have many issues to solve. Brand websites have the advantage that we can express features of and commitment to the brand. In that regard, we view which interface to use for better communication between consumers and the Company according to the type and nature of information as one of our challenges.

Along with the five ingredients of particular interest to society that we disclosed last year, we have also disclosed our approach to alkyl sulfates, formaldehyde-releasing preservatives, 1,4-dioxane and talc on our Japanese and global websites.

P65 Safer Healthier Products

Reviews of 2022 results

This year we disclosed the names of fragrance ingredients for three brands.

In our series of disclosure tasks, in 2022 there were still some operations that require human engagement. In 2023 and beyond, we hope to significantly reduce the time required to disclose information, although it will still take some time before we finish preparing the data. However, this does not mean we are aiming to stretch our track record by promoting disclosure in a mechanical way. We would rather determine priority brands strategically when proceeding with our disclosure tasks.

We gather information on fragrance ingredients before formulating a disclosure plan so that the necessary information can be released at any time.

In addition, there has been a recent increase in demands for information, not only relating to fragrance ingredients, but also for other ingredients as well as environmental impact and the overall transparency of our supply chain, and this information must be conveyed to a wide range of stakeholders in addition to consumers. To this end, we will promote further strengthening of internal structures, database enhancement, system linkage and collaboration with internal and external partners, and strive to move up our 2030 deadline for achievement of 100% transparent brands.

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Main initiatives

Considerations in the product catalog website and individual product websites

We disclose information needed to make decisions about whether products that customers are planning to buy and products that customers already have bought can be purchased and used with peace of mind.

In product catalogs on our website and on individual product websites, we provide information on product features and the ingredients used in products based on scientific evidence.

New disclosure began with three brands in the Hygiene & Living Care business and Cosmetics business. For other brands whose information has been disclosed, we also updated the information about those brands whose fragrance ingredients had been changed. As of the end of 2022, the KPI progress rate is 18%.



Kao online product catalog
<https://www.kao.com/jp/en/products/>

Disclosure of Fragrance Policy and names of fragrance ingredients

Kao's Fragrance Policy, issued in May 2020, includes information on our commitment to *Yoki-Monozukuri* and the value we seek to offer through fragrances, and examples of fragrance-related research. In addition, the following three points are listed as disclosure policies.

1. Ensure all of our fragrance formulations are fully compliant with the local regulations of the regions where they are marketed, and ensure that the latest safety data is collected.
2. Only create fragrances using ingredients that are in line with the guidelines set forth by the International Fragrance Association (IFRA).
3. Begin the process of providing information of fragrance ingredients account for 0.01% or more of the product weight.



Fragrance Policy
<https://www.kao.com/global/en/innovation/safety-quality/fragrance-policy/>

The disclosure threshold (0.01% or more of fragrance ingredients by weight of product) is determined by reference to the SCCS opinion. This standard is consistent with the disclosure standards of peer companies in Europe and the Americas.



SCCS opinion on fragrance allergens in cosmetic products
<https://www.bibra-information.co.uk/industries/consumer-products>

Based on this basic policy, and in line with the trend in the industry, we began disclosing the names of fragrance ingredients in a total of 19 brands in Japan and the U.S.

Disclosure of the benefits and safety of chemical substances

In addition to the easily understood information disclosure for consumers and society that we have so far carried out with respect to chemical substances safety, based on our Responsible Chemicals Management Promotion Policy, we began efforts to disseminate information relating to the benefits of chemical substances.

P253 Responsible Chemicals Management

Disclosure of policies relating to ingredients regarded as important by society

In 2022, we disclosed our science-based approach to eight ingredients of high social concern aluminum salt, PEG [polyethylene glycol], mineral oil, phenoxyethanol, fluoride, BHT [dibutyl hydroxytoluene], oxybenzone, and octinoxate on our sustainability website.

P65 Safer Healthier Products

Supply chain transparency

We are also promoting activities to enhance the transparency of our supply chain. We strive to source our raw materials in a way that protects natural resources, the environment and human rights through supply chain traceability and collaboration with suppliers. We plan to complete traceability confirmation for small oil palm farms by 2025. Starting from 2021, we publish a list of mills from which we source palm oils.

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2022 mill list
<https://www.kao.com/content/dam/sites/kao/www-kao-com/global/en/sustainability/pdf/progress-2022-001.pdf>

Kao is also working on transparency regarding human rights in the supply chain. In September 2022, with respect to human rights issues in oil palm smallholders, we launched a grievance mechanism in collaboration with Caux Round Table Japan (CRT Japan Committee), a non-profit organization specializing in business and human rights. Starting from approximately 50 farms on the Indonesian island of Sumatra, we will sequentially increase the number of target farms. We will also release relevant inquiry details and results of our response on the Kao website.



Kao Launches Grievance Mechanism for Indonesian Oil Palm Smallholders
<https://www.kao.com/global/en/newsroom/news/release/2022/20220831-001/>

P91 Responsibly Sourced Raw Materials

Employees' opinions

Toward even faster, more accurate information disclosure



Yuki Kikuma

PLMG, Enterprise Business Excellence, Enterprise Information Solutions, Global, Kao Corporation

While fragrances are produced by combining multiple fragrance raw materials into concoctions, they are also used as raw materials included in the formulation of products such as detergents and shampoos. For us, how to manage the complex structures of such fragrances and the ingredients they contain, as well as the product formulations, with a system was an important point. I participated in a project for disclosing names of fragrance ingredients as a member of the IT division. In that project, I had many

consultations on how to realize the management system with the people involved, such as fragrance researchers and staff responsible for product catalogs. We clarified each responsible person's workflow up to disclosure of fragrance ingredients and performed many tests on which part of the flow should be automated in the system. In this way, we worked hard to deliver fragrance information to customers simply, accurately and fast. As a result, we successfully produced a system that directly links fragrance development data to product catalogs, which was a vast improvement over the conventional system. I am pleased with our contribution to the transparency activities. Because our transparency-related activities will continue to intensify, we will keep doing our best to provide a variety of product information, not only fragrance information, in a timely manner so we can meet our customers' wishes for Kao products.