

Governance

GRI 2-12, 2-13, 3-3

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 the Kao Group Mid-term Plan K27 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 ensures that it has the appropriate knowledge, experience, and competence to supervise ESG issues. The Board of Directors consists of individuals with the balance of expertise necessary to oversee overall management from multiple perspectives. As we position ESG matters also as requiring specialized knowledge to address, we appoint a number of Directors and Audit & Supervisory Board Members who are well-versed in ESG matters. In addition to regular reports twice a year, the ESG Managing Committee reports to the Board of Directors on the execution of ESG-related matters, depending on the content of the agenda as appropriate. The 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. Long-term incentive compensation (approximately 30–50%* of base salary for each position) included in the compensation of Directors and Executive Officers is weighted 40% based on ESG activity indicators, which measure the degree of promotion of ESG-driven management, and the payment ratio is determined based on an evaluation using external indicators, the extent of achievement of internal goals, and other factors.

* Long-term incentives will be revised partially in 2024.

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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 reflected in management strategy.

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 eight times a year) and the ESG Steering Committees (held as appropriate for each steering committee) under the ESG Managing Committee.

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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 the ESG Promotion Meeting.

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 into 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.

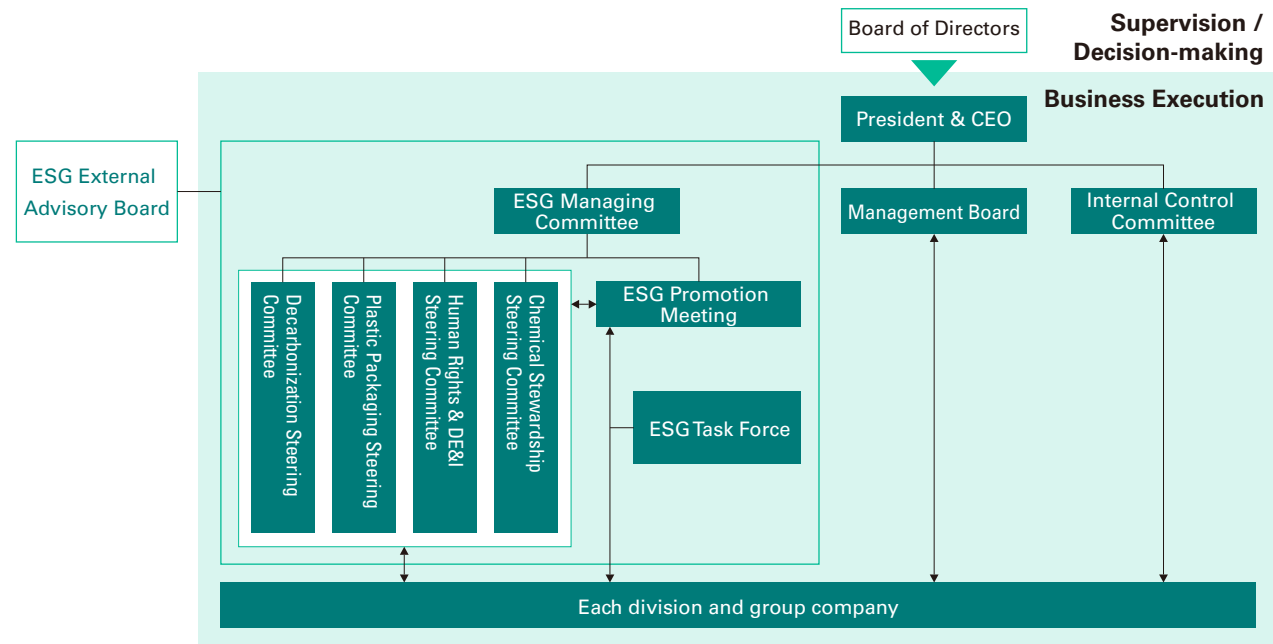
Implementing the Kao Actions in the KLP

- 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.

ESG governance structure



* As of December 2023

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

Organization	Roles	Structure	Performance (2023)	
			Frequency of meeting	Main deliberated items
ESG Managing Committee	<p>Deliberate, discuss, or report the following items that concern the entire Kao Group:</p> <ul style="list-style-type: none"> • Basic approach to and policy of ESG • ESG policy sharing, strategy, activities, external communications, etc. • Decisions on investments for promoting ESG activities • Trends, issues and opportunities for the sustainability of the world at large and for ESG • Active stakeholder engagement by ESG Managing Committee members 	<p>Chair: Representative Director, President and Chief Executive Officer</p> <p>Members: Senior Managing Executive Officers, Managing Executive Officers, other executives</p> <p>Advisor: Chair</p> <p>Observer: Full-time Audit & Supervisory Board Members</p>	Six times/year	<ul style="list-style-type: none"> • Deliberated on and approved DE&I policies • Deliberated on and approved the disclosure policy of the Kao Sustainability Report 2023, the progress made on KPIs, and mid- to long-term commitments to be disclosed • Deliberated on and approved the establishment of a new foundation • Deliberated on and approved ESG investment projects • Deliberated on and approved the revision of the Declaration of Consumer-orientation • Deliberated on and approved the overall ESG fund budget for fiscal 2024 • Examined the proposals from the ESG External Advisory Board • Reviewed the progress made on each Kao Action in the KLP • Held a lecture by an external expert
ESG External Advisory Board	<ul style="list-style-type: none"> • Give advice and recommendations for issues raised by the ESG Managing Committee from outside expert viewpoints and based on a high level of expertise • 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 • Evaluate Kao's ESG activities 	<p>Members: External influential experts</p> <ul style="list-style-type: none"> • Ms. Rika Sueyoshi CEO, Ethical Association Specialization: Ethical consumption, etc. • Ms. Ruma Bose Chief Growth Officer, Clearco Specialization: Human rights, entrepreneurship support, etc. • Mr. Jalal Ramelan Chairman, ESG Indonesia Specialization: Sustainable development field • Mr. Helmut Schmitz Director of Communication and Public Affairs, Der Grüne Punkt – Duales System Holding GmbH & Co. KG Specialization: Recycling systems for packaging, etc. • Ms. 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 • Evaluated the progress made on the KLP and raised issues
ESG Promotion Meeting	<ul style="list-style-type: none"> • Implement the ESG Strategy to integrate it with business based on the direction decided by the ESG Managing Committee and its suggestions • Supervise and examine to implement key ESG actions • Compile the issues faced by each division and region in promoting ESG activities and propose solutions to the issues to the ESG Managing Committee 	<p>Chair: Director, Managing Executive Officer, Senior Vice President of the ESG Division</p> <p>Members: Responsible persons, etc. in business divisions, functional divisions, corporate divisions and regions</p>	Eight times/year	<ul style="list-style-type: none"> • Formulated ESG investment strategy • Formulated a draft policy on future activities for biodiversity • 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 ESG activities made by each division and region • Held a lecture by an external expert

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Organization	Roles	Structure	Performance (2023)		
			Frequency of meeting	Main deliberated items	
ESG Steering Committee	Decarbonization	<ul style="list-style-type: none"> Draw up a GHG reduction plan Promote rapid decarbonization activities through centralized discussions on decarbonization response measures and business opportunities for mitigation and adaptation to achieve carbon zero in 2040 Appropriately manage climate change risks based on the results of scenario analysis 	Owner: Managing Executive Officer in charge of R&D Members: Staff of R&D, Procurement, Supply Chain Management, CP Business, Chemical Business, ESG	Five times/year	<ul style="list-style-type: none"> Discussed a 2030 GHG reduction strategy Reorganized opportunities and risks Discussed the progress made to achieve decarbonization-related KPIs and responses to address issues
	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: Executive Officer, Deputy General Manager, R&D Members: Staff of CP Business, R&D, and Procurement	Five times/year	<ul style="list-style-type: none"> Formulated a draft policy and discussed and approved the actions regarding Recycling initiatives (collection and recycling) Formulated a draft policy and discussed and approved the actions regarding Innovation in Reduction initiatives (reducing the amount of materials used and using recycled materials) Responded 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, centrally promote and manage the Kao Group's human rights-related activities, including human rights due diligence, in accordance with the Kao Human Rights Policy Under the supervision of the ESG Managing Committee, centrally promote and manage the Kao Group's DE&I activities based on its DE&I Policy 	Owner: Senior Executive Officer in charge of the Human Capital Strategy Members: Staff of Human Capital Strategy, ESG, Procurement, Supply Chain Management and CP Business	Once/month	<ul style="list-style-type: none"> Developed a DE&I Policy Proposed and took employee awareness measures for understanding and implementing the DE&I Policy Promoted human rights due diligence, including holding workshops to identify potential human rights risks, updated the risks identified at the Kao Group in the risk assessment, and promoted activities at relevant divisions and subsidiaries Put more effort into reducing the risk of human rights violations in advertising expression Promoted and managed to ensure respect for human rights and DE&I across the value chain (especially among employees and business partners and in society)
	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 the use of raw materials used in products taking into account progress of regulatory trends, science, and other factors by the Chemical Stewardship Council Disclose information on our approach to the use of chemicals and the results of safety assessments, and communicate with stakeholders 	Owner: Executive Officer in charge of Product Quality Management Members: Staff of ESG, R&D, and Product Quality Management	Once/month	<ul style="list-style-type: none"> Understood the European Green Deal and other regulatory trends in product raw materials and identified raw materials and products subject to such policy and regulations Developed reduction / 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 at an international meeting with the government agency to set targets for the Global Framework on Chemicals (GFC), the successor to the SAICM.
ESG Task Force	<ul style="list-style-type: none"> Establish for individual focus themes formulated at the ESG Promotion Meeting that require an inter-divisional structure Propose and promote activities based on detailed plans 	Members: Staff of the division relevant to the focus themes	As needed	<ul style="list-style-type: none"> Promoted disclosure of names of fragrance ingredients by the Transparency Task Force Promoted the project to establish a global ESG data platform 	

Note: Refer to p. 289 for the Board of Directors and p. 295 for the Internal Control Committee and Risk & Crisis Management Committee.

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Message from the ESG External Advisory Board



Ms. Rika Sueyoshi
CEO, Ethical Association

I am now in my fourth year serving on the ESG External Advisory Board. During this time, Kao has made outstanding efforts with respect to transparency in management and the disclosure of progress toward its commitments. Kao continues to make forward progress in its ESG initiatives, which have now become a core facet of the organization. Kao is clearly leading the entire company along the right path.

However, as rules regarding sustainability disclosure evolve and spread more widely around the world, I must admit that excellence in disclosure alone is not sufficient for making significant contributions to society as a truly sustainable company. Going forward, I believe that there will be greater demand for specificity and novelty in Kao's initiatives as an active player.

For example, with respect to the company's flagship efforts toward sustainable palm oil (RSPO), I suggest that Kao should not only pursue greater certified palm oil purchases in terms of overall amount, but also take on challenges for further qualitative improvements. In addition, biodiversity is a topic that will receive even greater interest in the future, and I predict that related initiatives will also gain more attention.

With respect to promoting sustainable lifestyles, I believe the time has come to make serious considerations about evolving away from a business model predicated on PET resin. I believe that there is

demand for Kao to take on discontinuous initiatives such as building a full-scale market for selling by volume, and making trial efforts for a complete refill (refill visit) business model. These initiatives would be in accord with government policies for building a recycling-based society, and so I expect there will be strong demand from many different parties. I would like Kao to take a perspective toward innovation that goes beyond technological aspects, and to continually take on challenges in areas such as advocacy (rule building) and consumer (customer) transformation, which can also contribute toward social transformation.

With respect to human rights, Kao has carried out highly essential and well-received initiatives with corrective action and complaint processing mechanisms launched in September 2022 for palm smallholders in Indonesia. These initiatives are lacking among Japanese companies in particular, and so I feel that Kao has the potential to become a leader in the context of human rights as well by acting earlier than other industry competitors. However, we have entered an era in which a company seeking to become a world leader would be severely lacking if it had simply achieved a state of zero human violations caused by itself. It is now crucial for companies to address poverty, support people with disabilities, and take other action in areas that have not been affected by their own supply chains. I believe there is still room for Kao to implement even more creative ideas, such as establishing a target for the percentage of indirect materials procured through fair trade.

Kao has always paid attention to real consumers. Meanwhile, the company has declared a grand target of 1 billion for "The number of people empowered to enjoy more beautiful lives—greater cleanliness, easier aging, better health and confidence in self-expression" by 2030. What kinds of people make up this 1 billion? I believe that Kao will find more aspects related to its unique corporate identity by envisioning the types of challenges to solve for these people and the kinds of changes in their lifestyles that will make them "empowered to enjoy more beautiful lives," and even going as far as to get a detailed image of the faces of these consumers. Is there

a "me" within this story of 1 billion people? Can each and every individual play a part in that story? There is a growing desire among younger generations of consumers to experience a story and empathize with the background of a product when they hold it in their hands. Going forward, I sincerely hope that Kao will continue to serve as a leader in entrusting a better world to the next generation.

In closing, I would like to express my anticipation for the creation of collective impact through collaboration with the social sector organizations (NPOs and NGOs) worldwide going forward in relation to new initiatives for resolving social issues with the newly established Kao Life-in-Harmony Foundation.

Message from Kao about the comments

The 2024 message expressed expectations that we need to be innovative as an active player to carry out Kao's ESG activities going forward and create a collective impact through collaboration with social sector organizations worldwide.

In response, with respect to the topic of biodiversity with a high level of social interest, we will utilize our insight in interface science and further promote our activities to help reduce the amount of fertilizer and pesticides used in the field of agribusiness, as well as to develop alternative materials to palm (kernel) oil, based on the Action Policy on Biodiversity that we established in October 2023. In addition, with respect to collaboration with social sector organizations worldwide, we will work with the Kao Life-in-Harmony Foundation that was established in September 2023, Mirairo Inc., which is contributing to better quality of life for people with disabilities by seeing the world through their perspective, and PT. Gama Inovasi Berdikari, which strives to tackle severe water issues in Indonesia, with the aim to realize a society that allows for enriched lives and in which nobody is left behind.



Kao Establishes the Kao Life-in-Harmony Foundation
<https://www.kao.com/global/en/newsroom/news/release/2023/20231129-001/>

Governance

Message from the ESG External Advisory Board



Ms. Ruma Bose
Chief Growth Officer, Clearco

In my second year on the advisory board, Kao continues to impress and inspire me with its dedication to implementing a pioneering, transformational ESG strategy. The company really is becoming Kao Reborn.

This is despite a backlash against ESG now under way in some parts of the world, most notably in the United States, which is causing a disappointingly large number of companies to go slower in their transformations towards sustainability and inclusion.

I am especially encouraged by the steps Kao has taken to put the Kirei Lifestyle Plan, and the emphasis on minimizing waste, at the heart of product marketing. Kao has also started to show it can innovate in ways that promote circularity and sustainability and tackle significant societal challenges.

Kao's comprehensive reporting of data is impressively transparent, making it a leader in the corporate world, both on ESG and the United Nations Sustainable Development Goals. Kao is making genuine progress towards its various 2025 and 2030 targets. Yet it is lagging in its efforts to reduce scope

3 carbon emissions; setting out credible plans for addressing this vital challenge should be a priority. Also, Kao reports that it has no impact on SDG goals one and two (zero poverty and zero hunger) – a finding that I hope soon will change for the better.

Good progress has been made on DEI, and gender equity in particular. However, a concern is the slow advance of gender equality in Kao's management ranks in Japan, especially at the top. I welcome the new 2030 commitment to having the same ratio of women to men in management as the ratio of women in Kao as a whole. But, given its ambitions more broadly, I look to Kao to do more here.

Kao's recent report with Accenture on biodiversity is pioneering, with its compelling framework around three different scenarios for the future. I hope the company will now provide more insight into its thinking about how it would operate effectively under each of these scenarios.

Kao's decision to launch a corporate foundation is also very positive, especially given its presentation as an evolution in the company's philanthropic strategy away from just donating product to embracing corporate citizenship in a more sophisticated way. Drawing on my own experience in corporate philanthropy, I can't emphasize enough the importance of getting the foundation's positioning right early on, and for ensuring it has a clear alignment, and clear, appropriate division of labor, with the core business strategy of the company.

Finally, while Kao has made improvements to its storytelling, especially in its product marketing messaging, currently there is very little in the media about Kao's work on ESG and sustainability in general, nor about the company's compelling

examples of innovation for sustainability and purpose. There remains a significant opportunity to position Kao as world class and pioneering in the broader media and among experts and thought leaders. Kao's story deserves to be told, and more importantly, needs to be heard by others who will be inspired by it.

Message from Kao about the comments

The 2024 message expressed expectations that we carry out more initiatives with respect to diversity, equity and inclusion (DEI), including efforts to advance gender equality in Kao's overall management positions, and that we tell our story in ESG activities in the broader media to inspire many people.

In response, we will make considerations to bolster our initiatives that can promote the practice of DEI along with our stakeholders (employees, business partners and society in general, including consumers) within all of our corporate activities, based on the Diversity, Equity and Inclusion Policy that we established in June 2023. In addition, to make Kao's ESG initiatives known among consumers and thought leaders in particular, we will deploy corporate messaging worldwide based on the slogan "Wastefulness—*Mottainai*. Never today, nor tomorrow." and pursue activities that deepen stakeholders' understanding and encourage them to change their behavior.

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Message from the ESG External Advisory Board



Mr. Jalal Ramelan
Chairman, ESG Indonesia

I propose the following areas for continued progress to Kao Corporation for continuous improvement and building leadership in sustainability activities, which are paramount in a world facing existential threats in the coming decades.

First, deepening our commitment from ESG integration to regenerative business practice. While Kao Corporation's plan to achieve net zero carbon, plastic waste, and water usage is commendable, we must aim even higher: carbon and plastic negative, as well as water positive. We must eventually extend this ambition to all materials and energy consumed. This shift will be a defining feature of our sustainability journey.

Second, moving beyond emissions mitigation to integrated mitigation and adaptation. Our SBTi-validated mitigation targets and roadmap put us on a clear path to achieving net zero emissions by 2040 and carbon negativity thereafter. MSCI's latest assessment that our efforts align with a 1.5°C warming scenario is a testament to our leadership. However, global mitigation alone cannot prevent a 2.5-2.9°C increase. Therefore, we must actively adapt,

not only within our own operations and supply chain but also in surrounding communities, demonstrating a comprehensive approach to climate resilience.

Third, expanding diversity, equity, and inclusion (DEI) leadership beyond gender. Kao Corporation has received well-deserved recognition for its commitment to gender justice. Increasing women's representation on boards and leadership positions, particularly in Japan and across Asia, is a commendable step. However, to truly stand out as a global leader in DEI, we must extend our focus beyond gender. We can achieve this by amplifying the voices and contributions of younger generations, individuals from diverse racial and ethnic backgrounds, and people with disabilities.

Fourth, evolving from ESG communication to comprehensive sustainability communication. Kao Corporation's openness and transparency regarding ESG data are highly valued by rating agencies. However, we must not limit our communication efforts to these specialized audiences. Consumers, talent, and other stakeholders are increasingly making decisions based on a company's sustainability performance. Therefore, we must broaden and intensify our sustainability communication to reach all relevant audiences and effectively convey our commitment to a sustainable future.

Finally, while the 2004 coining of the term ESG emphasized the connection between strong environmental, social, and governance performance and long-term financial success, I believe the relationship is more nuanced. While I anticipate Kao Corporation to continue demonstrating superior financial performance, we must recognize that other tangible and intangible factors contribute to success. Therefore, our commitment extends beyond ESG to

excellence in all aspects of our operations, ensuring long-term value creation for all stakeholders.

By embracing these opportunities for continued progress, Kao Corporation can solidify its position as a true global leader in sustainability, leaving a lasting legacy of positive impact on the planet and its people.

Message from Kao about the comments

The 2024 message expressed a need to aim even higher with regard to carbon negative, plastic negative, water positive and other initiatives, as well as expectations that we should go beyond just our own operations and supply chain as we demonstrate a comprehensive approach with respect to climate resilience that also considers local communities.

In response, we have set ourselves ambitious targets to achieve carbon negative by 2050 and waste negative by 2050, and by actively developing applications for cutting-edge technologies and other new technologies, both within Kao and in the wider society, in collaboration with various stakeholders, we aim to demonstrate further solutions to the climate change and other problems. In addition, we will further deepen the Action Policy on Biodiversity that we established in October 2023, and we will make considerations regarding a comprehensive approach to nature positive and climate resilience.

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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

At the COP 28 climate conference in Dubai 2023, the global community agreed for the first time to move away from fossil fuels and at the same time made a commitment to the importance of justice in this process. In the light of these global developments, Kao, implementing the goal of “maximizing future financial returns and value creation through ESG investments” with a holistic approach that integrates economic, environmental and social considerations in business development, is both expedient and credible. The report for 2023 describes numerous well-suited techniques and policies that Kao has implemented or is in the process of introducing.

In the area of plastic utilization/plastic packaging, this includes the example of the eco-friendly Peco Bottle, which scores highly in many sustainability categories (CO₂ emissions, material consumption, recyclability). However, the successful transition from a linear economy to a sustainable circular economy also requires the development of new forms of cooperation and communication. More intensive collaboration with stakeholders is required in the development and scaling of sustainable processes and products. Kao has made important progress here. This not only includes the expansion of horizontal activities to improve plastic

recycling with Lion, the city of Kobe, Unilever and Kose. The new systems for plastic resource recovery and upcycling with Keio University, the City of Kamakura and other companies and organizations are also important steps in this direction. “Do something good and talk about it” is now essential in this context in order to achieve scaling and thus broader acceptance among all stakeholder groups.

Kao is earning great respect through its active engagement and communication with the central but globally neglected topic of biodiversity. The report published by Kao Corporation on 10 April 2023 entitled “Business Risk and Opportunity on Biodiversity - TNFD case study with Location analysis” deals with the potential risks and opportunities arising from changes in biodiversity and economic and social conditions for Kao’s business activities. The protection of biodiversity is a prerequisite for the preservation of stable ecosystems, which in turn are key building blocks for successful climate protection. Climate protection forms the basis for successful “human protection,” i.e. for ecology, economy and social issues.

The example described of project being implemented in Indonesia by the globally active Kao Life-in Harmony Foundation, which was founded in September 2023, is based on an intelligent, holistic approach. The continuous provision of clean water for private households on Java, which previously had no access, is achieved with the help of inexpensive and efficient water storage systems from ventures. This will provide people with the basis for the efficient use of cleaning products, which are essential for hygiene in households.

The successful promotion of hygiene and health and the subsequent sustainable use of the empty plastic packaging (e.g. through recycling and the

associated entry into sustainable resource utilization) can be communicated in a meaningful context that people can understand.

Kao is on the right track with its holistic, creative and proactive approach to the major planetary challenges. Taking all the Kao employees along on this path, “Me, We, Planet, Walking the Right Path,” is impressive and a good basis for corporate success.

Message from Kao about the comments

The 2024 message expressed expectations that we develop new forms of cooperation and communication for a successful transition to a sustainable circular economy, and described the need for more intensive collaboration with stakeholders in the developing and scaling of sustainable processes and products.

In response, we have deepened our collaborative initiatives with Lion Corporation for realizing a resource-circulating society, and we have commercialized the first product for refill packs that make partial use of recycled materials, to achieve horizontal material recycling whereby the same type of packaging is produced through the recycling of used refill packs. In addition, we have concluded a Comprehensive Partnership Agreement for Realizing a Circular Economy in Wakayama Prefecture along with the Wakayama prefectural government, ENEOS Corporation and Suntory Holdings, and we have commenced activities with the aim of becoming an area that serves as an advanced example of the regional resource recycling model. Going forward, we will continue to work with stakeholders such as distributors, other companies, local governments and consumers to create a system for transitioning to a sustainable circular economy.



Kao and Lion Partner in Film-to-Film Recycling of Used Refill Packs First Product Making Partial Use of Recycled Materials Reaches the Market

<https://www.kao.com/global/en/newsroom/news/release/2023/20230516-001/>

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Message from the ESG External Advisory Board



Ms. Laura Palmeiro

Sustainable Finance Director, Danone

As the second year of my collaboration with Kao comes to an end I'm happy to have become more familiar with both its business and its team so as to better serve the purpose of my participation in this Board. During 2023 I have been a witness to important progress made in terms of ESG while also some challenges have been spotted and discussed, which is always a good thing as a first step towards improvement.

Importantly, having had the luck to have visited the teams in Tokyo I have experienced first-hand both the professionalism and passion the team puts in their daily work. All discussions have been very honest and open, with no taboos, which allows for a high-quality dialogue.

Regarding the achievements attained this year I would highlight the new Corporate Governance Policy which is very detailed and well-articulated, and should thus inspire transparency and trust when interacting with external stakeholders.

The Sustainable Product Development Policy is an important milestone too, which I would nevertheless complete with specific commitments and targets to make it more concrete and engaging. Also

"Maximum with minimum" is a very clear and powerful motto. Regarding packaging, the option of refilling for high-end brands can be, if well communicated and activated, a "cool behavior" to adopt (rather than a burden, or a symbol of lack or scarcity), especially among young consumers. This is a good example of what Kao can do to link its brands to environmental or social battles, thus not only making progress in ESG but also creating external awareness on these topics and hopefully achieving business advantages vs less responsible competitors.

Regarding the DEI Policy, while its publication is in itself an important achievement, I believe that it can be improved by setting concrete targets that are unified among regions.

Going forward I believe Kao still faces the challenge of leveraging on ESG actions to create competitive advantages for the business. Nevertheless, I have observed that the management has taken this matter very seriously and is working on it.

One other challenge that can, in my view, be turned into an opportunity, is the upcoming European Corporate Sustainability Reporting Directive for which Kao is very actively getting organized to comply with. As we all know, this regulation will impact the ESG reporting landscape way beyond the European territory. While we all recognize it is a big change and demands the preparation and management of a great deal of data, it is also an opportunity for corporates who actually "walk the talk" to showcase the achievements of their actions beyond all the "noise" that exists today in the markets regarding these issues. Indeed, only those organizations that have done the heavy lifting with concrete actions will be able to use data as proof-points of their claims, thus

demonstrating their impact and differentiating themselves from peers. I'm convinced Kao makes part of them.

To finalize, I reiterate my confidence in Kao's position as a leader in sustainability and the prominent role it can play in the future to demonstrate the link between ESG performance and business. I'm looking forward to continuing working together on this.

Message from Kao about the comments

The 2024 message expressed expectations that we strategically disclose the results of our own activities as the European Corporate Sustainability Reporting Directive (CSRD) will impact ESG reporting in companies outside of the EU as well, thereby presenting a good opportunity for companies who "walk the talk" to differentiate themselves from competitors. The message also expressed expectations that we demonstrate the link between ESG performance and business, and fulfill our important role as a leader in sustainability.

In response, we will build a global structure, reinforce our information network and data system, and work as one across the Kao Group to engage in initiatives for complying with the European Green Deal, including the CSRD. In addition, to demonstrate the link between ESG performance and business, we will strive to embed ESG more deeply into our business strategies and product development plans, as well as to visualize ESG investment management and the effects of investments.

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Stakeholder engagement

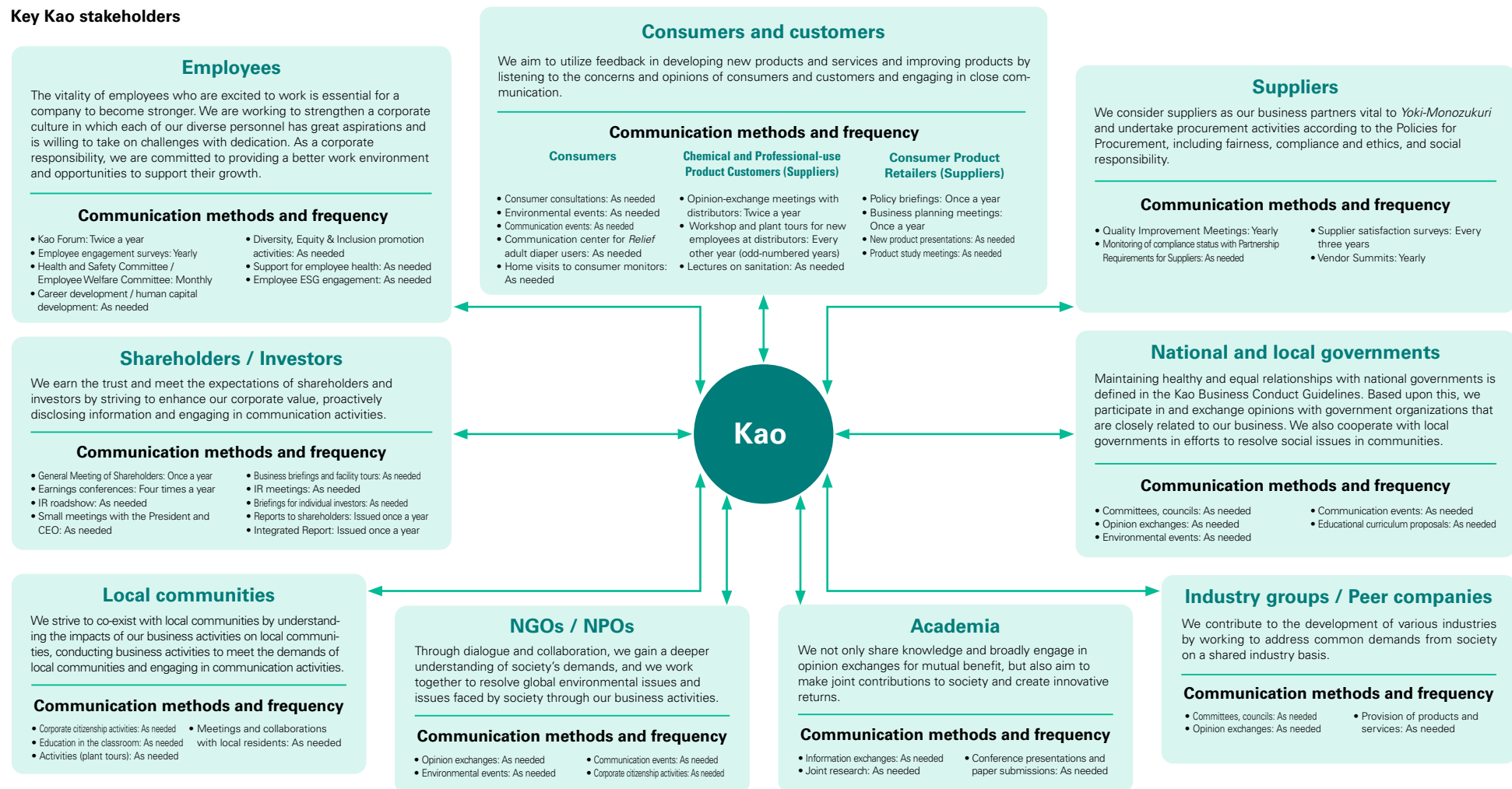
Kao's key stakeholders include consumers and customers as well as suppliers, employees, local communities, national and local governments, non-governmental and non-profit organizations (NGOs / NPOs), academia, organizations and corporations in our industries, and shareholders and investors.

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 communication with our stakeholders, we deepen 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.

Key Kao stakeholders



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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 and 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 ○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 & safety ○Responsible chemicals management 	<ul style="list-style-type: none"> ○Responsible care (RC) ○Product quality management ○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/global/en/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 & 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 engagement policy

To achieve the goals set forth in Kao's mid-term strategy "K27" and Kao's ESG strategy the "Kirei Lifestyle Plan (KLP)," we believe it is important for all Kao Group employees to embrace the vision of "the Kirei Lifestyle" and become Kirei Ambassadors*1 who take action themselves to realize the KLP.

With the aim of achieving a "Kirei Life for all," our mission set forth in our corporate philosophy "the Kao Way," we continue to provide information and inspiration and drive efforts to empower employees to realize their potential through a platform called the "ESG *Yoki-Monozukuri* College."

The ESG *Yoki-Monozukuri* College consists of ESG-related educational programs and engagement content

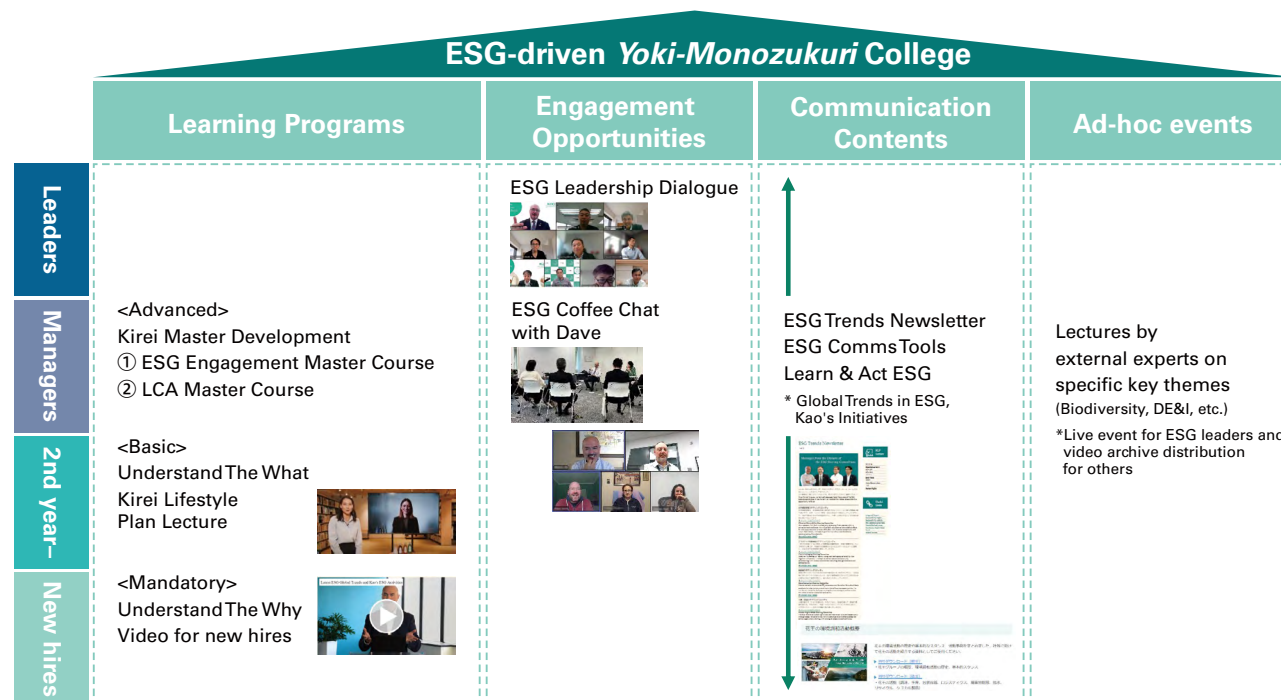
tailored to employees at all levels, and programs are implemented according to the regional characteristics in Japan and other parts of Asia and AEMEA (the Americas, Europe, the Middle East and Africa).

Learning programs Empowering all employees with knowledge to drive forward the KLP

For new employees, as part of onboarding training, we provide a video in which the Senior Vice President of ESG explains why Kao is committed to ESG.

For all other employees, we provide the KLP Lectures, an e-learning program on Kao's approaches to ESG. 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 actions. In 2023, following the formulation and publication of the "Diversity, Equity and Inclusion (DE&I) Policy," we created a video learning program in collaboration with Kao's Human Capital Strategy and the Human Rights and DE&I Steering Committee to illustrate Kao's approach, commitments and actions for DE&I. This video features diverse employees from around the globe explaining their respective activities. We also rolled out this program by highlighting the content amongst internal communities and intranets across Asia and AEMEA.

For managers, we provide the Kirei Master Development Program, an ESG promotion leadership development program designed to facilitate understanding of how to integrate ESG and business and put it into practice. This program consists of an ESG Engagement Master Course that aims to establish a



Structure of the ESG *Yoki-Monozukuri* College

*1 An employee who has the knowledge and mindset needed to promote the KLP, acts with passion, and has an impact on others.

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promotion system and program from a business / company perspective, and an LCA (Life Cycle Assessment) Master Course that aims to take a business / company view of LCA and use it for business / company management. In 2023, we implemented this program for the employees who had been selected from companies in Asia. After completing the program, the participants took on a new role as an ESG promotion leader at each company and helped design a master plan for promoting ESG awareness-raising activities or newly established an ESG Committee, promoting the establishment of systems and development of programs to promote ESG. Furthermore, each company identified pressing themes that need to be addressed regarding CO₂, water, and



E-learning DE&I awareness-raising program featuring diverse employees

packaging, and initiated concrete actions to make the ESG promotion plan a success.

Engagement opportunities Exploring business solutions from an ESG perspective

As an engagement measure targeting leadership, Kao's Senior Vice President of ESG hosted an "ESG Leadership Dialogue" in 2023 with presidents of Asian consumer products business companies. Gathering for the first time for a panel discussion, presidents from Asian countries and regions engaged in lively discussions. We received comments from presidents of the companies, such as, "I was glad that I could discuss and share the actual situations and problems at the *Genba* directly with the Senior Vice President of the ESG Division, who is a member of top management." "I learned a lot because I was able to compare my country's situation and other countries' situations." and "I keenly felt the need to consider the mechanisms for investment and assessment for promoting ESG activities without separating them from business activities." This event served as an excellent opportunity for the participants to share their challenges and success stories and discuss actions to be taken in the future for accelerating the integration of ESG and business.

Communication content Continuing to increase ESG literacy among all employees

We publish the ESG Trends Newsletter every month, featuring messages from senior executives and global trends related to ESG and ESG activities in the Group's divisions and locations to provide tips for promoting ESG-driven *Yoki-Monozukuri* to each employee around the globe.

In 2023, we promoted video content featuring messages from senior executives to stimulate interest in ESG activities among more employees. The President and CEO delivered a message on Kao's most important ESG activities, including CDP Triple A recognition and the newly formulated DE&I policy. The Senior Vice President of ESG delivered a message summarizing the Sustainability Report and explaining to employees around the globe the corporate ESG advertising effort, "Wastefulness—*Mottainai*. Never today, nor tomorrow." We also carried out a project in which the owners of the ESG Steering Committees address all employees through the ESG Trends Newsletter. The aim of this was to accelerate the integration of ESG and business operations.

Owing to efforts such as the above, the average open rate of the ESG Trends Newsletter rose sharply from 41% last year to 44% this year, indicating a high level of engagement. We received positive feedback from employees, saying, "I like how this video is only about five minutes long but gives an understanding of the group-wide ESG policies," "This video provides a lot of information, but it is consistent enough to identify the ESG trends at a glance," successfully increasing their interest in ESG activities and deepening their understanding.

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In 2023, in AEMEA, we launched the “ESG Hub.” This is an e-learning platform on “The One Kao,” AEMEA’s regional intranet, as a centralized place to communicate and share strategies and knowledge on ESG. More than 1,000 employees in AEMEA have taken the Sustainability 101 Training Course, which we developed as educational content for new employees to gain a deeper understanding about ESG activities.



Video of the President and CEO and employees having engaging in dialogue about DE&I



Video featuring messages from the owners of the ESG Steering Committee to all employees

Events Deepening understanding of key ESG topics

We hold ad-hoc lectures and events with experts from outside the company targeting employees at various levels to deepen understanding of key ESG topics. In 2023, we held lectures by external speakers on DE&I at study sessions for the ESG Management Committee and senior executives.

In AEMEA, we held a town hall meeting where Kao’s Senior Vice President of ESG himself delivered a message about the Sustainability Report and provided an overview. We received positive feedback from participants, saying, “This event helped me better understand how the report is utilized,” and “It boosted my motivation to integrate ESG with all aspects of our activities and reminded me that each of us has a role to play,” indicating that this event helped them better understand and engage with ESG.



Lectures by experts from outside the company

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Employees' opinions



Wu, Meng_Chuan

Kao (Taiwan) Corporation
Product Supply Division-Procurement

As the global climate change crisis grows more severe, Kao aims to reach Carbon Zero by 2040, so carbon reduction is no longer a slogan, but an urgent task. Kao must be more active in facing the problems and propose countermeasures to make greater contributions to the environment.

At present, disposable plastics have caused serious harm to the planet. Therefore, many governments are promoting a circular economy, and Taiwan is no exception. Kao Taiwan is actively cooperating with the government to promote circular economy activities and has committed to using 25% recycled resin by 2025. In addition, the government also strongly urges companies to create monomaterial product packaging, use resin color as little as possible for easy recycling, and to reduce label usage, among other activities. Kao Taiwan also plays a leading role in government press conferences and video filming, and pre-legislative discussions related to the circular economy because we deeply understand that this will bring great contributions to the planet.

Furthermore, the promotion of ESG requires employees to have ESG knowledge and mindsets, so we also conduct a series of training and workshops. If employees have a consensus and can apply it to daily business, everyone can execute ESG activity innovation. From a long-term perspective, we can facilitate business transformation and growth with an ESG perspective and contribute to sustainable growth for the company.

Significant expenses are required to carry out many ESG activities. However, we treat ESG spending as a long-term investment, whereby we design and manufacture better products and promote product innovation. As long as productivity increases, it will bring benefits. Therefore, we must understand that ESG is not in conflict with profits but a great circulation. Meanwhile, if we make good use of the concept of "Wastefulness—*Mottainai*. Never today, nor tomorrow," many ESG activities will bring dual benefits such as cost reduction and carbon emission reduction.

Efforts for better product design and technological innovation achieve products that can reduce waste and carbon emissions. As a member of the Kao Group, we hope to bring Kirei Lifestyle proposals to society, respond quickly to social issues and bring more smiles to consumers.