

Effective Corporate Governance

Kao is constantly reviewing its highly transparent corporate governance practices in order to become Kao, a company with a global existence value. As an integral part of these efforts and the foundation of our corporate activities, we act in accordance with the law and ethics, and conduct our business activities with integrity while responding to changes in society. This policy is positioned as the first item—walking the right path—of the “VALUES What we believe in” of the Kao Way, our management philosophy, as the teachings of our founder, and we will continue to steadily carry out our business and environmental, social, and governance (ESG) strategies in accordance with this policy. In this chapter, we will introduce our activities to practice walking the right path, which is the foundation of our corporate culture supporting corporate governance.

Social issues

The COVID-19 pandemic has made it common for companies to adopt a new way of working that combines working from home and in the office, otherwise known as hybrid work, and working attitudes and aspirations are becoming more individualized and diversified than ever before.

In this fluid situation, we consider it important for the advancement of society to create a framework that enables us to anticipate and respond to change in a timely and appropriate manner and, while preparing for risks, to realize employee-friendly, efficient, highly productive workplaces where all employees are treated equally. As such, we will continue to implement initiatives aimed at preventing harassment of any kind.

Policies

Walking the right path, the foundation of our corporate culture

We promote day-to-day activities based on the recognition that walking the right path, which has been handed down from our founder, will enhance the effectiveness of corporate governance. In addition to our corporate governance initiatives, we consider it essential that each and every employee supports our corporate activities.

P288 Corporate Governance

Policies

Kao has set forth walking the right path as the first item of its “VALUES What we believe in” in the Kao Way, and has positioned this walking the right path as the starting point for compliance and a guiding principle for maintaining support and trust from all stakeholders.

We have set the following three points as goals for our activities, and are promoting activities throughout the Kao Group (on a global basis) in order to practice the above-mentioned walking the right path each and every day.

1. (1) Ensuring early detection and resolution of legal and ethical violations, and (2) ascertaining company issues, etc., through hotline responses.
2. Continuous growth and promotion of change through educational and self-awareness-raising activities to promote an understanding of the BCG among employees.
3. Keeping the Kao Business Conduct Guidelines (BCG) and rules related to compliance fresh.



Compliance / Integrity
<https://www.kao.com/global/en/corporate/policies/compliance/>

To ensure that these activities are more thorough and effective, we promote activities focused on mitigating serious compliance risks, while at the same time implementing activities aimed at creating an open workplace where any irregularities discovered are immediately reported to the management and appropriate action is taken promptly.

P288 Corporate Governance

We will also continue to provide education, including messages from top management, to ensure that each and every employee sees compliance as a personal matter, is aware of the actions specified in the BCG and other regulations, acts with an awareness of compliance risk prevention in their work, and creates a comfortable workplace where they can work with consideration for others.

Strategy

Risks and opportunities

Risks

Delays in response to environmental changes can lead to a risk of a company losing its competitiveness. We also believe that failure to leverage diversity also entails the risk of delayed awareness of change.

In the short term, harassment (power harassment and sexual harassment) may arise due to inability to break away from past values and long working hours that are incompatible with diverse working styles; in the medium and long term, the risk of not being able to demonstrate competitiveness ahead of its time by being hesitant to take on new business challenges, even though it sees the needs of social change; and in the long term, we may see human rights and employment risks caused by an inability to respect diverse employees and supply chains.

Effective Corporate Governance

GRI 2-25, 2-26, 205-2

Opportunities

Since our founding, we have promoted corporate activities based on walking the right path (acting in accordance with laws and ethics, and conducting fair and honest business activities), which is one of our core values. As a result, we have received high ratings from society for sustainability and compliance. This leads to increasing trust on the part of consumers, shareholders and other stakeholders in our products and our company, and also makes it easier for us to hire and retain talented personnel.

In addition, by shifting the concept of compliance and having each and every employee gain the perspective and attitude to take appropriate actions in light of the objectives, we will have an advantage as we launch new businesses and initiatives in a world of change, leading to new challenges.

Strategy

As a strategy for 2030, we will be sensitive to issues that arise in response to changes in the world and society by receiving reports and consultations from employees, identifying risks as early as possible, extracting issues that could become problems for the company, investigating their causes, and taking flexible measures to prevent their recurrence.

To achieve this, we will work on the following:

- (1) We will establish a global legal compliance framework and strive to ensure that each division and region is responsible for the proper conduct of business.
- (2) In the event of a problem, we will promote the operation of an initial reporting framework that promptly reports the problem to head office. We will

also improve our framework for receiving reports and consultations from employees and outside the company so that we can listen to what they have to say and understand the issues facing the organization.

- (3) In the area of training, we will consider and implement effective training to reduce compliance risks by enhancing management dialogue and raising the awareness of each individual employee.

Social impact

- To provide products and services through improved *Yoki-Monozukuri*, including a focus on the environmental perspective, by preventing misconduct and achieving higher-quality results.
- To help bring about clean and enriched lifestyles through providing the above products and services, as well as to help realize the SDGs, such as environmental conservation.
- To maintain and enhance the trust placed on us by our stakeholders, starting with our stockholders and society.

Contributions to the SDGs



Business impact

- To prevent losses due to fraud and decreased confidence in Kao's products.
- To prevent the spread and prolonged impact of misconduct and minimize damage through early detection and appropriate response.
- To achieve more efficient and higher-quality results and to retain, recruit, and optimize outstanding human capital by creating a workplace where employees can thrive.

Governance

Framework

Under the supervision of the Board of Directors, the Internal Control Committee manages risks related to effective corporate governance, and the ESG Managing Committee manages opportunities. These committees are both headed by the President & CEO.

Risk management related to effective corporate governance is handled by the Compliance Committee (which meets quarterly), composed of the heads of each division, and its secretariat meeting (which meets monthly), which prepares policies, annual plans and specific activities to implement these plans, and directs the heads of each division and subsidiary to carry out these activities. As one of the committees reporting to the Internal Control Committee, the Compliance Committee receives an annual evaluation of its activities from the Board of Directors, which leads to actions to improve. The framework for dealing with compliance hotlines involves a shared group compliance hotline, the Compliance Committee, which receives hotline reports, investigation by the Compliance Committee or the people responsible for promoting compliance at

Effective Corporate Governance GRI 2-25, 2-26, 205-2

subsidiaries, and the necessary corrective measures taken to resolve matters.

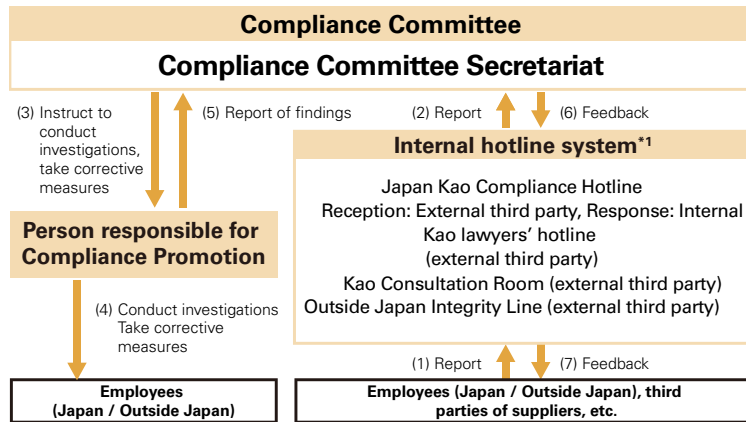
We have also put in place a framework for encouraging individual units at the worksite level to report compliance violations and suspected compliance violations, thereby contributing to the early resolution of

issues by clarifying the rules governing the initial reporting of compliance violations and suspected compliance violations.

The ESG Managing Committee (which meets six times a year) is responsible for managing opportunities related to effective corporate governance. 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.

Compliance hotline response system



*1 Internal hotline system

- Within Japan: Internal hotline
→ During business hours
External hotline
→ 12:00 am to 9:00 pm (weekdays)
→ 9:00 am to 5:00 pm (Saturdays, Sundays and national holidays except year-end and New-Year holidays)
We accept inquiries via our website and from mobile devices 24 hours a day
- Outside Japan: External contractors accept hotline calls from all countries in which we operate 24 hours a day, every day

Rules for initial reporting of violations



PDCA (Plan, Do, Check, and Act) cycle to continuously improve compliance

Compliance promotion activities are implemented using the PDCA (Plan, Do, Check, and Act) cycle shown below. The Compliance Committee creates the policy and annual plan, and the Compliance Committee Secretariat breaks it down into specific activities that are then implemented. The activities carried out are evaluated, issues are identified and improvements are summarized to formulate plans for the following year and beyond.

Plan / Do

We have established the Compliance Committee, which is chaired by a Managing Executive Officer and is comprised of representatives of relevant divisions and affiliated companies.

This committee meets every three months to review the following activities and devise promotional measures to mitigate serious compliance risks and ensure we are walking the right path.

1. Establish a policy of activities to ensure we are walking the right path.
2. Decide to establish or revise internal rules related to compliance, such as the Kao Business Conduct Guidelines (BCG).
3. Establish an annual plan for global education and awareness-raising activities to promote and practice walking the right path.
4. Confirm the operation and response status of the Compliance Reporting and Consultation Hotline.

Effective Corporate Governance GRI 2-25, 2-26, 205-2

We also propose necessary amendments to compliance-related rules and regulations and prepare an annual activities report to the Board of Directors through the Internal Control Committee.

The Compliance Committee has a secretariat with the Compliance Department at its center. At the monthly secretariat meeting, the suitability of responses to all reports made to the global compliance hotlines to be shared before the meeting takes place and then checked and reviewed. In addition, based on the decisions made by the Committee, plans for specific activities are formulated in conjunction with

promotions for them. After the Compliance Committee holds a meeting, they also draft and implement plans for specific activities and promote activities in accordance with Compliance Committee decisions in the following month.

Check

Internal evaluations

- Opinions from the Board of Directors

The Board of Directors receives an annual activity report in the form of a report on the activities of the Internal Control Committee.

The Board of Directors also monitors and evaluates these activities. This evaluation and feedback are used for improvement through the PDCA (Plan, Do, Check, and Act) cycle.

- Issues identified from compliance hotlines

At the monthly secretariat meeting, themes that may represent emerging issues for the company are identified based on the trend of incidents during the relevant period, and any necessary action is taken, including framework changes, internal education and awareness promotion, and so on.

- Issues identified from risk surveys

Kao conducts an annual compliance awareness survey, in addition to a company-wide risk survey that includes compliance risks such as corruption and bribery. We identify risk areas and specific risk scenarios based on the scores from each organization and free-form text responses, and take the necessary actions in cooperation with relevant divisions.

- Compliance awareness survey

The Compliance Committee conducts annual surveys of Group companies globally regarding the openness of each organization, etc. Based on the organizational culture trends we identify from these surveys, we create opportunities to hear more about specific workplace situations, and take any action required.

- New initiatives aimed at invigorating and reforming the corporate ethos

As part of the Objectives and Key Results (OKRs) introduced in 2021 as an employee motivation measure, all employees express their personal vision of what they want to be. Then, through repeated dialogue with their superiors and peers, they set goals and move swiftly toward them.

Within the Objectives and Key Results (OKRs), we can also set targets for activities designed to help employees realize their vision of what each organization should be. Through this process of goal setting and regular dialogue, which has replaced conventional opinion surveys, we promote solving issues and improving the corporate ethos within each organization and strengthen the bonds between employees.

External evaluations

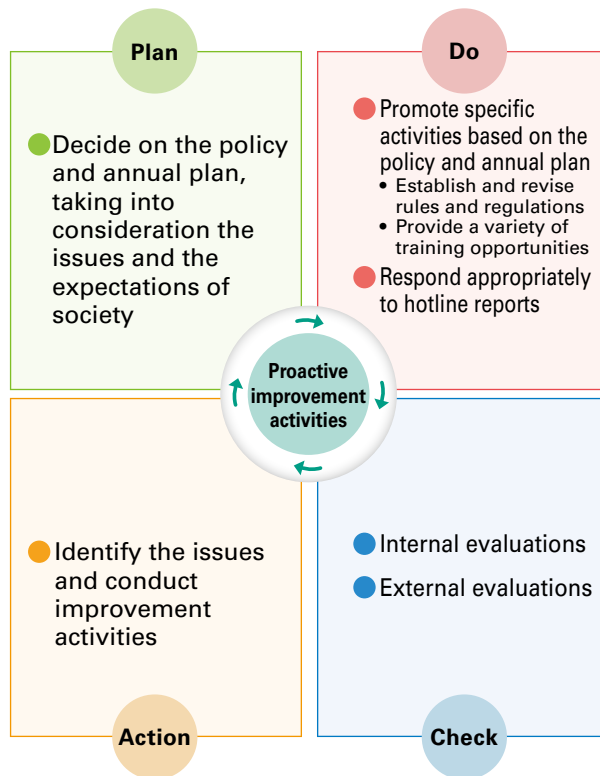
- Feedback from third-party organizations, external evaluation organizations, etc.

By responding to Socially Responsible Investment (SRI) questionnaires that incorporate societal expectations, and by sharing information with other companies, we will incorporate items on which we have not yet taken action into next year's activities as appropriate.

Education and promotion

What Kao Aims to Be by 2030 includes creating workplaces with an open atmosphere in which each employee is fully aware of the need to prevent compliance violations, and in which any compliance violations that are discovered are immediately reported and promptly dealt with. The result will be employee-friendly workplaces where employees care for others.

To achieve this, each employee must be aware of the consequences of violating compliance, such as



Effective Corporate Governance GRI 2-26, 205-2

incurring damage to and loss of trust in Kao. In addition, managers must be aware of compliance risks that may arise in their own work areas and take measures to reduce them. Furthermore, in order to create a workplace where everyone can work with peace of mind, employees must be aware of the importance of accepting the diversity of co-workers and of speaking and acting with consideration for others. With this in mind, we carry out education as appropriate based on the training system outlined as follows. Through this education, we provide opportunities for employees to enhance their awareness, which in turn can help them to recognize compliance as something that is directly relevant to them personally. We also urge employees to make effective use of the compliance hotlines that we provide when they are unsure of the best course of action to take.

Kao Group employees take compliance training designed to learn their role when those roles change significantly, including when they join the company,

when they are promoted to managerial positions, and when they assume responsibility for subsidiaries outside Japan.

We also provide all employees with regular opportunities to review compliance, as well as training from their leader in their division, BCG refresher tests and compliance awareness surveys to raise awareness on an ongoing basis. In addition, the Chairperson of the Compliance Committee and the person responsible for the division send out an annual compliance message to communicate the importance of speaking and acting thoughtfully, as well as maintaining an open organizational culture and so on. In response to outbreak cases, we disseminate information on topics that should be communicated to all employees in a timely manner, using cartoons to help employees develop a sense of urgency and awareness of the issues.

Education related to laws and ordinances is planned and conducted by designated managing divisions.

Collaboration with stakeholders

The BCG makes it clear that it encourages its business partners to understand, empathize with, and act on the BCG.

We believe that there is a serious risk that compliance violations by business partners can lead to quality issues and loss of trust in Kao products, and so we are implementing initiatives that prioritize focusing on suppliers of raw materials, contract manufacturers, and business partners engaged in product manufacturing on the Kao Group premises.

In particular, because business partners' failure to safeguard employees' human rights, leading to dissatisfaction, is a major factor in compliance violations, we are promoting measures to prioritize respect for human rights. The specific initiatives being implemented are outlined below.

1. At the annual meeting with business partners, we explain Kao's procurement policies, including compliance, and introduce our compliance hotline.
2. Identification of social needs and implementation of necessary activities through external questionnaires conducted by third parties
Each year, as we answer external surveys such as Ethisphere and S&P CSA, we recognize and understand changes in society through the questions and set activity goals for the following year in response.
3. The compliance hotlines are staffed by an outside clinical psychologist and an independent attorney-at-law who is not a legal counsel and is independent of the Kao Group. While only the number of cases is reported to us on a monthly basis, each hotline understands the content and provides the necessary counseling. As they are external parties who listen directly to the voices of our employees, we have a regular opportunity, once or twice a year, to exchange

Kao Compliance Training

Region	Theme	Target group	Objectives	Frequency
Globally common	New Employee Orientation	New employees	Learn about Kao's approach to compliance and BCG	Upon joining the company (written pledge)
	Training for managers	Manager training Japan: New managers Outside Japan: Managers	Group work to build managers' awareness of compliance risk reduction	Japan: At time of promotion to manager Outside Japan: Every 3 years
	Training by division leaders	Managers / Non-manager employees	Division leaders directly communicate the message to employees to make compliance relevant to them personally	Once every 2 years (alternate each year between Japan / Outside Japan)
	BCG refresher test + compliance awareness survey	Directors, Audit & Supervisory Board Members and Executive Officers / Managers / Non-manager employees	BCG re-learning and identification of divisions with high compliance risks	Yearly
	Compliance message	Managers / Non-manager employees	Regularly reinforce the importance of compliance	Yearly
	BCG Casebook	Managers / Non-manager employees	Study the BCG using specific cases	Review after BCG revisions
	Compliance case studies	All employees	Study compliance points to keep in mind through cases at Kao and other companies	Japan: Every month Outside Japan: Twice a year (April, October)
Japan	New information dissemination	All employees (including subcontractors in factories and offices)	Learn about compliance-related points of concern through cartoons showing examples from the company and other companies, and practice with a sense of urgency	Approx. 4 times a year
	Directors, Audit & Supervisory Board Members and Officers Training Sessions	Executive officers and above	Learn about compliance risks from a management perspective	Yearly
Outside Japan	Integrity Workshop	New employees	Learn the content of the BCG in a group discussion format, with examples related to each of the points	Once within 3 years of joining the company

Effective Corporate Governance GRI 2-26, 205-2, 404-2

views with them on the concerns they have about our organizational culture in response to the content of the employee consultations.

Risk management

With regard to the risk and opportunity assessment process, the Legal examines possible risks and opportunities at Kao and conducts risk and opportunity assessments based on the opinions of personnel in charge of each division implementing internal initiatives and external experts, which are then approved by the Internal Control Committee and the ESG Managing Committee, respectively.

The compliance risk identification and assessment process is as follows:

- **Grasping business issues from compliance hotline cases (including reports through the management line)**

- (1) Report monthly at the Compliance Committee Secretariat meeting;
- (2) Establish themes that require attention and monitor causes and measures to prevent the recurrence of serious compliance violations;
- (3) Exchange issues at the quarterly meetings of the Compliance Committee;
- (4) Share the situation at the Managing Executive Officers meeting in the month following the committee meeting;
- (5) Determine the applicability of serious compliance violations during the fiscal year.

- **Compliance awareness survey for understanding organizational culture**

- **In the risk identification process for K27, which is conducted by the Risk and Crisis Management**

Division, risk items are presented from the perspective of compliance activities, and the compliance risks submitted by each division are identified.

Metrics and targets

Mid- to long-term targets and 2023 results

Mid- to long-term targets

1. Contribute to *Yoki-Monozukuri* by committing to thoroughly instill walking the right path and prevent incidents from occurring.
2. Minimize damage by creating an open workplace that enables early reporting and appropriate response to misconduct.
3. Maximize the utilization of human capital by ensuring that we speak and act with consideration for the position of others and by creating a workplace that is equal and easy to work in for all employees.

2030 long-term targets

- Establish and maintain our legal compliance framework within and outside Japan to ensure consistent *Yoki-Monozukuri*.
- Conduct activities with a focus on high-risk areas to effectively prevent serious compliance violations.
- Clarify reporting rules to encourage early reporting of misconduct and appropriate responses, and ensure that these rules are widely known and thoroughly understood.
- Establish harassment prevention policies and other necessary internal rules to create a comfortable workplace, and ensure that all employees are aware of and comply with such policies and rules.

2023 results

1. Compliance risk mitigation activities

Legal compliance structural reorganization

We have clarified the lead division responsible for promoting compliance with the approximately 250 laws and ordinances that apply to our business. In 2023, we took appropriate actions to reduce significant compliance risks, with several themes identified as key issues, that were led by each of the lead divisions.

Thorough analysis of the causes of potential serious compliance violations and measures to prevent recurrence

Of the compliance violations that have occurred, those that are deemed to meet the criteria for malignancy and impact are identified as serious potential compliance violations. We then investigate each case in depth, examine the causes of the occurrence, summarize the case, confirm measures to prevent recurrence, and work as an organization to improve the issue.

2. Educational activities to promote and establish compliance awareness

- We have conducted compliance training for newly appointed managers in Japan to discuss compliance risks that can arise when objectives and key results (OKRs) management methods are ineffective.
- We have conducted BCG refresher tests and awareness surveys outside Japan.
- Since April, we have disseminated compliance messages, including a message from the Chairperson of the Committee, and since July, messages from the heads of each functional division and the President & CEO of global Group companies, as well as the provision of other information.

Effective Corporate Governance

- We have distributed compliance case studies monthly in Japan and twice a year outside Japan via the company intranet to promote understanding through specific case studies.

P176 Compliance message

3. Development of the compliance promotion framework

With the following measures, we have put in place a system designed to reduce risk by detecting compliance-related problems at an early stage and appropriately resolving them.

- Serious potential compliance violation matters were reported to the Board of Directors and other relevant bodies every quarter through reports from the Compliance Committee, the Executive Officer Committee, the Audit & Supervisory Board members, and the Internal Control Committee, and responses to prevent recurrence were verified and evaluated for appropriateness.
- We comply with the Rules for Operating Compliance Hotlines to build trust in the compliance hotlines and enable employees to use them with peace of mind. After the enforcement of the revised Whistleblower Protection Act in June 2022, we continued to ensure our commitment to fully protect the confidentiality of whistleblowers and informants, and not to seek out or retaliate against them.

P176 Compliance hotline operational status and 2023 regulatory violations

4. Evaluation activities

- Conducted a global awareness survey on the level of penetration of compliance activities and workplace culture.

- Identified issues and planned improvement activities through information exchange with other companies and responses to external surveys.

5. External evaluation

The company was named one of the World's Most Ethical Companies® for its activities also in FY2023.

P178 Eighteen consecutive years on the World's Most Ethical Companies® 2024 list

Reviews of 2023 results

Issues and response measures concerning mid- to long-term targets

1. Contribute to *Yoki-Monozukuri* by committing to thoroughly instill walking the right path and prevent incidents from occurring.

In addition to the promotion of legal compliance activities aimed at reducing serious compliance violations, we are promoting activities to make compliance a personal matter. We do this by identifying issues in the organization, starting with reporting and consultation, and then having the division where the incident occurred conduct an in-depth investigation into the cause of the incident, summarize the incident, and confirm measures to prevent its recurrence. Going forward, we will identify issues and continue responding to them.

2. Minimize damage by creating an open workplace that enables early reporting and appropriate response to misconduct.

We believe that if each employee is fully aware of compliance issues, they will recognize and stop before they engage in inappropriate behavior. In order to create

such an environment, we have worked on information provision and implemented communication activities from the employees' perspective. In addition, the hours of availability for reporting and consultation services have been extended.

3. Maximize the utilization of human capital by ensuring that we speak and act with consideration for the position of others and by creating a workplace that is equal and easy to work in for all employees.

With respect to power harassment and other forms of harassment, we make targeted efforts to prevent recurrence. Specifically, as described in 1. above, reporting and consultation are used as a starting point to identify issues within the organization, and the division where the incident occurred conducts in-depth investigations to determine the cause of the incident, and then devises and implements measures that can be implemented on-site. In the area of awareness-raising and education, we are also making efforts to realize a comfortable workplace at each site by devising interactive training programs for the issues recognized at each site, rather than providing general, abstract content.

Effective Corporate Governance GRI 415-1

Main initiatives

The BCG serves as our code of conduct for practicing the Kao Way, our corporate philosophy. The content is reviewed annually based on societal demands and the company's own situation, and was last revised in April 2019.

To disseminate BCG's content, we have created the BCG Casebook, a collection of BCG-related case studies in a Q&A format in Japanese, English, and 17 other languages, and share it with related companies.

The BCG explicitly states that it prohibits bribery regardless of the affiliation of the other party, and prohibits facilitation payments, which are small payments made to individual government officials. The BCG and the Donation Guidelines also prohibit political contributions. We have also implemented "Kao Anti-Bribery Guidelines," including those for Group companies outside Japan. Specifically, the Guidelines make it mandatory to set standards for providing entertainment / gifts and for the amount of money received and to report them in advance, as well as semiannual summaries of the implementation status, which are posted on the intranet and shared with frontline divisions. They specify measures to prevent bribery, such as assessing bribery risks when selecting business partners and renewing contracts. In 2023, there were no violations related to corruption or bribery within the Kao Group.

Our marketing and advertising activities include fair content and appropriate statements based on facts, avoid exaggerated statements concerning our impact on society and the environment, and take into consideration a wide range of people, including those who could be considered socially vulnerable. We also ensure that information relating to competitors and competing products is not provided to consumers.

In addition, with respect to harassment, we state that we will not tolerate any harassment of employees or other business associates. Such harassment includes language or conduct that undermines or insults human rights and personalities.

In addition to the above, Kao has introduced the "Kao Guidelines for Avoiding Conflicts of Interest" for Group companies globally. The Guidelines stipulate that permission or notification must be obtained in cases where a person is personally involved in competitive or trading activities with Kao Group companies, invests in companies that engage in such activities, borrows money from or lends to Kao Group companies, or has a close relative involved in such activities. There were no conflict of interest violations in 2023.

In October 2021, the Money Laundering Policy was introduced in the Kao Group to clarify its anti-money laundering stance. There were no violations on this matter in 2023.

In FY2023, based on the development of the DE&I policies by the Human Rights and DE&I Steering Committee, descriptions were added as a reference regulation of the BCG.

Annual confirmation

Once a year, we reiterate the Kao Guidelines for Avoiding Conflicts of Interest and the Kao Anti-Bribery Guidelines to the executives and employees, and check the status of notification of applicable matters to the Compliance Committee Secretariat.

In addition, we investigate the function of the Anti-bribery (anti-corruption) Checklist used when selecting new cross-border distributors and new intermediaries or renewing contracts with existing ones.

Expenditures to trade associations and political organizations

Through our participation in committees, working groups, etc., of trade associations, we convey opinions that could influence the enactment and revision of laws to the government. Apart from membership fees to these trade associations, we have confirmed that we have not made any contributions to political campaigns, political organizations, lobbying activities, trade associations, tax-exempt organizations or other groups that play a role in influencing political campaigns, public policy or legislation.

Expenditures to trade associations and political organizations

Unit: million yen

	2021	2022	2023
Trade associations	485	436	535
Lobbying activities	0	0	0
Political contributions	0	0	0
Total	485	436	535

Expenditures to major trade associations

Unit: million yen

	Expenditures
Japan Soap and Detergent Association (JSDA)	49
Der Verband der Chemischen Industrie	49
Personal Care Products Council	30

Effective Corporate Governance GRI 2-25, 2-27, 205-2

BCG refresher test and compliance awareness survey

We conduct a BCG refresher test and compliance awareness survey for all global employees to provide regular opportunities to reflect on compliance and raise awareness on an ongoing basis. The test and survey had been conducted every other year in Japan and other regions, but starting in 2023, we decided to conduct the test and survey globally to provide employees with an annual opportunity to review their understanding of the program. The implementation rate was 92.8%.

The BCG refresher test consists of seven questions in total, and the questions review the basic BCG concepts.

In addition, 16 questions were asked in the compliance awareness survey, and in Japan, free response sections were also added to gather employee opinions on the questions and to confirm the background of the responses. By talking to organizations with low average values for workplace culture, we confirmed the correlation with engagement surveys and reporting and consultation conducted by the human capital development division, as well as the background and the response to these issues in the organization. Through comparisons with past responses, we were also able to confirm that the overall situation for each organization is improving.

In regions other than Japan, there has been no significant change compared to the previous year's scores, but we will continue to confirm that necessary measures are being taken by ascertaining the background and current status of the scores globally through dialogues with on-site personnel.

Four-panel cartoon posters to raise awareness

In FY2023, we began activities to convey a sense of crisis through four-panel comics on topics that have occurred within the company or outside the company that we want to share with our employees. Three posters were displayed, covering topics such as product management and sexual harassment.



Compliance message

To encourage employees to view compliance activities as directly relevant to them, top management sends out compliance messages to promote compliance activities globally.

In 2023, the Chairperson of the Compliance Committee's message was, "See something wrong? Speak up!" With this message, we promoted activities to achieve a vibrant workplace culture by increasing our sensitivity to signs of discomfort in workplaces that are not adapting to changes in society and by raising our voices after noticing something is wrong.

In addition, the message from the Chairperson of the Compliance Committee was posted on the intranet

and on posters, compliance messages and other communications were sent out by the Heads of Global Functional Divisions and each Regional Head and each President & CEO of companies.



Compliance case studies

In Japan, we basically prepare a case study once a month and publish it on the company intranet. The themes are based on reports received at the Compliance hotlines and actual cases that have occurred at the company or other companies, and are incorporated into case studies in a timely manner to share problems and issues and to provide an opportunity for employees to view events and risks as their own personal matters.

Outside of Japan, English-language versions of global case studies are conducted twice a year (April and October) at Group companies.

Compliance hotline operational status and 2023 regulatory violations

Kao has established compliance hotlines inside and outside the company, or only outside the company, according to the needs of each country and area.

P170 Compliance hotline response system

Effective Corporate Governance

GRI 2-25, 2-27

In operating the hotlines, after confirming the caller's wishes, companies take steps to respect the individual's privacy and strive to the maximum extent possible to ensure that callers suffer no retaliation or disadvantage as a result of their good-faith consultation. In addition, when conducting an investigation of the persons concerned, in principle, we obtain the consent of the informant or person making a consultation first, and when conducting an interview with the subject, we obtain the interviewer's signature on a written pledge that they will not search out or cause a disadvantage to the informant before conducting the interview. Anonymous inquiries are accepted, but callers are encouraged to identify themselves to facilitate a proper investigation.

In addition, as noted above, we have clarified the rules for initial reporting of compliance violations and suspected compliance violations and established a framework for receiving reports from individual units at the *Genba* level.

In 2023, we provided training for new callers and consultation responders on points to keep in mind when responding.

In 2023, there were 647 reports made to the hotlines (including group companies outside Japan). Although the number of cases has increased from the previous year, we recognize that this is due to factors such as increased familiarity with the compliance hotline and increased employee awareness. The breakdown of the contents of reports and consultations is as follows (inquiries, opinions, and violations of other companies in human resources, accounting, and compliance procedures are not included): approximately 23% are related to harassment such as power harassment; approximately 43% are related to communication problems in the workplace, working conditions, and work, etc.; and approximately 26% are related to violations of laws and ordinances. Together,

these three categories accounted for approximately 92% of the reports. Violations of laws and regulations include many that are discovered during internal control inspections.

No particular trends were observed in the organizations, worksites or occupations to which callers belonged.

Under walking the right path in the Kirei Lifestyle Plan (KLP) announced in April 2019, we set an indicator of zero serious compliance violations.

These serious compliance violations refer to compliance violations that have a significant impact on management and significantly damage corporate value. Based on the egregiousness of the violations (materiality / significance of the violations of laws and ordinances, intentionality, continuity and organizational nature of the violations) and the impact of the violations both internally and externally, we will seek opinions at the Compliance Committee Secretariat Meeting, Compliance Committee and Audit & Supervisory Board Members Hearings, make decisions based on deliberations at the Management Board, and report the results to the Executive Officers Committee and the Board of Directors.

For the judgment, all cases reported by the compliance hotlines and management lines are reviewed at a weekly meeting to identify issues that should be recognized as concerns for the Company. Based on the discussions at the weekly meeting and at the monthly Compliance Committee Secretariat meeting, the Committee identifies matters that may recur or become widespread throughout the Company as requiring particular attention while obtaining third-party assessments and recommendations from an outside attorney-at-law who attends the meeting as an advisor. We also identify potential serious compliance violations among violations of laws and ordinances. The department where an incident occurred will investigate

its cause and background, as well as measures to prevent recurrence, and present a summary report at the Compliance Committee meeting. After a process of receiving evaluations and recommendations from each committee member with respect to the report, a final verdict is made on compliance violations that have a significant impact on management and significantly damage corporate value. There were 647 compliance reports and consultations in 2023. Of these, 322 were investigated due to material concerns relating to noncompliance, while 179 cases were subject to some form of corrective action or recurrence prevention, including review of business processes, organizational awareness-raising, and verbal warnings to the individual involved. These matters were discussed and reviewed at meetings of the Compliance Committee Secretariat, the Compliance Committee, and the Management Board, and no serious compliance violations as outlined above were found.

In addition, there were 14 cases of some form of harassment, such as power harassment and sexual harassment, which resulted in some form of disciplinary action, and there were 30 other cases globally in which misconduct, such as embezzlement and theft on the job, resulted in disciplinary dismissal or being asked to resign.

Regarding compliance violations, we strive to prevent such violations by verifying the appropriateness of measures to prevent recurrence prepared by the division or department where the violation occurred at the Compliance Committee Secretariat Meeting or at the Compliance Committee Meeting. In addition, we are also committed to preventing the recurrence of such violations by making employees aware of the violations through such means as posting posters with four-frame cartoons of matters requiring attention within the company.

Effective Corporate Governance

Eighteen consecutive years on the World's Most Ethical Companies® 2024 list

In March 2024, Kao was recognized as one of the World's Most Ethical Companies® 2024 by the U.S.-based think tank, the Ethisphere Institute. We have been selected for 18 consecutive years since the award's inception in 2007. We are the only Japanese company, and the only consumer goods and chemicals manufacturer in the world, to have been selected for 18 consecutive years.

This award is based on the following five factors: (1) efforts in corporate ethics and compliance; (2) environmental and social impact; (3) culture of ethics; (4) governance; and (5) third-party management.

This recognition reflects the fact that the spirit of walking the right path passed down from our founder continues to be implemented by all Kao Group members in our day-to-day operations through the practice of The Kao Way and the BCG.

Kao continues to incorporate activities that need to be strengthened into the following year's activities based on the evaluation in the Benchmark Score Report received from the award-winning company after receiving the award.

Sharing our insights on compliance with outside groups

To help develop future corporate legal talent, the Head of Legal gives lectures at universities and university law schools on corporate legal affairs and corporate governance. In 2023, lectures on general corporate law were given to law students at two universities (in April and May) and lectures on corporate law and compliance

were given to two university law schools in October and November.

In November, we participated as a panelist in a roundtable on compliance promotion activities organized by Japanese companies and shared our initiatives.

Employees' opinions

Compliance promotion initiatives in the Kao Professional Services



Isao Kobayashi

Human Capital Development, Kao Professional Services Company, Limited

Compliance initiatives are very important for both the company and its employees. However, it is also important to take care not to cause compliance fatigue through over-management. We believe that sharing and practicing the values of walking the right

path in the Kao Way is of utmost importance. In 2023, we held a company-wide workshop to deepen understanding of the Kao Way and apply it to daily operations.

In addition, we have established a new Working Style Support Group in 2021, which serves as a convenient consultation service and a forum for workplace communication, and have assigned Group members to all branch offices to establish activities. We believe that these ongoing grassroots activities have reduced the number of cases of noncompliance. We intend to continue our initiatives and aim for a more rewarding and secure workplace in the future. We would like to continue our initiatives and aim for a more rewarding and secure workplace in the future.

Effective Corporate Governance

Stakeholder engagement

Naotaka Kawamata

Attorney-at-Law,
Marunouchi Sogo Law Office



Kao's response to the views expressed last year

We are continuing activities to prevent serious violations from occurring by picking up issues through reporting and consultation. However, it is difficult to identify problems that are hidden because of the way each employee is accustomed to work, and it is important for each employee to become aware of such problems and speak up. In FY2023, we have been providing information in the form of educational posters with four-frame comic strips and case studies that promote awareness, aiming for content that would catch the attention of many employees at a glance. In addition, we have established a reception desk outside the company so that employees can report incidents after working hours or on holidays. As a result of these efforts, the number of reports has increased by approximately 30% compared to 2022. We will continue our initiatives to win the trust of the Compliance Committee (Secretariat), which will lead to a change in the behavior of each and every employee.

Further activities for building trust in the Compliance Committee and others

A secretariat was established at Kao as a subordinate organization of the Compliance Committee, and secretariat meetings are held once a month, with supervising members from the Compliance Department and other divisions. As an outside advisor to that secretariat meeting, I sat in on the 2021, 2022 and 2023 meetings, and contributed to the stakeholder engagement in the Sustainability Report 2023.

The 2023 stakeholder engagement showed that the root causes of organizational issues that lead to noncompliance are often hidden in the way people work in the relevant workplace. I have pointed out that after gaining trust in the Compliance Committee (Secretariat), it is necessary to encourage employees and others to speak up through reporting and other systems.

The Compliance Committee (Secretariat) has been continuously surveying employees' awareness of compliance and conducting a survey on ethics, culture, communication, etc., in the workplace. A major trend is the gradual decrease in the percentage of employees expressing concern about ethics, culture, communication, etc., in the workplace. However, there are still some workplaces where a relatively high percentage of employees have concerns about ethics, culture, and communication in the workplace.

The Compliance Committee (Secretariat) has conducted a more in-depth survey on compliance awareness, and has found a correlation with the use

of internal reporting systems at each workplace, and the percentage of employees who have concerns about ethics, culture, communication, etc., at their workplaces. In other words, when the results of using the whistle-blowing system are broken down by workplace and compared against the percentage of employees who have concerns about the ethics, culture, communication, etc., at each workplace, the results show a tendency that the workplace with the highest use of the whistle-blowing system has a higher percentage of concerned employees. This is one indication that the Compliance Committee (Secretariat) has gained the trust of employees, etc., and that employees are speaking up through reporting and other systems. The Compliance Committee (Secretariat) is expected to respond to the expectations of employees who speak up and provide support to improve work practices in the relevant workplace.

On the other hand, it is also true that some workplaces have a relatively high percentage of employees with concerns about ethics, culture, communication, etc., at their workplaces, and yet have a poor track record of using the internal whistle-blowing system. Some of the departments with a high percentage of employees who raise concerns regarding ethics, culture, communication, etc., in the workplace may be those where there are issues regarding the way work is conducted. Therefore, I expect the Compliance Committee (Secretariat) to continue working diligently to gain further trust in the company.