

Responsibly Sourced Raw Materials

GRI 2-23

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

Risks	Strategy		Metrics, targets and results			Initiatives	Financial impact	
<ul style="list-style-type: none">Increased procurement costs due to the depletion or rising prices of natural resourcesHigher supply chain management costs stemming from tighter regulationsLoss of brand image caused by human rights issues at procurement sources	Supplier management	(1) Selection of suppliers for collaboration to solve social and environmental issues	Metrics	Targets	2024 results	Supplier selection (1)	<ul style="list-style-type: none">Mid- to long-term cost control through stable procurementPlanned business growth based on stable procurementAvoidance of penalty costs from legal violations related to sustainable procurement and human rights protection	
				Supplier assessment implementation rate % (Sedex, Kao SAQ, and other evaluation bodies) (2)	–	90%		Education for sustainable procurement (1)
	Palm oil, pulp, and paper procurement	(2) Deepening ESG procurement through supplier assessment and collaboration		Number of companies with critical issues identified through SMETA audits (2)	–	0		Regular review of purchasing practices and evaluation of supplier performance (2)
		(3) Reducing risks by ensuring traceability and procuring products certified by third parties		Percentage of certified paper products and pulp used in household products (3)	100% 2025	99.6%		ESG risk assessment (2)
				Confirmation of traceability to oil palm smallholders (3)	Completed 2025	88%		Participation in the CDP Supply Chain Program (2)
				Percentage of RSPO certified oil in total palm oil volume (3)	–	39%		
<div>Opportunities</div> <ul style="list-style-type: none">Establishing a stable supply system through the selection of suppliers with low environmental and social risksImproved trust from investorsEnhanced customer loyalty and increased repurchase rate	Palm oil, pulp, and paper procurement	(4) Initiatives to address issues related to natural resources		Volume of certified credits purchased from supported oil palm smallholders (tons) (4)	–	24,238	Procurement of forest raw materials (3) (4)	
				Cumulative number of supported oil palm smallholders (4)	–	3,489		
				Number of plantations covered by the Kao grievance mechanism (4)	–	259		
	Collaboration	(5) Kao's packaging collection and recycling scheme initiatives and outlook					Recycling of packaging materials (5)	
	Electricity	(6) Reducing environmental impact by promoting the procurement of renewable electricity					Promotion of renewable electricity procurement (6)	
							Environmental and social impact	
							<ul style="list-style-type: none">Conservation of the natural environment and enhancement of ecological system sustainabilityPromotion of human rights protection through improved working conditionsEconomic development and improved living standards in production communities	

* The numbers at the end of the metrics, targets, and initiatives indicate the strategy identifiers.

Strategy

To reduce risks and create opportunities related to responsibly sourced raw materials, we are implementing strategies that are unique to Kao, effective, and contribute to both business growth and solving social issues.

Social issues

For Kao to remain a sustainable and competitive company, it is essential to accurately understand social issues. Recognizing these issues not only mitigates business risks for Kao, but also serves as a critical starting point for identifying new business opportunities that drive growth. Kao recognizes the relevant social issues related to this theme as follows.

- Deforestation and labor rights violations in the supply chains of natural resources (palm oil, pulp, and paper)
- Higher supply chain risks and greater management complexity due to globalization

Risks and opportunities

In a business environment that includes the social issues described above, Kao faces various risks and also identifies new business opportunities. Identifying risks and opportunities is a critical process in formulating corporate strategies and initiatives. The key risks and opportunities that we identified for this theme are as follows.

Risks

- Increased procurement costs due to the depletion or rising prices of natural resources
- Higher supply chain management costs stemming from tighter regulations
- Loss of brand image caused by human rights issues at procurement sources

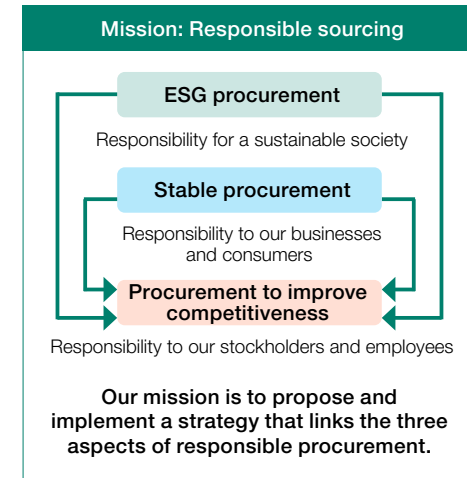
Opportunities

- Establishing a stable supply system through the selection of suppliers with low environmental and social risks
- Improved trust from investors
- Enhanced customer loyalty and increased repurchase rate

Strategy

To address the identified risks and opportunities, Kao has formulated the following strategies. These strategies are key initiatives directly aligned with one of the basic policies of the mid-term plan “K27”: “to become an essential company in a sustainable world.” Maintaining a stable supply of products, we are promoting the strengthening of our supply chain with consideration for resource protection, environmental conservation, and human rights by leveraging the trust built over many years with suppliers and our expertise in solving issues. Kao’s Procurement Division will continue to realize responsible procurement and enhance competitiveness through its core approach of ESG procurement and stable procurement.

Responsible sourcing



(1) Selection of suppliers for collaboration to solve social and environmental issues

To select suppliers for collaboration in solving social and environmental issues, we conduct due diligence during the selection phase to establish a foundation for avoiding supply chain risks.

Related initiatives: [P109](#) Supplier selection, [P112](#) ESG risk assessment, [P112](#) Participation in the CDP Supply Chain Program, [P113](#) Education for sustainable procurement

(2) Deepening ESG procurement through supplier assessment and collaboration

To address various issues including human rights risks, we apply highly effective monitoring methods to swiftly and accurately assess suppliers. We also build close collaborative relationships with suppliers. In addition to business collaboration on quality, cost, and delivery (QCD), we work together to reduce environmental impact and solve social issues. These efforts minimize risks across the entire supply chain and strengthen the foundation for ESG procurement.

Related initiatives: [P110](#) Regular review of purchasing practices and evaluation of supplier performance, [P112](#) ESG risk assessment, [P112](#) Participation in the CDP Supply Chain Program, [P112](#) Collaboration +with stakeholders

(3) Reducing risks by ensuring traceability and procuring products certified by third parties

By ensuring effective traceability, we can accurately identify risks and help reduce deforestation

risks. In addition, procuring products certified by third parties helps control risks across the supply chain and promotes sustainable procurement, enabling a rational and highly reliable approach.

Related initiatives: [P110](#) Procurement of forest raw materials, [P112](#) ESG risk assessment, [P112](#) Participation in the CDP Supply Chain Program

(4) Initiatives to address issues related to natural resources

In palm oil procurement, we work to solve the social and economic issues faced by oil palm smallholders. Through a fundamental approach that addresses the root causes of these issues, we aim to procure sustainable raw materials and stabilize the supply chain, and also protect the human rights of workers.

Related initiative: [P110](#) Procurement of forest raw materials

(5) Kao's packaging collection and recycling scheme initiatives and outlook

Through the collection and recycling of plastic waste, we aim to realize a sustainable world, and at the same time, promote technological innovation and strengthen partnerships.

Related initiative: [P111](#) Recycling of packaging materials

(6) Reducing environmental impact by promoting the procurement of renewable electricity

By advancing the introduction of renewable energy, we aim to reduce environmental impact across the entire supply chain. These efforts also contribute to the expansion of the renewable energy market, raise awareness across the industry, and support the decarbonization of society as a whole.

Related initiative: [P111](#) Promotion of renewable electricity procurement

Impact generated by implementing the strategies

Through the above strategies, we believe we can generate the following financial and environmental and social impacts.

Financial impact

- Mid- to long-term cost control through stable procurement
- Planned business growth based on stable procurement
- Avoidance of penalty costs from legal violations related to sustainable procurement and human rights protection

Environmental and social impact

- Conservation of the natural environment and enhancement of ecological system sustainability
- Promotion of human rights protection through improved working conditions
- Economic development and improved living standards in production communities

Strategic resilience

Kao is building a system that enables swift response to risks by ensuring transparency across the entire supply chain through responsibly sourced raw materials. In addition, we are strengthening resilience against rising procurement costs and supply shortages by conducting R&D on alternative resources and building strong relationships with partners. We also work to protect brand value by implementing human rights policies and audit processes aligned with international standards. Through these initiatives, we are enhancing our resilience to respond flexibly to external environmental changes and risks and maintain a stable supply.

Metrics and targets

To enhance the effectiveness of our strategies, we have established performance metrics related to risks and opportunities, and we regularly monitor our progress. For metrics linked to particularly important risks and opportunities, we set specific targets and use the PDCA (Plan, Do, Check, and Act) cycle to ensure steady implementation by checking our progress against these targets.

Targets and progress

Strategy	Metrics	Results					Mid- to long-term targets	
		2020	2021	2022	2023	2024	Target value	Year
(3)	Percentage of certified paper products and pulp used in household products	94%	96%	97%	98%	99.6%	100%	2025
(3)	Confirmation of traceability to oil palm smallholders	Completed up to own farm managed by oleo chemicals supplier	Completed up to own farm managed by oleo chemicals supplier	Completed up to own farm managed by oleo chemicals supplier	Completed up to traceability checks to farms: 87%	Completed up to traceability checks to farms: 88%	Finish	2025

Making Thoughtful Choices
for Society

Sustainable Lifestyle
Promotion

Purpose Driven
Brands

Transformative
Innovation

> Responsibly Sourced
Raw Materials

Making the World Healthier
& Cleaner

Walking the Right Path

We are making steady progress towards our target of reaching 100% for the percentage of certified paper products and pulp. Progress is currently as planned, and we expect to achieve the target by 2025. We will continue strengthening collaborations with suppliers to promote certification.

Progress in confirming traceability to oil palm smallholders is currently proceeding as planned. We will continue to strengthen collaboration with local partners to ensure the successful achievement of our target by 2025.

Metrics and results

Strategy	Metrics	Results		
		2022	2023	2024
(1)	Supplier assessment implementation rate (%) (transaction amount %)	62% (88%)	81% (97%)	90% (98%)
(2)	Number of companies with critical issues identified through SMETA audits	0	0	0
(3)	Percentage of RSPO certified oil in total palm oil volume	34	40	39
(4)	Volume of certified credits purchased from supported oil palm smallholders (tons)	3,070	9,996	24,238
(4)	Cumulative number of supported oil palm smallholders	2,316	3,083	3,489
(4)	Number of plantations covered by the Kao grievance mechanism	–	212	259

* Supplier Assessment (Sedex, Kao's original Self-Assessment Questionnaire (SAQ), and other evaluation bodies)

The supplier assessment implementation rate in 2024 reached 90%. This figure serves as a key metric in building a sustainable supply chain. We use Sedex, Kao's original Self-Assessment Questionnaire (SAQ), and information from other evaluation bodies to evaluate the social and environmental responsibilities of our suppliers. Improving the assessment rate represents a significant achievement in managing risks and addressing the diversity of our business partners. We will continue making further improvements and aim to improve assessment implementation rates.

In 2024, the number of companies with critical issues identified through SMETA audits was zero. This result is a key metric indicating suppliers' compliance with labor conditions and ethical standards. To continue preventing the occurrence of critical issues, we will maintain close communication with suppliers and implement preventive measures.

By 2024, the total number of supported oil palm smallholders reached 3,489 plantations. This initiative primarily aims to improve palm oil productivity, curb deforestation through the acquisition of RSPO certification, and enhance sustainability within Kao's palm oil supply chain. Through these support activities, Kao also contributes to strengthening the technical capabilities of oil palm smallholders and promoting environmental conservation. In 2024, Kao purchased the entire volume of RSPO-certified credits sold by the supported smallholders following certification, totaling 24,238 tons.

Going forward, Kao will further expand its support programs to promote sustainable agricultural practices among a larger number of smallholder plantations. In 2024, the number of plantations covered by Kao's grievance mechanism reached 259. The mechanism is designed to receive complaints such as human rights violations and land disputes from oil palm smallholders, as well as inquiries related to plantation operations.

The increase in the number of covered plantations reflects progress in addressing social and environmental aspects through the monitoring of human rights and environmental risks, with a particular focus on resolving essential human rights issues and strengthening efforts to improve productivity at smallholder plantations.

Moving forward, we will expand coverage to more plantations, and at the same time, promote sustainable agricultural practices and further strengthen the protection of workers' rights and environmental conservation.

- Paper and pulp procurement*1
Confirmation of traceability: 100%
Of this, 99.6% is certified paper and pulp*2 ☒ (in 2024).

*1 Covers paper and pulp used in Kao products (excluding some products).
*2 The ratio of certified materials among paper / pulp materials is tabulated based on the ratio by weight of certified materials for each procured item.

SMETA audit results in 2024

Number of SMETA audits	21
Percentage of companies with serious issues	0%
Percentage of companies with minor issues	100%
Percentage of companies with minor issues that have submitted corrective plans	100%

Making Thoughtful Choices
for Society

Sustainable Lifestyle
Promotion

Purpose Driven
Brands

Transformative
Innovation

> Responsibly Sourced
Raw Materials

Making the World Healthier
& Cleaner

Walking the Right Path

Overall evaluation of supplier risk assessment based on Sedex (as of December 2024)

The scope of assessment is 1,152 suppliers that responded to the Sedex Self-Assessment Questionnaire (SAQ)

Overall evaluation	SAQ response rate*3	Sedex risk assessment*4	Percentage
S	80% or more	3.0 or more	58%
A	80% or more	2.0 to less than 3.0	25%
B	80% or more	Less than 2.0	8%
C	Less than 80%	–	9%

*3 Sedex SAQ response rate
*4 Management control score values using Sedex assessment tools (Ranging from 0 to 5; the higher the score, the better the management)

Number of significant suppliers*9 that have low ratings by Sedex or Kao SAQ, or by other rating agencies

Number
27

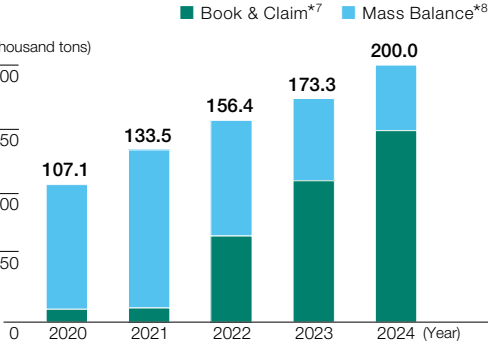
*9 Definitions of significant suppliers are given under the table of “Number significant suppliers” on P110.

Governance

The Procurement Division strategically coordinates three key policies—“ESG procurement,” “stable procurement,” and “strategic procurement for enhanced competitiveness”—to drive responsible procurement and deliver competitive advantage to all stakeholders. Progress on mid- to long-term procurement strategies based on these three policies is reported in detail each month to the Director in charge of Procurement and Executive Officers. These reports are led by the Strategic Sourcing team and primarily cover progress in ESG procurement and stable procurement, as well as achievements related to improving competitiveness. Meanwhile, the Process Innovation team plays a critical role in supporting these strategies by enhancing efficiency and enabling timely information-sharing across the supply chain. Through these initiatives, the Procurement Division as a whole promotes responsible procurement and works to strengthen governance.

Certified palm oil purchases*5 (Kao Group)

Total quantity of palm oil procured in 2024: 519 thousand tons*6




*5 Total of certified palm oil, certified palm kernel oil, and certified palm-derived raw materials
*6 Total of palm oil, palm kernel oil, and raw materials derived from palm
*7 Book & Claim
A certification model in which RSPO-certified credits are traded online between producers and end-product manufacturers/sellers
*8 Mass Balance
A certification model in which certified oil is mixed with non-certified oil during the distribution process, but the quantity of certified oil is guaranteed.

Risk and opportunity management

Policies

At Kao, we have established the following policies as daily operational and decision-making guidelines for responsibly sourced raw materials. For more details, please refer to our website.

- 
 - Policies for Procurement
<https://www.kao.com/global/en/sustainability/we/procurement/procurement-policy/>
 - Partnership Requirements for Suppliers
<https://www.kao.com/global/en/sustainability/we/procurement/procurement-partnership/>
 - ESG Promotion Activities with Suppliers
<https://www.kao.com/global/en/sustainability/we/procurement/procurement-esg/>
- 
 - “High-Risk” Supply Chain Management and Sourcing
<https://www.kao.com/global/en/sustainability/we/procurement/procurement-supply-chain/>
 - Palm Oil Dashboard
<https://www.kao.com/global/en/sustainability/we/procurement/palm-dashboard/>

Management process

Our initiatives addressing the risks and opportunities related to responsibly sourced raw materials are managed through a structured process of planning, implementation, evaluation of results, and corrective action to ensure continuous improvement.

P (Planning)

Activities are designed and targets are set between August and September. This includes planning targets and activities for the following fiscal year and identifying key suppliers.

The plan is reviewed during the procurement meeting and approved by the Senior Vice President of Procurement.

D (Implementation)

See initiatives (P109-113) for details.

C (Evaluation of results)

Using both quantitative and qualitative KPIs, we evaluate the degree of target achievement and overall outcomes. These evaluations are conducted sequentially before the end of the fiscal year. Results are shared within the procurement meeting and the ESG Promotion Meeting. Responsible are the Senior Vice President of Procurement and the Senior Vice President of ESG. They report to the ESG Committee.

A (Corrective action)

Based on the evaluation results, corrective actions are taken for areas requiring improvement. Targets and activity plans for the following fiscal year are reviewed and adjusted between May to July. The revised plan is reviewed during the procurement meeting and approved by the Senior Vice President of Procurement.

Initiatives

At Kao, we are engaged in a variety of initiatives aimed at responsibly sourced raw materials. These initiatives are based on the strategies outlined above and are promoted in collaboration with one another to achieve our targets. Below are some of the key initiatives among our many efforts.

Strategy		Initiatives			
Supplier management	(1) Selection of suppliers for collaboration to solve social and environmental issues	Supplier selection	Education for sustainable procurement		
	(2) Deepening ESG procurement through supplier assessment and collaboration	Regular review of purchasing practices and evaluation of supplier performance	ESG risk assessment	Participation in the CDP Supply Chain Program	Collaboration with stakeholders
Palm oil, pulp, and paper procurement	(3) Reducing risks by ensuring traceability and procuring products certified by third parties	Procurement of forest raw materials			
	(4) Initiatives to address issues related to natural resources	Procurement of forest raw materials			
Collaboration	(5) Kao's packaging collection and recycling scheme initiatives and outlook	Recycling of packaging materials			
Electricity	(6) Reducing environmental impact by promoting the procurement of renewable electricity	Promotion of renewable electricity procurement			

Supplier selection

Region: Global
Corresponding strategy: (1)

In the supplier selection and evaluation process, in addition to evaluating financial condition, we consider ESG factors (Environmental, Social, and Governance) as critical decision-making criteria. We conduct ESG assessments using Sedex, our proprietary Self-Assessment Questionnaire (SAQ), and evaluations by other evaluation bodies to make comprehensive judgments based on the evaluation results.

Specifically, we assess supplier risks by considering ESG risks, as well as country-, industry-, and product-specific risks, along with purchase volume, and QCD (quality, cost, and delivery) performance. Details regarding each of these perspectives, as well as the considerations in the selection process and the risk assessment within the evaluation process, are outlined below.

- **From a business perspective**
 - Suppliers with a large impact on our business: Selection is based on purchase prices
 - Suppliers that are difficult to replace: Packaging material suppliers and manufacturing contractors with characteristic designs and functions
- **From an area perspective**
 - Areas noted for conflict zones, human rights issues, etc.
 - Natural forests and other areas under environmental protection: Suppliers of forest resources (palm oil, pulp, and paper)
- **From an ESG perspective**
 - Raw materials derived from natural raw materials
 - Suppliers with high human-rights risks: Suppliers that have not responded or have low ratings on Sedex and Kao SAQs
 - Suppliers who have committed inappropriate activities or unfair practices

Other Considerations
(1) Considerations in Supplier Selection:

Making Thoughtful Choices
for Society

Sustainable Lifestyle
Promotion
Purpose Driven
Brands
Transformative
Innovation
> Responsibly Sourced
Raw Materials

Making the World Healthier
& Cleaner

Walking the Right Path

Environmental Aspects: Track record in environmental conservation efforts, energy efficiency, and sustainable use of resources
Social Aspects: Efforts to ensure fair labor conditions, respect for human rights, and promotion of diversity among employees
Governance: Supplier policies regarding internal controls, ethical standards, and legal compliance
Business Relevance: Degree of impact on Kao's business and potential for building long-term relationships

(2) Risks Considered in the Evaluation Process of Significant Suppliers

Country-Specific Risks: Political instability, human rights issues, and compliance with environmental regulations in the country where the supplier operates

Sector-Specific Risks: ESG risks unique to specific industries, such as natural resources or manufacturing

Product-Specific Risks: The potential impacts of supplier-provided products (e.g., palm oil, paper, and pulp) on sustainability, the environment, and human rights.

Number of suppliers and actual number of significant suppliers

% of suppliers per country (2024 results)

Region	Percentage (%)
Japan	50
Asia	28
the Americas	13
EMEA	9

% of suppliers by category (2024 results)

Category	Percentage (%)
Raw materials	57
Packaging	26
Outsourced production	17

Number of significant suppliers (2024 results)

Category	
Total number of significant suppliers in Tier 1 <input checked="" type="checkbox"/>	255
% of total spend on significant suppliers in Tier 1 <input checked="" type="checkbox"/>	75%
Total number of significant suppliers in non-Tier 1 <input checked="" type="checkbox"/>	118
Total number of significant suppliers subjected to desktop assessment <input checked="" type="checkbox"/>	338

Surveyed suppliers: Suppliers of consolidated companies that have manufacturing bases are covered (including suppliers of NIVEA Kao).

Tier1: Suppliers who purchase raw materials directly

Non-Tier1: Suppliers who purchase raw materials via distributors

We designate the following as significant suppliers based on specific criteria:

Suppliers with a significant impact on Kao's business: Suppliers with high cumulative purchase amounts

Suppliers that are difficult to replace: Suppliers with unique designs or functional characteristics

Suppliers of forest resources: Suppliers of palm oil, paper, and pulp

Suppliers with high human rights and environmental risks: Suppliers that have low ratings or have not yet been rated by Sedex or Kao SAQ, or by other rating agencies (EcoVadis, etc.).

Desktop assessment: Document review and on-site visits

Regular review of purchasing practices and
evaluation of supplier performance

Region: Global

Corresponding strategy: (2)

To realize sustainable procurement, we regularly review our purchasing practices to ensure they are not in conflict with our ESG-related requirements or our Partnership Requirements for Suppliers, which serve as the supplier code of conduct.

Once a year, we conduct supplier performance evaluations from both QCD and ESG perspectives. Based on the results, we provide feedback and request improvements through meetings with suppliers, and incorporate these findings into our procurement strategies. If the violation is not corrected by this Improvement requirement, we will, in principle, suspend the transaction. ESG-related criteria account for 15% of the overall evaluation.

Procurement of forest raw materials

Region: Global

Corresponding strategies: (3) (4)

Sustainable procurement of palm oil

In order to procure sustainable palm oil, Kao is strengthening its traceability to the plantation, supply chain assessment, and monitoring. In addition, the Company provides the SMILE program (SMallholder Inclusion for better Livelihood & Empowerment program), a support program for palm smallholders in Indonesia aimed at helping them obtain RSPO (Roundtable on Sustainable Palm Oil) certification and is working to resolve

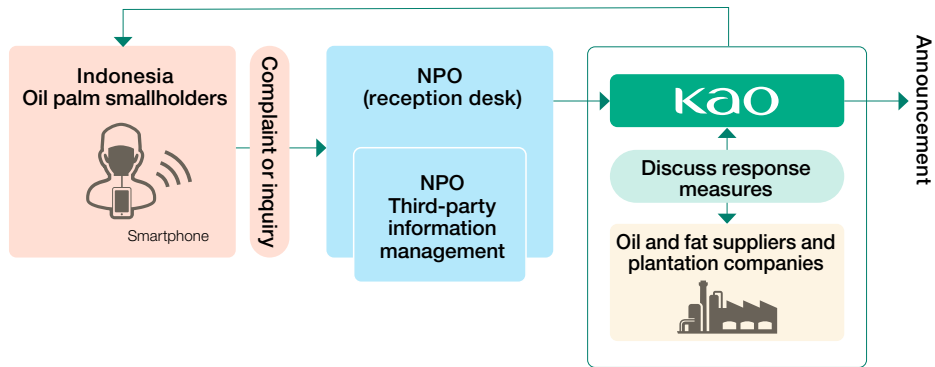


April 2025 in Indonesia

issues related to human rights and the environment on the frontlines through deploying the grievance mechanism. In April 2025, Kao, Kao affiliates and NGO members from Japan and Indonesia engaged in dialogue (direct conversation) with farmers from palm smallholders on the island of Sumatra in Indonesia. Through this initiative, we were able to deepen mutual understanding, and we will use the questions and suggestions regarding sustainability that we received from the farmers to guide our future initiatives for procuring sustainable palm oil.

Kao grievance mechanism for oil palm smallholders

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



Pulp and paper procurement and forest conservation

For pulp and paper procurement, Kao actively uses products certified by the Forest Stewardship Council (FSC) and Programme for the Endorsement of Forest Certification (PEFC) to support responsible forest management.

In addition, we are constantly monitoring the real situation at the tree-planting sites through dialogue with forest-owning companies and visits to the places of origin, as well as tracing and monitoring the supply chain. At the same time, we are also collecting and analyzing information using external database information and are working to establish a sustainable and responsible procurement system.

Recycling of packaging materials

Region: Japan

Corresponding strategy: (5)

Kao is strengthening partnerships with various stakeholders to promote the recycling of packaging materials. In particular, we are jointly developing a project with suppliers to collect and recycle waste plastic and are sharing our recycling technology and expertise.

In terms of horizontal recycling of used refill packs, we have completed the verification stage of applying collected waste packs to packaging materials and are now moving on to the implementation phase. In addition, we are collaborating with partners from different industries to expand the scale of our initiatives for cosmetics plastic bottles, with the aim of developing them into a continuous horizontal recycling implementation model.

Through such inter-company collaboration, we are aiming to achieve a sustainable circular society by reforming the conventional notion of “use and discard” and establishing a resource circulation system.



Diagram of recycling of packaging materials.

Promotion of renewable electricity procurement

Region: Global

Corresponding strategy: (6)

Kao promotes energy procurement activities led by the Procurement Division to ensure that all operations across the Kao Group can stably and affordably use energy with low environmental impact.

Kao is promoting the procurement of electricity entirely derived from renewable

energy sources and achieved 100% renewable electricity at all domestic sites in 2023. Additionally, the Kao Group introduced its first virtual power purchase agreement (virtual PPA*). Through this contract, Kao purchases the full amount of environmental value generated by photovoltaic power generation facilities totaling 16.8 MW—the largest scale in Japan.

All power plants are now in operation since July 2024. By utilizing the virtual PPA, Kao is advancing its forward-looking, sustainable business activities and contributing to the spread of renewable energy and the reduction of environmental impact.

* Virtual power purchase agreement (virtual PPA): A contract to purchase environmental value based on the amount of electricity generated by newly installed photovoltaic power generation systems. The actual electricity is supplied by a retail electricity provider. This contract promotes direct investment in renewable energy generation facilities and increases the total volume of renewable energy in society, offering additionality.

ESG risk assessment

Region: Global

Corresponding strategies: (1) (2) (3)

Kao evaluates human rights risks and other ESG risks of suppliers by utilizing self-assessment results from Sedex and Kao's own SAQ, as well as information from other evaluation organizations. For suppliers identified as high risk, we request third-party SMETA audits to address issues and, when necessary, dispatch staff to conduct on-site evaluations. Based on audit results, we propose specific improvement measures to suppliers and support their implementation, aiming to build a sustainable supply chain.

Participation in the CDP Supply Chain Program

Region: Global

Corresponding strategies: (1) (2) (3)

Kao recognizes risks related to environmental issues and human rights issues and is committed to procuring sustainable raw materials. To manage these initiatives across the

entire supply chain, Kao participates in the CDP Supply Chain Program for “Climate change,” “Water,” and “Forest,” requesting environmental disclosures from key suppliers.

The CDP Supply Chain Program aims to reduce environmental impact across the supply chain by encouraging companies to request environmental disclosures from their suppliers, evaluate their efforts, and recognize best practices.

Actual performance of the CDP supply chain program (2024 results)

	Response rate
Climate change	83%
Water	89%
Forest	98%

Collaboration with stakeholders

Region: Global

Corresponding strategy: (2)

To strengthen communication with suppliers, Kao holds vendor summits and Quality Improvement Meetings to exchange opinions with suppliers within and outside Japan.

At vendor summits, a different theme is set each year, and outstanding business partners are recognized based on perspectives such as “strategic partnership,” “Environmental, Social and Governance (ESG),” and “stable supply.” The initiatives of recognized business partners are also shared as benchmarks to support capability development among participating companies.

In addition, to establish sustainable procurement and traceability, Kao continues dialogue with NGOs and actively exchanges opinions with other companies and external organizations. Through these efforts, we aim to enhance the sustainability of the entire supply chain and promote responsible procurement.



2024 Vendor Summit

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

	Held inside Japan	Held outside Japan	Total
2019	239	267	506
2020	Suspended	Suspended	–
2021	246	108	354
2022	273	28	301
2023	292	144	436
2024	297	75	372

Education for sustainable procurement

Region: Japan

Corresponding strategy: (1)

At Kao, we provide training programs for new graduates and mid-career hires, as well as sessions for younger members of the Procurement Division, offering opportunities to deepen their understanding of basic procurement principles and social responsibility.

In 2024, training on basic procurement principles was provided to 16 people newly assigned employees in the Procurement Division. Additionally, to help each member of the Procurement Division recognize their connection to society and the environment and transform their behavior, we encourage the acquisition of relevant certifications. For example, we recommend taking the Certification Test for Environmental Specialists (Eco Test®), and the cumulative pass rate among Procurement Division employees for this has reached 90%.

Employees' opinions

Initiatives for forest conservation: cross-functional activities within the division



Akira Harada

Strategic Sourcing - Packaging
Materials, Procurement
Kao Corporation

Forests that nurture pulp and paper materials are one of Kao's most important natural resources. The Procurement Division has contributed to forest conservation across the supply chain by promoting pioneering awareness-raising activities both inside and outside the company and by encouraging the use of certified products.

Within the division, a cross-functional team of volunteers is focused on making more fundamental contributions, placing particular emphasis on direct dialogue at the *Genba*. As a member driving this initiative, I participate in activities such as on-site inspections of timber origins, candid ESG dialogues at business partner facilities, and exchanges with Kao plants dedicated to biodiversity conservation. These interactions help deepen our understanding of key issues based on real voices from the *Genba*.

Although we are still in the process of making fundamental contributions, I find great value in these lively discussions across all levels, from junior staff to senior members. Going forward, we will continue working to enhance corporate value, using external evaluations as one of our key metrics.



Forest conservation activity with business partner