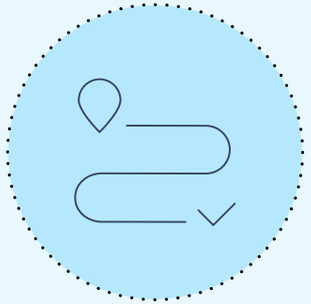
Responsibly Sourced Raw Materials

GRI 2-23

We 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

- 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 / Metrics, targets and results / Initiatives

Strategy	Metrics	Targets	2025 results	Initiatives
Supplier management: (1) Selection of suppliers for collaboration to solve social issues	Human rights due diligence response rate (direct material suppliers) (Sedex, Kao's original SAQ, and other evaluation bodies) (2)	100% 2030	99.9%	Supplier selection (1) Education for sustainable procurement (1) Regular review of purchasing practices and evaluation of supplier performance (2) ESG risk assessment of suppliers (2) Participation in and the Utilization of the CDP Supply Chain Program (2) Collaboration with stakeholders (2)
Supplier management: (2) Deepening ESG procurement through supplier assessment and collaboration	Number of companies with critical issues identified through SMETA audits (2)	–	0	
Palm derivatives, pulp, and paper procurement: (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	99.99%	Procurement of forest raw materials (3) (4)
	Traceability to oil palm plantations (TTP) (3)	100% 2025	91%	
Palm derivatives, pulp, and paper procurement: (4) Initiatives to address issues related to natural resources	Number of supported oil palm smallholders (total number) (4)	–	4,630	
	Procurement volume of independent oil palm smallholder credits (tons) (4)	–	42,488t	
	Number of oil palm smallholders covered by the Kao Grievance Mechanism (4)	–	323	
Collaboration: (5) Kao's packaging collection and recycling scheme initiatives				Recycling of packaging materials (5)
Electricity: (6) Reducing environmental impact by promoting the procurement of renewable electricity	Renewable energy ratio of purchased electricity (6)	–	91.8%	Promotion of renewable electricity procurement (6)

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

Financial impact

- Mid- to long-term cost control through stable procurement
- Planned business growth based on stable procurement
- Avoidance of reputational risks by addressing sustainable procurement

Environmental and social impact

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

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 human rights violations in the supply chains of natural resources (palm, pulp, and paper)
- Higher supply chain risks and greater management complexity due to business 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, safety 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 based on its core approach of ESG procurement and stable procurement.

Responsible sourcing

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

We aim to build a global supply chain that complies with international standards by conducting due diligence during the supplier selection phase and making efforts to prevent human rights and environmental risks.

(2) Deepening ESG procurement through supplier assessment and collaboration

To address various issues, including human rights and environmental risks, we incorporate effective monitoring methods to assess suppliers. In doing so, Kao will contribute to resolving social issues and reducing environmental impact, and achieve sustainable procurement. Furthermore, along with the conventional focus on quality, cost, and delivery (QCD), we will minimize risks throughout the supply chain and strengthen the procurement base by incorporating ESG elements with solid partnerships with suppliers as a foundation.

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

By ensuring effective traceability and the procurement of products certified by third parties, we will reduce deforestation risks and contribute to a sustainable society. Furthermore, we will ensure corporate reliability and transparency by achieving consistent and responsible procurement throughout the global supply chain.

(4) Initiatives to address issues related to natural resources

In palm derivatives, paper, and pulp procurement, we aim to achieve zero deforestation and zero land conversion (DCF: Deforestation and Conversion Free). Instead of focusing solely on certification, we will adopt an approach that addresses the root causes of issues, including enhancing traceability and improving farming practices at local farms. Through collaboration with suppliers, we will establish frameworks to respect human rights, achieve forest conservation, and ensure appropriate land use.

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

With the collection and recycling of plastic waste as a foundation, we will build a resource-circulating supply chain through collaborations with suppliers. In doing so, we will contribute towards achieving a sustainable society.

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

By strategically advancing the introduction of renewable energy, we will work on reducing the environmental impact across the entire supply chain while pursuing high-standard initiatives that prioritize "Additionality". This will drive the expansion of the renewable energy market and promote a change in industry mentality to support decarbonization across society.

Impact generated by implementing the strategies

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

Financial impact

- Mid- to long-term cost control through stable procurement
- Planned business growth based on stable procurement
- Avoidance of reputational risks by addressing sustainable procurement

Environmental and social impact

- Conservation of the natural environment and enhancement of ecological system sustainability
- Promotion of respect for human rights 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 make improvements through the PDCA (Plan, Do, Check, and Act) cycle to ensure steady implementation by checking our progress against these targets.

Targets and progress

Strategy	Metrics						Mid- to long-term targets	
		2021	2022	2023	2024	2025	Target value	Year
(3)	Percentage of certified paper products and pulp used in household products*1	96%	97%	98%	99.6%	99.99% ☑ *2	100%	2025
(3)	Traceability to oil palm plantations (TTP)	Completed up to own farm managed by oleo chemicals supplier	Completed up to own farm managed by oleo chemicals supplier	Traceability to farms 87%	Traceability to farms 88%	Traceability to farms 91%	100%	2025

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

The rate of certified paper products and pulp purchased in 2025 was 99.99%, with FSC-certified products accounting for approximately 68%. Because CoC (Chain of Custody) certification*3 is not fully established throughout the supply chain for certain products, the result did not reach 100%. We will continue to strengthen engagement with suppliers and aim to achieve 100% certified products as early as possible. Kao currently conducts traceability confirmation for the pulp and paper*4 used in household products.

As of the end of 2025, traceability to palm oil mills (TTM) was 99%, traceability to palm kernel oil mills was 82%, and traceability to oil palm plantations (TTP) was 91%. Due to the presence of many intermediaries, ensuring 100% traceability back to the plantations is challenging, and therefore 100% has not been achieved. While continuing to aim for 100% traceability, by the end of 2030, we will further strengthen collaboration with local partners and advance more comprehensive initiatives.

*3 CoC certification: a system that verifies that certified materials are not mixed with non-certified materials throughout the supply chain, from certified forests to the final product.
*4 This applies to the paper and pulp products used in household products (excluding some products).

Metrics and targets

Strategy	Metrics	Results			
		2022	2023	2024	2025
(2)	Human rights due diligence response*5 rate*6 (direct material suppliers) (%) (figures in parentheses are transaction amount %)	62 (88)	81 (97)	90 (98)	99.9 (more than 99.9)
(4)	Number of supported oil palm smallholders (total number)	2,316	3,083	3,489	4,630
(4)	Procurement volume of independent oil palm smallholder credits (tons)	3,798	18,657	24,238	42,488
(4)	Number of smallholders covered by the Kao Grievance Mechanism (as of December 31, 2025)	–	212	259	323

*5 Human rights due diligence response (Sedex, Kao's original Self-Assessment Questionnaire (SAQ), and other evaluation bodies)
*6 Rate (number of companies surveyed / number of target companies (direct material suppliers))

The human rights due diligence response rate for direct material suppliers in 2025 was 99.9%. 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 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 increase effectiveness of the assessment.

Aiming to achieve sustainable procurement of palm-related raw materials, Kao works with partner companies to support independent oil palm smallholders in Indonesia by improving productivity, obtaining RSPO certification, and returning value through the purchase of RSPO-certified credits. In Indonesia, there are approximately 2 million independent oil palm smallholders, accounting for approximately 40% of all oil palm plantations, and human rights and environmental risks exist within the supply chain. By directly supporting these independent oil palm smallholders, Kao aims to prevent human rights and environmental risks from materializing while working toward "To realize a Kirei World in which all life lives in harmony," where independent oil palm smallholders can prosper. By the end of 2025, the total number of independent oil palm smallholders in Indonesia supported by Kao was 4,630, of whom 2,834 had obtained RSPO certification. We have set a goal to expand the number of supported Independent oil palm smallholders to 7,000 by the end of 2030. After independent oil palm smallholders supported by Kao obtain RSPO certification, Kao purchases all RSPO-certified credits they sell, while also promoting the purchase of RSPO-certified credits from smallholders supported by external organizations. The total volume of RSPO-certified credits purchased through these initiatives in 2025 was 42,488 tons. Going forward, Kao will further expand these initiatives and promote sustainable agricultural practices among a greater number of oil palm smallholders.

As of the end of 2025, the number of oil palm smallholders covered by the Kao Grievance Mechanism (KGM) was 323, and the total number of inquiries received since September 2022 was 291. Approximately 50% of the inquiries were related to production and income, 30% to forest conservation and certification, approximately 5% to human rights and land disputes, and approximately 4% to hygiene and living conditions. The KGM is a system through which independent oil palm smallholders in Indonesia, at the upstream end of the supply chain, can directly submit, in local languages, complaints related to human rights violations and land disputes, as well as inquiries about plantation operations. Of particular importance is the KGM's proactive approach to information gathering. Under the KGM, onboarding and input support are provided at the time of registration, and on-site visits are conducted regularly to identify potential issues proactively. Inquiries can also be submitted in Indonesian, enabling the KGM to directly receive consultations from independent oil palm smallholders, who are often placed in vulnerable positions. The increase in the number of covered smallholders reflects progress in

Certified palm oil purchases*7 (Kao Group)

Total volume of palm-derived raw materials purchased in 2025: 504 thousand tons

	2022	2023	2024	2025
MB*8	89.6 thousand tons	63.6 thousand tons	50.8 thousand tons	59.8 thousand tons
B&C*9	63.0 thousand tons	91.0 thousand tons	125.0 thousand tons	402.7 thousand tons
B&C (ISH Credits)*10	3.8 thousand tons	18.7 thousand tons	24.2 thousand tons	42.5 thousand tons
Total	156.4 thousand tons	173.3 thousand tons	200.0 thousand tons	505.0 thousand tons ☑

*7 Total of palm-derived raw materials (B&C is calculated based on the volume of purchased credits, so in some cases B&C may exceed the actual procurement volume.)
*8 MB 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.
*9 B&C Book & Claim: A certification model in which RSPO-certified credits are traded online between producers and end-product manufacturers/sellers
*10 B&C (ISH Credits): A B&C model in which purchases are made from independent oil palm smallholders

addressing social aspects through the monitoring of human rights and environmental risks, with a particular focus on addressing human rights issues and efforts to improve productivity at independent oil palm smallholders.We have set a goal to expand the number of independent oil palm smallholders covered by KGM to 2,000 by the end of 2030.
In 2025, the Kao Group procured a total of 504 thousand tons of palm-derived raw materials. Kao adopts a “dual approach” to palm, consisting of “supporting and expanding RSPO certification” and “ensuring 100% in-house traceability.”

In procuring RSPO-certified oil, Kao promotes a combination of Mass Balance (MB) and Book & Claim (B&C) credits. B&C is an important mechanism that provides incentives to certified producers and promotes market transformation by supporting the expansion of certified oil production. Kao utilizes B&C as a means to support the wider adoption and expansion of RSPO certification.

In addition, Kao places strong emphasis on supporting independent oil palm smallholders, who are key stakeholders in a sustainable palm supply chain. Kao implements programs aimed at improving productivity and enhancing access to RSPO certification.

Independent Smallholder Credits (ISH Credits) serve as an effective mechanism to directly channel post-certification incentives to independent oil palm smallholders. Through the purchase of ISH Credits, Kao contributes to the wider adoption of RSPO-certified palm oil and to regional development.

P24 Special Feature: Building a Sustainable Palm Oil Supply Chain

Governance

Risk management in relation to responsibly sourced raw materials is carried out by the Internal Control Committee and the ESG Managing Committee, while opportunity management is carried out by the ESG Managing Committee, under the supervision of the Board of Directors. 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 the mid- to long-term procurement strategies based on these three policies is reported in detail monthly to Executive Officer responsible for Procurement. 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 Excellence 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.

P62 Our ESG Vision and Strategy > Governance

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 March and April. Identification of key suppliers.

The plan is reviewed during the Procurement meeting and approved by Executive Officer of Procurement.

D (Implementation)

See initiatives (P136–141) 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. Person responsible is Executive Officer of Procurement. Results are reported to the ESG Committee according to the level of significance.

A (Corrective action)

Based on the evaluation results, corrective actions are taken for areas requiring improvement. Targets for the next fiscal year and activity plans for the previous fiscal year are reviewed and adjusted between February to March. The revised plan is reviewed during the Procurement meeting and approved by Executive Officer 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 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 of suppliers	Participation in and the Utilization of the CDP Supply Chain Program	Collaboration with stakeholders
Palm derivatives, 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	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, Kao considers financial condition and environmental, social, and governance (ESG) factors as important decision-making criteria based on the various policies described on P134 (Policies for Procurement, Partnership Requirements for Suppliers, ESG Promotion Activities with Suppliers, and “High-Risk” Supply Chain Management and Sourcing). We conduct ESG assessments using publicly available information and evaluations by other evaluation bodies to make comprehensive judgments based on assessments.

Specifically, we assess supplier risks by considering ESG risks (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-derived raw materials, pulp, and paper)
- **From an ESG perspective**
  - Raw materials derived from natural resources
  - Suppliers with high human-rights risks: Suppliers that have low ratings from external ratings firms and publicly available information from public institutions
  - Suppliers who have committed inappropriate activities or unfair practices

Other Considerations

(1) Considerations in Supplier Selection:

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-derived raw materials, paper, and pulp) on sustainability, human rights, and the environment

Additionally, key suppliers are determined in accordance with the definitions below.

Surveyed suppliers:
Suppliers of consolidated companies that have manufacturing bases are covered (including suppliers of Nivea-Kao).
Tier 1: Suppliers that Kao purchases raw materials directly from
Non-Tier 1: Suppliers that Kao purchases raw materials from via distributors

Percentage of total spending on significant suppliers in Tier 1:
Purchase amount from Tier 1 significant suppliers / Purchased amount from Tier 1 suppliers

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-derived raw materials, 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’s original SAQ, or by other rating agencies (EcoVadis, etc.).

Desktop assessment: Document review and on-site visits

Number of suppliers and actual number of significant suppliers

% of suppliers per country (2025 results)

Region	Percentage
Japan	28%
Asia	35%
Americas	14%
EMEA	23%

% of suppliers by category (2025 results)

Category	Percentage
Raw materials	62%
Packaging	23%
Outsourced production	15%

Number of suppliers and significant suppliers (2025 results)

Category	Number of suppliers
Total number of suppliers Number of suppliers	2,867
Total number of significant suppliers Number of suppliers	427
Total number of significant suppliers in Tier 1*1	336 ☑
% of total spend on significant suppliers in Tier 1	81% ☑
Total number of significant suppliers in non-Tier 1	91 ☑
Total number of significant suppliers subjected to desktop assessment*2	155 ☑

*1 For cases in which direct purchasing (Tier 1) and purchases via distributors (Non-Tier 1) are conducted for the same suppliers, all purchases shall be counted as significant suppliers in Tier 1 from the 2025 results onward.
*2 Regarding the number of suppliers who have received desktop assessments, the 2025 results only reflect suppliers who has been assessed from 2022 and onward.

Education for sustainable procurement

Region: Global
Corresponding strategy: (1)

At Kao, we provide training programs for new graduates, mid-career hires, and others, 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 2025, training on basic procurement principles was provided to 10 newly assigned employees in the Procurement Division.

Additionally, as an initiative to help each member of the Procurement Division recognize their connection to society and the environment and foster behavioral transformation, we encourage the acquisition of relevant certifications. Specifically, we recommended taking the Certification Test for Environmental Specialists conducted by the Tokyo Chamber of Commerce and Industry and the cumulative number of those who have passed among Procurement Division employees for this has reached 113.

Additionally, to further advance global sustainable procurement, ESG training was conducted for Kao employees outside Japan. Approximately 130 employees across a total of eleven countries and regions participated in this ESG training, which covered overviews of Sedex and CDP, along with detailed approaches to improve supplier ESG activities. The content was designed to be directly applicable to daily operations.

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 for major suppliers in Japan and selected regions in Asia from both QCD and ESG perspectives. Based on the results, we provide feedback and request improvements through meetings with suppliers and factory visits, and incorporate these findings into our procurement strategies. The improvement request will have a deadline, and if the violation is not corrected by the deadline, we will suspend transactions until compliance is achieved. ESG-related criteria account for 15% of the overall evaluation.

ESG risk assessment of suppliers

Region: Global
Corresponding strategy: (2)

Kao evaluates human rights, environmental, and other ESG risks of suppliers by utilizing assessment results from Sedex and Kao's original SAQ, as well as information from other evaluation organizations. For suppliers identified as high risk, we request third-party audits (such as 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.

In SMETA audits conducted in 2025, no critical issues were identified. This result indicates a high level of compliance with labor conditions and ethical standards among suppliers. In addition, there were no suppliers whose transactions were suspended due to serious issues. To mitigate the risk of critical issues, we will continue to implement preventive measures and maintain close communication with suppliers.

Overall evaluation of supplier risk assessment based on Sedex (as of the end of December 2025)

The scope of assessment is 1,315 suppliers that responded to the Sedex Self-Assessment Questionnaire (SAQ)

Overall evaluation	SAQ response rate*1	Sedex risk assessment*2	Percentage
S	80% or more	3.0 or more	69%
A	80% or more	2.0 to less than 3.0	21%
B	80% or more	Less than 2.0	7%
C	Less than 80%	–	3%

*1 Sedex SAQ response rate
*2 Management control score values in Sedex assessment tool (Ranging from 0 to 5; the higher the score, the better the management)

SMETA audit results in 2025 (Japan)

Number of SMETA audits	6
Percentage of companies with major issues	0%
Percentage of companies with minor issues	100%
Percentage of companies with minor issues that have submitted corrective plans	100%

Number of significant suppliers*3 that have low ratings by Sedex, Kao's original SAQ, or other rating agencies

Number
17

*3 Definitions of significant suppliers are given above the table of "Number of suppliers and significant suppliers" on P136.

Participation in and the utilization of the CDP Supply Chain Program

Region: Global
Corresponding strategy: (2)

Kao recognizes risks related to human rights issues and environmental issues on the supply chain as key issues, and is committed to procuring sustainable raw materials. To promote these initiatives across the entire supply chain, Kao participates in the CDP Supply Chain Program and requests environmental disclosures regarding "Climate change," "Water," and "Forest." Requests to participate in the CDP Supply Chain Program are extended to companies attending the Partner Summit in Japan, as well as to selected key suppliers of our overseas subsidiaries.

The CDP responses are analyzed based on Kao's proprietary criteria, and individual feedback along with requests for improvement are provided to all companies participating in the Partner Summit in Japan that had submitted these responses.

Going forward, we plan to gradually expand the scope of our feedback initiatives, including outside Japan, based on priority, with the aim of enhancing the effectiveness of our efforts.

Number of suppliers that Kao provided with individual feedback and improvement requests (2025 results)

Response category	Number of companies*1	Number of significant suppliers*2
Climate change	274	88
Water	181	69
Forest	88	53

*1 Number of companies: Companies that submitted CDP responses and received feedback or requests for improvement (development measures) among those that participated in the partner summit in Japan
*2 Number of significant suppliers: The number of companies that Kao designates as significant suppliers out of above applicable companies

Collaboration with stakeholders

Region: Global
Corresponding strategy: (2)

2025 Partner Summit

In order to strengthen communication with suppliers, Kao holds "Partner Summit" and "Quality Improvement Meeting" to exchange opinions with suppliers within and outside Japan. At "Partner Summit", 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." Additionally, the initiatives of recognized 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.

Number of companies that participated in "Partner Summit" (Unit: firms)

	Held inside Japan	Held outside Japan	Total
2022	273	28	301
2023	292	144	436
2024	297	75	372
2025	294	154	448

Procurement of forest raw materials

Region: Global
Corresponding strategy: (3) (4)

Kao has set 2025 as its target year and has been working toward achieving zero deforestation and zero land conversion (DCF: Deforestation and Conversion Free) as part of responsibly sourced raw materials. Kao requires all of its third-party suppliers, their corporate groups defined by Accountability Framework initiative (AFi), and their investee companies including joint ventures to adopt the No Deforestation, No Peat, No Exploitation (NDPE) policies, to prohibit conversion and degradation of natural ecosystems, to preserve biodiversity, High Conservation Value Forests (HCVF) defined by HCV Network, High Carbon Stock Forests (HCSF) defined by HCSA (High Carbon Stock Approach) and peatlands, to prohibit use of fire for development, and to respect the human rights of all people involved in the supply chain and the rights of workers, indigenous people, and local communities, regarding all their forest-risk commodities' supply chains, including palm oil. We are proceeding to seek and confirm strict compliance with Free Prior and Informed Consent (FPIC) of the communities. We have a zero-tolerance policy in place regarding violence, criminalization or intimidation of Human Rights Defenders (HRDs).

Based on the principles of the RSPO, Kao will work to prevent deforestation, conserve biodiversity, and protect human rights and labor conditions, while promoting the wider adoption of sustainable palm oil. We ensure suppliers and our entire supply chain through its suppliers to comply with the above policies thoroughly, prioritize purchasing from those suppliers who implements them and conducts due diligence. When finding non-compliant suppliers, we request them to make improvements, confirm improvement status, and retain the option to terminate its business contracts with them in accordance with its corporate protocols.

We are advancing the development of new indicators for high-risk supply chains (palm-derived raw materials, paper and pulp) in order to achieve a 100% DCF rate by the end of 2030, while further strengthening engagement with our suppliers.

Sustainable procurement of palm oil

To procure sustainable palm-derived raw materials, Kao continuously works with suppliers to confirm traceability to oil palm mills and oil palm plantations. In addition, as part of assessments covering the entire supply chain, Kao conducts surveys to assess compliance with NDPE policies and advances engagement with suppliers. Specifically, we verify the risk of illegal deforestation and the development of peatlands by means of NDPE survey to suppliers, information from NGOs, etc. When finding risks, we request suppliers to confirm situations, make improvements and confirm improvement status. In addition, we regularly exchange information with our major suppliers to confirm the latest monitoring status of grievances and to strengthen our supply chain's compliance with NDPE. In addition, through NDPE assessments conducted by third-party organizations, Kao continuously monitors progress toward achieving deforestation- and conversion-free (DCF) commitments.As of the end of 2025, the DCF achievement rate reached 87%, and Kao is developing new indicators to achieve a 100% DCF rate by the end of 2030. Furthermore, we implement forest footprint analysis (landscape approach) and utilize satellite data or the Kao grievance mechanism as part of monitoring at the place of origin. This enables the early detection of human rights and environmental risks and makes it possible for us to take action to mitigate these risks.

In addition, Kao directly supports independent oil palm smallholders in improving productivity and gaining access to RSPO certification.

To enhance direct support for independent oil palm smallholders in Indonesia and better understand the status of human rights on the ground, Kao conducted direct dialogue in April 2025 with smallholders supported by Kao in Pangkatan Village, Labuhan Batu, North Sumatra Province, Indonesia, where the support for independent oil palm smallholders (SMILE program*) is being implemented.

We also took advantage of this local visit to conduct a hygiene workshop on handwashing at an elementary school (with 100 pupils) attended by the children of the smallholder farmers, as part of our efforts to raise hygiene awareness in the region.

* SMILE (SMallholders Inclusion for better Livelihood & Empowerment) program

• Policies for Sustainable Palm Oil Sourcing (Palm Oil Dashboard)
https://www.kao.com/global/en/sustainability/we/procurement/palm-dashboard/

April 2025 in Indonesia

Pulp and paper procurement and forest conservation

For pulp and paper procurement, Kao actively uses certified products under the Forest Stewardship Council (FSC) and Program for the Endorsement of Forest Certification (PEFC) to support responsible forest management, and also pursues procurement practices aimed at achieving zero deforestation and zero land conversion (DCF: Deforestation and Conversion Free).

For supply chain tracking and monitoring, Kao continues to engage in dialogue with companies that own forests and visits production regions. We have also started satellite monitoring to improve the accuracy of understanding the conditions in production regions. Furthermore, we are strengthening our engagement with suppliers and directly confirming forest management systems through support for certification acquisition and the collection of DCF declarations.

We will continue to maintain a high standard of certified paper and pulp procurement, while expanding disclosure on supplier information and the sourcing status of certified materials to enhance transparency throughout the paper and pulp supply chain.

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 and partners 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 and have expanded the use of feedstock derived from chemical recycling to non-food PET applications, such as cosmetic bottles and industrial films, and have become the first in Japan to initiate efforts to recycle it into commercially available cosmetic bottles and beverage PET bottles.

Through such intercompany 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.

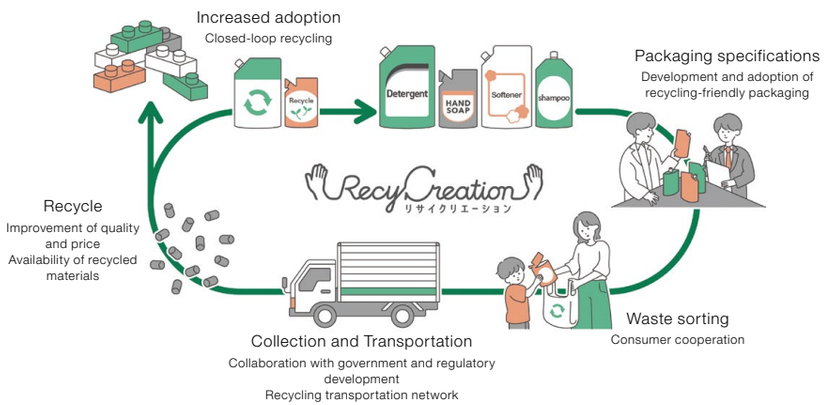


Diagram of recycling of packaging materials

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 sites in Japan in 2023.

We have also promoted the procurement of purchased electricity from renewable energy at overseas sites, reaching a renewable energy rate of 91.8% in 2025.

Additionally, due to the first virtual power purchase agreement (virtual PPA*) incorporated by the Kao Group, we purchase the full amount of environmental value generated by photovoltaic power generation facilities totaling 16.8 MW—the largest scale in Japan.

Through the application of such virtual PPA and other initiatives, Kao is advancing its forward-looking, sustainable business activities and making further contributions 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”.

Employees’ opinions

Sustainable procurement of palm-derived raw materials

Miwa Yamanaka
Strategic Sourcing -Raw Materials, Procurement
Kao Corporation

Palm oil and palm kernel oil are key raw materials that support a wide range of Kao’s businesses. At Kao, efforts to improve palm oil and palm kernel oil sustainability are being led by the Procurement employees who handle the actual sourcing. Within our dialogue with suppliers, we make sure to clearly convey Kao’s vision, including what we want to achieve and the target deadline.

In 2025, I visited North Sumatra Province (Indonesia) and engaged in direct dialogue with independent oil palm smallholders. This became an opportunity for Kao, a downstream user in the palm-derived raw material supply chain, to communicate with producers about which products use palm and why sustainability is so important to us.

Going forward, I will continue to pursue responsible and stable mid-to long-term procurement of sustainable raw materials, while always keeping in mind what Kao should do.

A visit to Indonesia

Stakeholder engagement

The value of creating sustainable forests, realized through the efforts of the entire supply chain

Shunichi Hashimoto
Manager,OMO Oji Forest Value-Creation &
Promotion Dept.
Oji Holdings Corporation

The philosophy of the Oji Group is “Those who use wood have an obligation to plant trees.” Under this philosophy, we own approximately 640,000 hectares worldwide of Oji’s Forests, and have continued sustainable forest management for more than a century. Not only are forests a source of timber for our paper and pulp products, but they have diverse functions, such as absorbing and storing CO_2 (carbon dioxide), conserving biodiversity and the atmosphere, nourishing water sources, and preventing disasters such as landslides.

Kao uses our products mainly for paper packaging, such as corrugated boxes. In its approach to raw material procurement, Kao positions forests as precious resources and upholds zero deforestation as one of their goals, while striving to make more fundamental contributions throughout their supply chain. Kao has visited Oji’s Forests and continues to engage with dialogue with us on topics such as forestry operations in the field, current issues, and international situations surrounding forests. This year, Kao visited Sarufutsu Village, the northernmost village in Japan that is famous for its scallops. In this region, we have been collaborating with researchers and startups for the Forest Value Visualization Project, striving to maximize the value of forests. I believe that through this visit, Kao was able to get a firsthand glimpse of the potential of visualization, with the nutrients and water from the Sarufutsu forest traveling to rivers and the sea to nourish delicious scallops. Kao is also collaborating with us on a project at its Sumida Office to collect and recycle used paper cups and hand towels. The project aims to use forest resources to further advance the realization of a circular society.

We believe that there is great significance in advancing these initiatives with Kao, which has a deep relationship with customers, through our connection within the supply chain, because these initiatives are connected both to our product creation and forest management. Kao’s goals of achieving decarbonization, a circular society, and zero deforestation align closely with our own goals of carbon neutrality, nature positivity, and circular economy. Building on these shared visions, we hope to accelerate future efforts through deeper collaboration.