



Sustainability as the only path

Kao Sustainability Data Book
Kirei Lifestyle Plan
Progress Report 2021

Kao




Contents

Editorial Policy	3
CEO Message	4
Message by Dave Muenz	5
COVID-19 Response	7
Kao's Corporate Philosophy	10
Kirei Lifestyle Plan—Kao's ESG Strategy	11
Stakeholder Engagement	34



How to Use This PDF

The navigation buttons, the category tabs, and the table of contents buttons are located at the right edge of each page for easy page scrolling. The link buttons to relevant pages and external sites are also available in the text.

Navigation buttons

	Click the left arrow to go back one page.
	Click the right arrow to go forward one page.
	Click the return arrow to go back to the previous page.

Link buttons

	Click the icon to go to the relevant page in this data book.
	Click the icon to go to the relevant external site.

Category tabs

Click a title to go to the top page of the category.

Click the tab to see the table of contents.



2020 Our initiatives

Realization of the Kao Corporate Philosophy	37
---	----

Making my everyday more beautiful

Improved quality of life	43
Habits for cleanliness, beauty & health	48
Universal product design	51
Safer healthier products	57

Making thoughtful choices for society

Sustainable lifestyle promotion	61
Purpose driven brands	69
Transformative innovation	73
Responsibly sourced raw materials	79

Making the world healthier & cleaner

Decarbonization	88
Zero waste	105
Water conservation	122
Air & water pollution prevention	131
Product lifecycle and environmental impact	140
Environmental accounting	142

Walking the right path

Effective corporate governance	144
Full transparency	157
Respecting human rights	164
Human capital development	174
Inclusive & diverse workplaces	186
Employee wellbeing & safety	199
Responsible chemicals management	219

Kirei Lifestyle Plan KPI definitions	232
External evaluations and recognitions	238
Independent assurance report	242
GRI Standards table	243
ISO 26000 table	255
TCFD Index	257



→ Information about our approach to the Kirei Lifestyle Plan is reported on the following webpage:
Kao Sustainability Data Book 2021
www.kao.com/global/en/sustainability/pdf/

[Report content]

Results and issues regarding the Kao Sustainability Statement	Advanced digital technology strategy
Corporate governance	Intellectual property
Risk and crisis management	Tax strategies
Responsible care activities	Biodiversity
Product quality management	Communication with consumers
Information security	Corporate citizenship activities
	Process safety and disaster prevention

Since 2017, Kao has issued the Kao Integrated Report, with the aim of presenting a comprehensive picture of the value that Kao provides. The Kao Kirei Lifestyle Plan Progress Report 2021 (this data book) and the Kao Sustainability Data Book 2021 complement the Kao Integrated Report 2021. They introduce various activities aligned with our ESG Strategy, the Kirei Lifestyle Plan, that contribute to the sustainability of the world, along with detailed performance data.

Scope and boundary of reporting

In general, we report the activities of the Kao Group (Kao Corporation, its subsidiaries and affiliates). Environmental and social performance data covers Kao Corporation and its subsidiaries.

Exceptions to this data scope have been clearly stated in the text.

In this data book, “Kao” means the Kao Group. We have stated the names of individual organizations covered if it is necessary to identify the boundary.

Organizations covered



→ List of Kao Group companies
www.kao.com/global/en/about/outline/group-companies.html

Period covered

FY2020 (January 1, 2020–December 31, 2020)
 Some qualitative information includes performance of FY2021.

International Financial Reporting Standards (IFRS)

International Financial Reporting Standards (IFRS) have applied since FY2016. Per unit of sales in this data book is calculated based on Japanese standards up to FY2015, and on IFRS in FY2016 thereafter.

Independent assurance

We have had our reports independently assured since 2003. KPMG AZSA Sustainability Co., Ltd. provides independent assurance for this data book. Indicators for which assurance is provided are marked with a [checkmark](#). A list of those indicators is shown in the [independent assurance report](#) and the [GRI Standards table](#).

Issuance period

Issued on: June 23, 2021
 Next report scheduled for issue in: June 2022
 (Previous issue: June 23, 2020)

Guidelines referenced

- GRI Sustainability Reporting Standards in 2016
 * The numbers of referenced GRI disclosures are noted next to the title of each page.
- Environmental Reporting Guidelines (2018) by the Ministry of the Environment of Japan
- Environmental Accounting Guidelines for Chemical Companies (November 2003) by the Japan Chemical Industry Association

- ISO 26000 (guidance on social responsibility)
- SASB Standards
- SDG Compass
- TCFD Recommendations

Introduction of various informative tools



[Reports]

- Kao Integrated Report 2021
- Kao Sustainability Data Book
- Kirei Lifestyle Plan Progress Report 2021 (This data book)
- Kao Sustainability Data Book 2021
- Corporate Governance
- Financial Report

[Websites]

- Corporate information
- Investor relations
- Sustainability
- R&D

Disclaimer on forward-looking statements

Forward-looking statements contained in this data book are based on information available at the time of publication, and on assumptions that management believes to be reasonable. These statements are not guarantees that Kao will achieve its targets. Various factors may result in substantially different outcomes.

Sustainability as the Only Path



I'm Yoshihiro Hasebe, President and CEO of Kao Corporation.

Our world is in turmoil. A global pandemic. Societies divided by polarized opinions. Global environmental issues of increasing severity. People are questioning the sustainability of continuous economic growth, and are anxious about how their future lifestyles might change. All of this brings the Kao Group to a watershed moment. The time has come for a major transformation of our responsibilities and role as a company.

Up to now, Kao has contributed to society as a consumer goods manufacturer: Consumers use and benefit from the wide range of products we make. However, that contribution uses large amounts of resources and energy, and generates waste.

It is time to make a change. We need a new plan of action. Kao has built a proud legacy spanning over 130 years. We have pursued businesses related to cleanliness, beauty, and health while adapting to changing times. But what path should Kao take now in order to serve society while meeting the expectations of our many valued stakeholders?

In 2021, we will commence a new Kao Group Mid-term Plan 2025 "K25."

The Kao Group's core mission—to enrich the lives of people—remains unchanged. But at this moment in history, it is crucial that we focus on both supporting human lives and the global environment. We renew our commitment to making essential contributions to saving future lives. However, we cannot do that by simply continuing on our current business trajectory.

My strong belief is that in order to make bold moves to develop new business areas, we need to create "Another Kao" in parallel to the Kao that exists today. This new business, Another Kao, will be built on a completely new business model. It will be designed from the ground up, with its reputable technology as its cornerstone. Another Kao will launch businesses that provide compelling solutions to the world's critical problems. The first step toward achieving that is overcoming any internal obstacles that hold Kao back from welcoming innovation from outside the company. We need to recognize and respect those who share our mission. We must collaborate to achieve shared goals. This is essential, even if our partners on the path ahead are from outside the Kao Group. That's not all. The Kao Group must be a vibrant workplace. Highly motivated employees should be empowered to take on exciting business challenges—and to deliver results.

Kao aims to be a company that sets the pace globally in creating maximum value with minimum resources: a concept of "maximum with minimum." This is our moment to harness the collective talent of the Kao Group's members and create a new future that will be brighter than we can even imagine.

January 2021

Yoshihiro Hasebe
President and Chief Executive Officer
Kao Corporation



→Kao Integrated Report 2021
To Everyone around the World
www.kao.com/global/en/investor-relations/library/reports/

Message by Dave Muenz 102-14



The year 2020 was like no other in recent memory. The COVID-19 pandemic has caused great suffering and disruption to so many people and our hearts go out to all those who have been affected.

We at Kao have been very active in addressing the extraordinary needs that arose from the pandemic. Our first actions were to protect our employees, and this was immediately followed by actions to help people live in this new environment by dramatically increasing the production capacity of essential products that we make, such as sanitizers.

Once we took these urgent actions to address the COVID-19 crisis, we returned with renewed priority to our efforts of improving the lives of all people. Guided by our ESG Strategy, the Kirei Lifestyle Plan (KLP), we continue to follow the tenets of Our Philosophy & Action on Plastic Packaging. Toward reduction, we launched a new packaging innovation called the *Air-in Film Bottle* that uses our thin film technology. This packaging is a fully functional replacement of heavier rigid bottles but uses significantly less plastic. This innovation was launched in our new *MyKirei by KAO* brand in April 2020.

Recycling is also a key focus for us. In pursuit of this, we are involved in a coalition of companies such as Lion Corporation in Japan to collect and recycle film-based refill packaging. We also began joint initiatives with the Tokyo Metropolitan and Wakayama City governments to test ideas for a circular economy. No one company can build a circular society, and we firmly believe that partnerships are key.

Stepping up transparency is also our priority, and part of this is publication of our Fragrance Policy and full disclosure of fragrance ingredients, starting with some of our fabric and home care brands in Japan and the *MyKirei by KAO* lineup.

The year 2021 will be a year of action and driving change. The new Kao Group Mid-term Plan 2025 (K25) commits to placing ESG at the center of our business to not only grow and innovate our existing business, but to create new growth opportunities leveraging our technologies. Strategies have been developed in K25 and will be deployed by listening carefully to advice of our ESG External Advisory Board and following the scenario analysis required by the Task Force on Climate-related Financial Disclosures (TCFD). Through actions that have meaningful impact, our ambition is making Kirei a gift to the world.

Message by Dave Muenz 102-14

Role and activities of the ESG Committee

The ESG Committee discusses and decides on the overall direction of activities related to our ESG Strategy. The committee is chaired by the President and Chief Executive Officer, and its members include Senior Managing Executive and Managing Executive Officers. The committee formulates policies and strategies that are related to ESG activities, identifies ESG issues, risks and opportunities, and examines the current state of ESG activities. The ESG External Advisory Board consists of outside experts, and gives advice and recommendations to the ESG Committee to bring external perspectives to the management of the company.

Main items deliberated on and approved by the ESG Committee in FY2020

- Confirmation of the ESG Strategy amid the spread of COVID-19
- Deliberation and approval of the ESG Strategy tied to the new Mid-term Plan 2025
- Deliberation and approval of the revised draft of the KLP
- Confirmation of the items on the ESG External Advisory Board report
- Review of the progress made on each theme of the KLP
- Current ESG performance evaluation

Themes proposed to the ESG Committee by the ESG External Advisory Board in FY2020

- The need for complete transparency, including the positive and negative aspects of our efforts
- The importance of employees in achieving our ESG aspirations
- The need for enhanced levels of external ESG-related communication

Climate change scenario analysis

In FY2018, Kao expressed its support for the recommendations of the TCFD. The following year, we conducted a climate change scenario analysis, which helped us confirm the need to reduce our reliance on fossil-based raw materials and to find new ways to capture the CO₂ already in the atmosphere. It is also critical that we find ways to help people adapt amid the current and expected effects of climate change.

In 2020, we established the Recycling Science Research Center to pull together all of the recycling technologies we have amassed under one roof and accelerate research into recycling technologies. We also established the new Hygiene Research Center to combat the viruses that we are under attack from now and those that may affect us in the future.



David J. Muenz
Executive Officer
Senior Vice President, ESG, Global

COVID-19 Response 102-15

COVID-19 has upended our lives.

The Kao Group's first priority is the health and safety of all our stakeholders, including our customers and our employees and their families, and we are working hard to prevent the spread of the virus.

As a company that has engaged in research on cleanliness and hygiene and delivered products in these fields, we have undertaken concerted efforts to supply hygiene-related products needed to maintain hygienic living conditions and communicate hygiene information useful in daily life together with governments, scientific and industry associations and related companies, with the goal of establishing good hygiene habits that safeguard health in daily life.

ESG Keyword

Infection risk assessment

Ensuring the safety of employees and their families

Continuation of business activities

Contributions to society through business activities

Kao's creating value to address social issues

Social issues we are aware of

The global spread of COVID-19 is having a significant impact on the global economy, including delays in raw material procurement, manufacturing, distribution and other areas, immigration restrictions imposed in countries and regions, restrictions on business and social activities and mandated temporary store closures.

The COVID-19 pandemic has become prolonged, with second and third waves occurring in many countries and regions. The uncertain business environment is expected to continue, with years potentially required for the impact of COVID-19 to be reduced through vaccines and other measures, and for the global economy to recover.

Kao's creating value

As a specialist who has engaged in research on cleanliness and hygiene and delivered products in these fields, we aim to spark social innovation related to personal hygiene together with consumers.

Protect Kirei Lifestyles Project

For Japan, we have created the slogan, Protect Kirei Lifestyles Project. By ensuring (1) the stable supply of hygiene and cleaning products, (2) the provision of research findings in the fields of hygiene and cleanliness to research facilities, medical practitioners and other professionals and (3) the provision of accurate, evidence-based information on hygiene and cleanliness to consumers, we aim to provide peace of mind in daily life.



→ Protect Kirei Lifestyles Project
www.kao.com/jp/new-hygiene/ (Japanese)

→ Kao's response to COVID-19
www.kao.com/global/en/what-we-stand-for/



Increased production of disinfectant (Japan)



Provision of product kits free of charge to medical practitioners



Release of hygiene information related to infection prevention (Hygiene Information Useful in Daily Life)

Impacts and risks to Kao due to rising COVID-19 infections

Under these circumstances, in Japan, which is our main market, the cosmetics market shrank significantly from the previous year due to the impact of factors including a substantial decline in inbound demand and people's voluntarily refraining from going outside, while the household and personal care products market grew due to increased demand for hygiene-related products.

The COVID-19 pandemic has caused changes in people's awareness of hygiene, and changes in values regarding makeup and related products as people have voluntarily refrained from going outside and wearing masks has become common practice. It has caused changes in consumer behavior including a rapid increase in the use of e-commerce.

Risks associated with the COVID-19 pandemic and related changes in people's behavior are as follows. Inability to take appropriate measures could cause net sales and profits to deviate significantly from targets.

- Temporary suspension of operations or obstacles to providing products and services due to multiple infections (clusters) at our bases or in the supply chain
- Delays in product development and launch plans due to a resurgence of infections or prolonged pandemic, due to work that cannot be performed remotely
- Delays in the recovery of the Cosmetics Business or other businesses due to a resurgence of infections or prolonged pandemic
- Inadequate response to changes in people's awareness and values, and changes in consumer behavior

Policies

In response to COVID-19, on February 3, 2020, we held a meeting of the Emergency Response Team Headquarters headed by the President and Chief Executive Officer to decide on Group-wide policies regarding (1) ensuring the safety of employees and their families, (2) continuity of business activities, and (3) contributions to society, and took the following actions. In addition, these actions have been reported to the Board of Directors.

1. Ensuring the safety of employees and their families

- As a crisis management measures, followed national and local government policies, and implemented work systems and styles compatible with the status of infection in each country and region (promotion of remote work/teleworking, restrictions on business trips, restrictions on training/events/tours, etc.)
- Identified the status of infected employees and family members or those who have been in close contact with infected persons, and implemented care as applicable, and measures to prevent the occurrence of infection clusters
- Launched the Infectious Disease Risk Assessment Project to reinforce infection prevention measures in the workplace and at home

2. Continuity of business activities

- To maintain the supply chain, implemented higher-level infection control measures at production sites and rolled them out to subcontractors and other related parties, in addition to conducting relevant activities for raw material procurement

- Enhanced information systems for remote work and promoted digitalization of operations
- Reviewed Group systems for new work styles
- Formulated and implemented a business strategy for dealing with COVID-19

3. Contributions to society

- Provided a continuous supply of hygiene-related products for cleanliness and worry-free daily life
- Increased production of alcohol disinfectant to 20 times the previous level and supplied them on a priority basis to medical institutions, nursing facilities and other locations with urgent needs
- Through our website, provided information on hygiene in daily life, based on the knowledge of experts and our own know-how. Also, for hygiene researchers, medical professionals, public health nurses working at educational institutions and other professionals, provided a wide range of information, including expert knowledge on measures for preventing the spread of infection based on academic papers
- Contributed to the development of therapies and diagnostic tools for COVID-19, including the discovery of VHH antibodies that can be anticipated to inhibit infection



→ Results of Joint Research on COVID-19
Conducted with Kao
www.kao.com/global/en/news/rd/2020/20200513-001/

Framework

Within the Kao Group, when a crisis occurs, the head of the Crisis Response Team evaluates the level of severity of the crisis on the basis of the potential impact on the Kao Group (designating the crisis as level one, level two or level three depending on the severity of the accident, disaster, epidemic, etc. in question), and an appropriate organizational framework is established for dealing with the crisis in accordance with the level of severity.

The spread of COVID-19 infections in 2020 was designated a crisis with severity of level three (company-wide impact and impact on Kao's business), and the Emergency Response Team Headquarters, Emergency Response Team Headquarters Executive Office and the Infection Countermeasures Team were established.

The Emergency Response Team Headquarters, with the President and Chief Executive Officer serving as its chair, decided the company-wide action policy for the Kao Group and implemented actions accordingly. Collecting and sharing information and managing the progress of specific activities were led by the Infection Countermeasures Team headed by the Senior Vice President of Human Capital Development (Executive Officer). Activities were coordinated by the Emergency Response Team Headquarters Executive Office, which is headed by the Senior Vice President of Corporate Strategy (Managing Executive Officer) and whose members include the Vice President of Risk and Crisis Management.



→ Risk and crisis management > Framework
www.kao.com/content/dam/sites/kao/www-kao.com/global/en/sustainability/pdf/sus-db-2021-e-all.pdf#page=22

Business impacts

Cosmetics business

The cosmetics market in Japan was severely impacted, contracting 28% year on year, with the market for makeup in particular contracting 25% year on year, due to declining inbound demand, fewer opportunities to go out, and regular use of masks due to the spread of COVID-19.

Our Cosmetics was hit even harder, as makeup products account for approximately 10% more of its total sales than the market average.

Skin care and hair care business / Fabric and home care business

Amid substantially higher demand for hygiene-related products due to the spread of COVID-19 in Japan, we increased production of hand soap and hand sanitizer, and our sales and market share grew significantly (sales of hand soap tripled year on year). As a result, sales in Skin care grew 10% year on year.

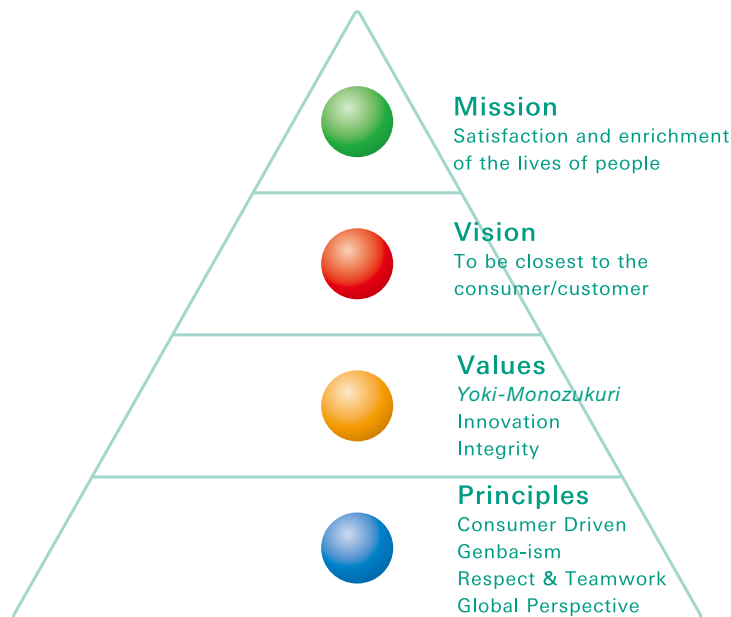
Education and promotion

In response to the global spread of COVID-19, through our internal portal site and other means we communicated to employees the status of infections nationally and regionally and work systems and styles to adopt corresponding to national and local government policies as part of our crisis management measures, and employees put them into practice.

We also communicated a wide variety of information related to COVID-19 infection protection measures over the year, including ways to strengthen infection protections at workplaces and at home, the response when employees or their family members become infected or are in a close contact with infected person, and systems and precautions when working from home.

Fundamentals That Support Kao's Value Creation

The Kao Way



Mission

Our mission is to strive for the wholehearted satisfaction and enrichment of the lives of people globally and to contribute to the sustainability of the world, through *Yoki-Monozukuri*, meaning our strong commitment to provide products and brands of excellent value created from the consumer and customer's perspective.

The origins of the Kao Way can be traced back to the company's founder, Tomiro Nagase. In 1887, Tomiro Nagase founded Nagase Shoten, a Western sundry goods store. He launched *Kao Sekken* (Kao Soap) three years later in 1890. His goal was to create a high-quality facial soap and offer it at an affordable price to contribute to cleaner and more comfortable lives for people at the time, when the only choices available were poor-quality domestic soap and high-priced imported soap. This is the origin of our mission "to strive for the wholehearted satisfaction and enrichment of the lives of people."

Values Unique to Kao

The three Values express what we believe in. We do not conduct business or take actions that do not conform with these Values. Above all, we believe in achieving Innovation and *Yoki-Monozukuri* built upon Integrity, and this has become our distinctive foundation.

Yoki-Monozukuri

Yoki-Monozukuri refers to developing innovative products and brands by determining the needs of consumers and fusing them with seeds of our original technologies. We create dynamic synergy by uniting the creativity and energy of every employee and division. The driving force of *Yoki-Monozukuri* is the passion of individual members as the source of our corporate strength. We reinvest the profits earned through *Yoki-Monozukuri* toward the continuous creation of products and brands of excellent value. This cycle of *Yoki-Monozukuri* earns us the respect and trust of all of our stakeholders, thereby achieving profitable growth.

Innovation

We improve and innovate our products, brands and business processes in order to stay one step ahead of changes in consumer lifestyles and the business environment. We proactively seek new opportunities and challenges to always continue moving forward while maintaining a healthy sense of dissatisfaction with the status quo. We regard difficulties as opportunities for self-improvement and continue to grow individually and as a corporation by overcoming them.

Integrity

We treat others with respect and fairness, and pursue our work with sincerity and diligence in an effort to optimize the performance of individuals and the corporation as a whole. We behave lawfully and ethically, and earn the respect and trust of all stakeholders through sound and honest business activities. As a responsible corporate citizen, we seek to ensure the safety of our products and operations, and proactively engage in solving social issues including environmental issues.

Kirei Lifestyle Plan—Kao's ESG Strategy 102-16

Under the management framework established in 2021, we revised our vision for 2030 from “a company with a global presence” to “Make Kao a company with a global presence, valuable to society,” and will pursue sustainable growth by integrating ESG into the core of our management as we work toward this vision. Our ESG Strategy, the Kirei Lifestyle Plan (KLP) released in April 2019, aims to enrich the lives of consumers, and as such is an ESG Strategy shaped from the consumer's point of view and unique to Kao.

Through ESG-driven *Yoki-Monozukuri* based on the KLP, our ESG Strategy will lead to realizing sustainability for society and increased corporate value.

Philosophy supporting Kao's ESG activities

The Kao Way

Since our founding, we have made it our mission to contribute to sustainability through our business activities. The Kao Way, our corporate philosophy, states, “Our mission is to strive for the wholehearted satisfaction and enrichment of the lives of people globally and to contribute to the sustainability of the world, with products and brands of excellent value that are created from the consumer's and customer's perspective.”



→ p.10 Kao's Corporate Philosophy

Kao Group Mid-term Plan K25 and What Kao Aims to Be by 2030

To make Kao a company with a global presence, valuable to society, as defined in What Kao Aims to Be by 2030, we have integrated ESG into the core of our management. The three objectives of What Kao Aims to Be by 2030 are (1) to become an essential company in a sustainable world, (2) to be a high-profit global company that also significantly contributes to society and (3) to provide returns to stakeholders according to levels of growth. We envision these goals resulting in sales of 2.5 trillion yen. Developing our business for the purpose of benefiting society will grow our business as a result, and we will return the profits to society.

We announced the Kao Group Mid-term Plan 2025 (K25), which is focused on achieving What Kao Aims to Be by 2030, in December 2020. With the vision of “Sustainability as the only path” and the concept of “Kirei—Making Life Beautiful,” K25 sets three objectives: (1) Become an essential company in a sustainable world, (2) Transform to build robust business through investment and (3) Maximize the power and potential of employees.

To signal our resolve to implement ESG-driven management to achieve K25 on our journey to 2030,

we have defined the ESG goals of “zero waste / carbon zero” for E, “one and only personalization” for S, and “one team with integrity” for G. We will build business with our new focus of “Save lives, protect people,” and undertake this effort in collaboration with like-minded stakeholders.

Kirei Lifestyle Plan, Kao's ESG Strategy

Our ESG Strategy, the KLP, expresses the direction we are taking with specific ESG activities that put consumers in the driver's seat as well as our ambitions for the future. The KLP consists of Kao's ESG Vision and Kao's ESG Commitments and Actions to achieve this vision.

Kao's ESG Vision

Kao's ESG Vision is based on the concept that our ESG activities are designed to help people around the world live more sustainably and benefit the wider society and the Earth.

Our value of “walking the right path” is presented as the foundation of our ESG activities and embodies one of the core tenets of our founder Tomiro Nagase, “Good fortune is only given to those who work diligently and behave with integrity.”

Kirei Lifestyle Plan—Kao's ESG Strategy 102-15, 102-16

Kao's ESG Commitments and Actions

The KLP includes three main pillars connected to enriching the lives of people, namely "Making my everyday more beautiful," "Making thoughtful choices for society," and "Making the world healthier & cleaner." "Walking the right path" is the foundation that supports these pillars.

Kao Actions, our priority action themes, are set for each pillar as well as our 2030 Commitments, our ambitious goals to achieve by 2030.

We believe that achieving K25 looking ahead to our vision for 2030 in the areas of society and the environment, where global-scale upheavals are anticipated, will require our resolve to transform ourselves to help bring positive transformation to society. As the importance of governance is growing, we will further strengthen the effectiveness of our governance in line with our core value of "walking the right path."

Individual mid- to long-term targets have also been set for each of the 19 Kao Actions to facilitate effective and reliable activities.

Business growth through the realization of the Kirei Lifestyle

K25 is based on the approach of developing our business for the purpose of benefiting society, and achieving business growth as a result. We believe that our ESG actions taken with the goal of enriching the lives of consumers and realizing a sustainable world will result in business growth and creation of a cycle where generated profit is returned to stakeholders,

consumers and the wider society. The KLP is the main driver to achieve this management vision, and ESG is therefore positioned as investment and the basis for our future finances.

It is said that technological innovations are needed to address the severe social issues we are facing in the modern era and realize a sustainable world. We are focusing on *Yoki-Monozukuri* as the basis for the innovative solutions we offer, and we believe that ESG-driven *Yoki-Monozukuri*, which combines innovative technologies grounded in our Essential Research, will support our sustainable growth and can have transformative impacts on people, the wider society and the Earth.

We will deepen our existing three business fields, Cleanliness, Health and Beauty, and expand their boundaries based on the KLP, thereby amplifying our transformative impacts on society, and at the same time, achieving business growth. Our plan to build our business with the new focus of "Save lives, protect people" set forth in K25 is part of this.

The KLP will also contribute to increasing our corporate brand value and product brand value. The spirit of the KLP is also integrated into our products, campaigns, programs, communications and other activities. We believe that contributing to enriching the lives of consumers and to society and environmental sustainability will allow us to gain the trust of consumers and a wide range of stakeholders, earn a strong reputation, and contribute to increasing our corporate brand value.

One of Kao Actions, "Purpose driven brands," strengthens brands' reason for existing as well as contributes to product brand value. One example of

the actions we took in 2020 is the launch of sales of the brand *MyKirei by KAO* in the U.S. with the purpose of realizing the Kirei Lifestyle. The brand fully mobilizes technologies born from our Essential Research and offers a portfolio of products made with our exceptional considerations for the environment and society. Going forward, we plan to expand the brand's availability in stages in Europe, Japan and other countries in Asia.

The new Kao Group Mid-term Plan K25 as well as our new management framework and internal structure to implement K25 put in place in 2021 will further strengthen our purpose-driven, ESG-driven *Yoki-Monozukuri*. We believe that this will lead to Kao becoming an essential company in a sustainable world, development of business linked to contributing to a sustainable world, and business growth as a result.



→ Kao Integrated Report 2021
Kao's value creation model
www.kao.com/global/en/investor-relations/library/reports/

Kirei Lifestyle Plan—Kao's ESG Strategy ¹⁰²⁻¹⁶

Kao's ESG Vision

A Kirei Lifestyle means living a beautiful life inside and out.
A Kirei Lifestyle is full of compassion.
Where making your own life clean and beautiful never compromises the beauty and cleanliness of the world around you.

A Kirei Lifestyle is enjoying today, with the peace of mind that those joys will be there tomorrow.
It's the chance to express who you truly are, with the confidence that you are walking the right path. Even in the smallest, everyday moments.
That's why, at Kao, everything we do is in service of

this lifestyle.

It's why we do what is right, not what is easy.
We put our innovation and imagination to the task of enriching lives by finding ways for people the world over to live the Kirei Lifestyle.



BY 2030
We will aim to empower all people, at least 1 billion by 2030, to enjoy more beautiful lives — greater cleanliness, easier aging, better health and confidence in self expression



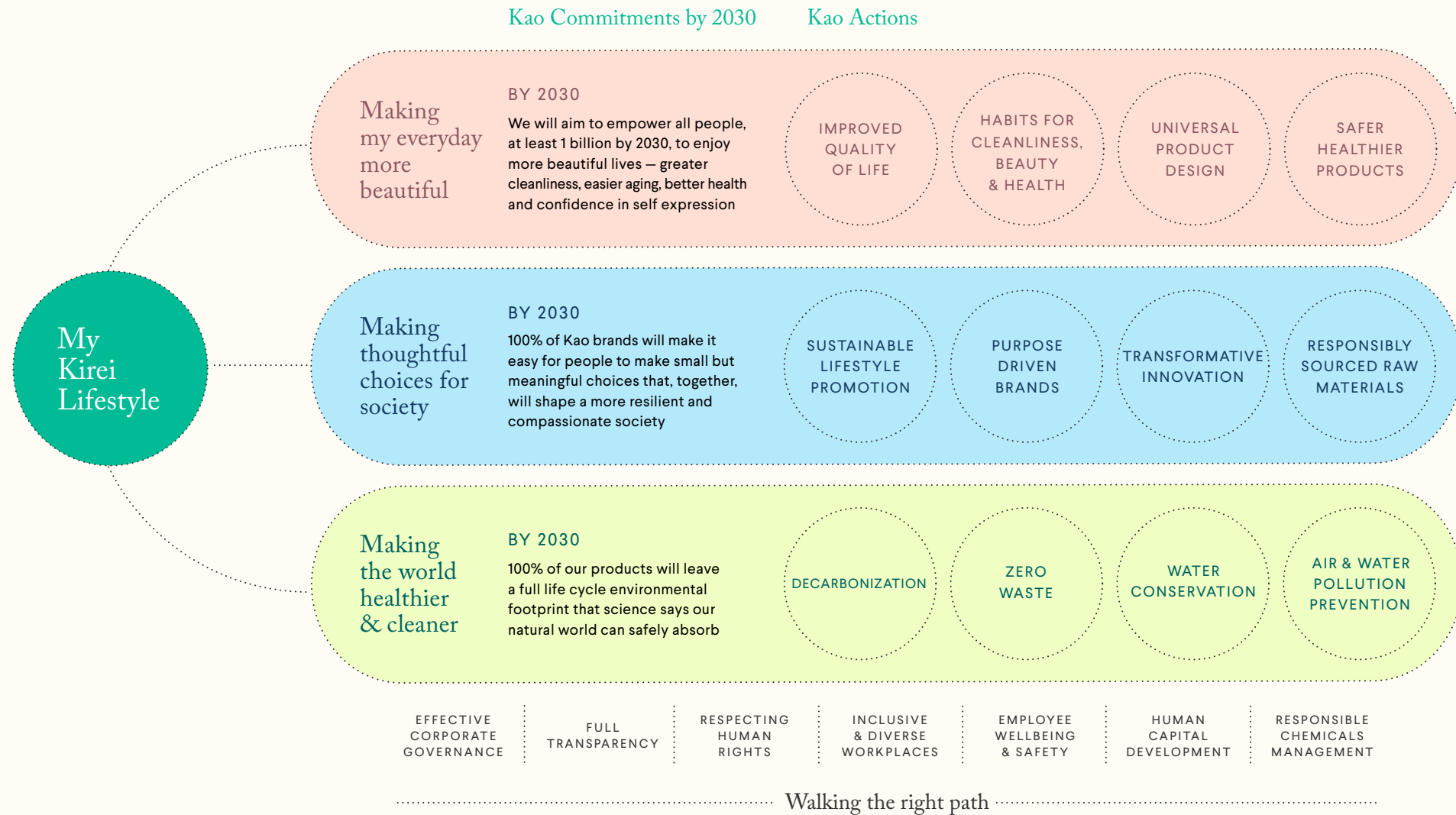
BY 2030
100% of Kao brands will make it easy for people to make small but meaningful choices that, together, will shape a more resilient and compassionate society



BY 2030
100% of our products will leave a full lifecycle environmental footprint that science says our natural world can safely absorb

Kirei Lifestyle Plan—Kao's ESG Strategy 102-16, 102-47

Kao's ESG Commitments and Actions



Kirei Lifestyle Plan—Kao's ESG Strategy 102-15, 102-16

Kao Group Mid-term Plan 2025 (K25)

Kao has developed the Kao Group Mid-term Plan 2025 (K25), covering the five-year period from FY2021 to FY2025, for the realization of an enriched sustainable world.

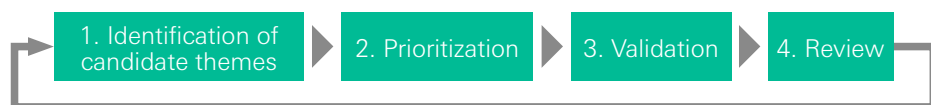
By contributing to an “enriched sustainable world” and growing the businesses of the company through proactive engagement in ESG activities and investment, Kao will aim to be an essential company in a future world.



Selection process for the Kao Actions as material themes

Kao selected the 19 Kao Actions in the Kao ESG Commitments and Actions through the following four steps.

Selection process



Selection of Kao Actions implemented in 2018

1. Identification of candidate themes

1.1 Making a list of candidate themes

We used the following to help identify candidate themes:

- ISO26000
- GRI Standards
- SDGs
- Evaluation items used by ESG assessment bodies
- Global mega-trends
- In-house workshops
- Materiality at other companies
- Third-party opinions

As a result of this process, 78 candidate themes (17 environmental, 37 social and 24 governance) were selected.

1.2 Top management interviews

We held interviews with eight members of top management including representative directors, directors and managing executive officers, and compiled their thoughts and requests regarding Kao's ESG Strategy.

1.3 Region-based workshops

Using a workshop format in the regions of Asia, the Americas and Europe, we identified activities that would simultaneously satisfy business needs, sustainability needs and customer and consumer needs from the viewpoint of our operational sites. We then identified elements in those activities that serve becoming a company with a global presence.

Objectives of selecting the Kao Actions

1. Targeted action in view of changing social circumstances and issues, and the changing expectations for Kao
2. Strategic implementation of ESG activities based on Kao policy and changes in business environment and strategy
3. Efficient investment and effective use of management resources

2. Prioritization

Of the 78 candidate themes identified in 1.1, we asked some external stakeholders and employees to rate their priority in growing our business and increasing our corporate value.

Evaluator attributes

- External stakeholders: 32 (21 Japanese, 11 non-Japanese)
- Employees: 71 (39 Japanese, 32 non-Japanese)

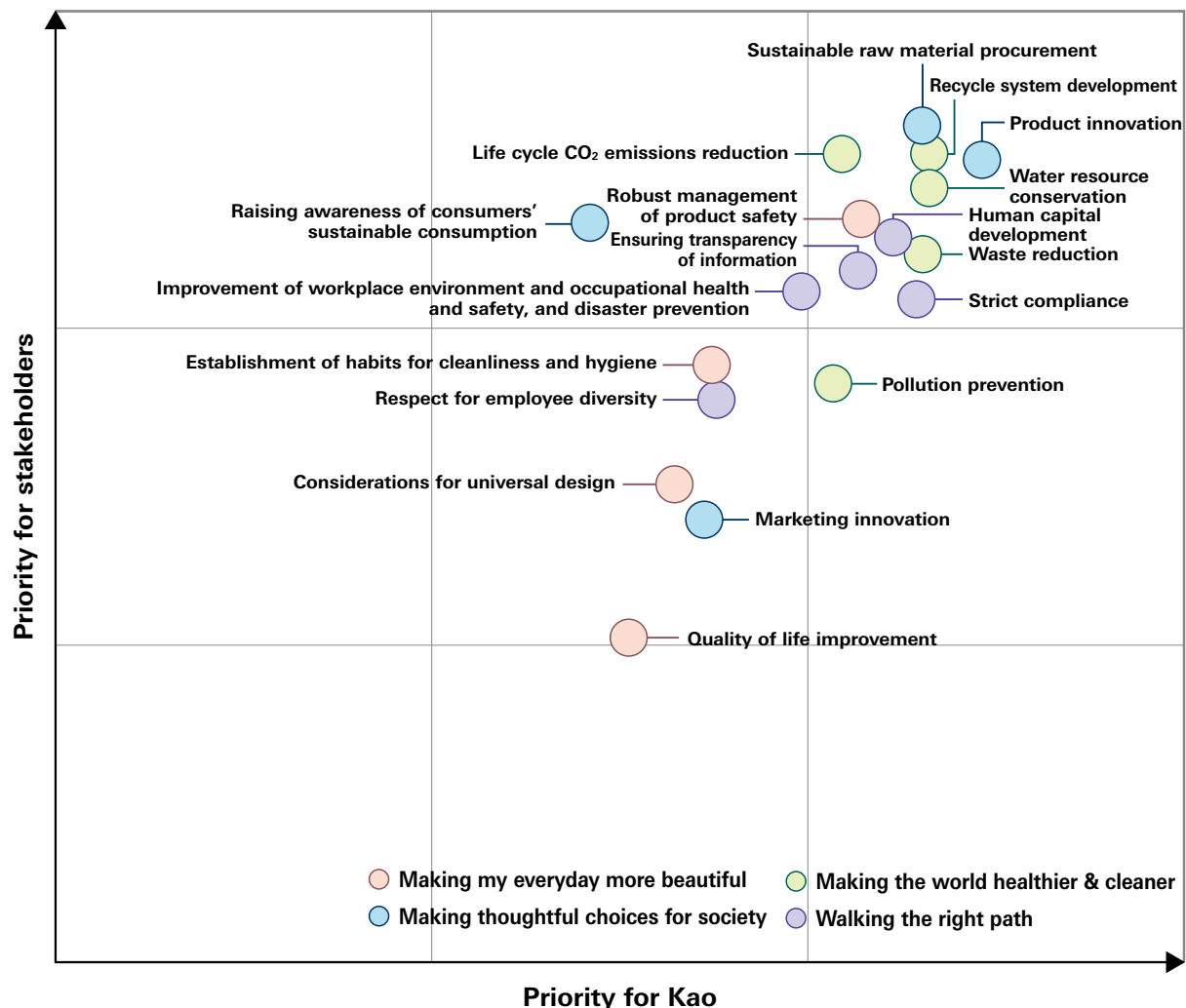
External stakeholders who provided evaluations fall under the following groups:

- Consumers / customers
- Suppliers
- Local community members
- NGO / NPO representatives
- Academics
- Industry body / same industry representatives
- Shareholders / investors

Kirei Lifestyle Plan—Kao's ESG Strategy 103-2, 103-3

We then organized the results of their evaluations in the Matrix of Materiality, which maps materiality along two axes: priority for stakeholders and priority for Kao.

Matrix of Materiality



The ESG Promotion Meeting, attended by division leaders, reviewed materiality based on the results of the evaluations and third-party opinions, and then selected the 19 KAO Actions.

Themes that were not included in the KAO Actions despite being relatively highly rated in the evaluations will be managed and implemented under a separate organization. For instance, "Disaster preparation and reconstruction assistance" was highly rated externally. These themes have been and will continue to be implemented under the Responsible Care Promotion Committee.

3. Validation

The ESG Committee reviewed the 19 KAO Actions selected in the ESG Promotion Meeting, and the Board of Directors approved them.

Based on this, divisions set their own targets and action plans to conduct ESG activities.

4. Review

The 19 KAO Actions will be periodically reviewed and revised using the selection steps 1 to 3.

In addition, the actions are reviewed each year at a meeting of the ESG External Advisory Board.



→ For details concerning the structure, see p. 18, ESG promotion structure.

ESG promotion structure

We are building an ESG promotion structure to realize more flexible and robust ESG activities. Under the Board of Directors, the ESG Committee is the body that discusses and decides the direction of activities related to the ESG Strategy. Comprising outside experts, the ESG External Advisory Board provides external viewpoints that are input into our ESG activities. The ESG Promotion Meeting works to achieve the ESG Strategy, and ESG Task Force proposes activities for focus themes, while divisions implement activities.

The ESG Committee consists of members of the management team, and the ESG Promotion Meeting is attended by the heads of business divisions, regions, functional divisions and corporate divisions. These bodies are able to make swift management

decisions on ESG matters, and the structure enables divisions to advance ESG activities. We are building effective governance and integrating ESG into division policies, targets and plans by having divisions engage in ESG-driven operations based on divisions taking management responsibility and reporting lines in the organization. Divisions also conduct these operations for global Kao Group companies, with individual group companies conducting activities as appropriate according to the content.

The ESG External Advisory Board is made up of external experts who provide advice and suggestions to issues raised by the ESG Committee and offer outside viewpoints that are input into management.

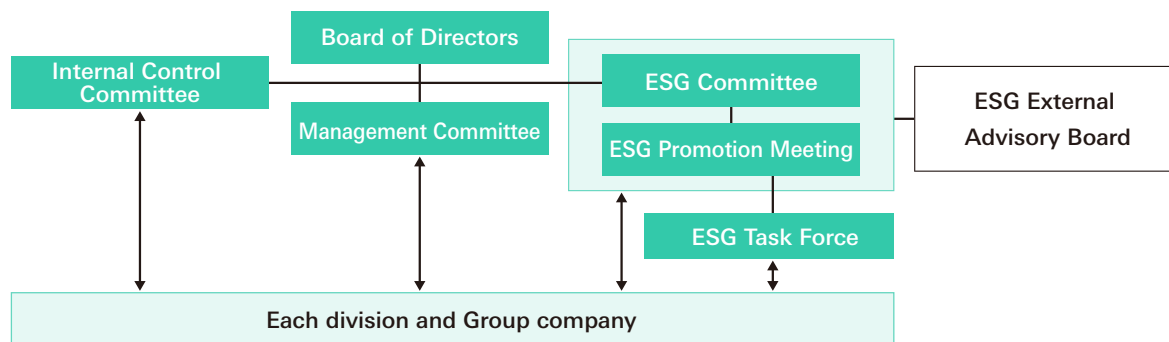
While the actions taken across the ESG promotion

structure basically relate to all aspects of ESG, placing a primary focus on KLP actions drives strategic ESG implementation.

Through this ESG promotion structure, we gain an understanding of our global ESG activities and make management decisions on strategy, investments and other matters based on their impact on our business and society.

Two years have passed since we established this structure in 2018, and we have interlinked the activities of the ESG Committee and the ESG Promotion Meeting, connected the activities of the managing divisions for the 19 Kao Actions and other divisions, and furthered the incorporation of ESG activities into the global operations of divisions.

ESG promotion structure



* As of December 2020

Implementing the Kao Actions in the KLP

- The responsible divisions design the details of the respective actions, devise the mid- to long-term targets, regularly consolidate data on division progress and manage company-wide progress.
- The target divisions devise and implement their division targets and activity plan for each action.

ESG promotion at divisions

- Each division creates its promotion structure. They devise their division targets and activity plan, and implement the PDCA cycle.
- The progress of division activities is reported to the ESG Promotion Meeting, which then gives the divisions feedback including requests to revise plans.
- Global implementation by divisions is the general rule, with support for implementation by individual Kao Group companies provided as needed.
- The members of the ESG Promotion Meeting in each division give direction and guidance on incorporating the company-wide ESG Strategy into division strategy.

Kirei Lifestyle Plan—Kao's ESG Strategy

102-18, 102-19, 102-20, 102-21, 102-26,
102-27, 102-29, 102-31, 102-44

Roles, structure and frequency of meeting of each organization

Organization	Roles	Structure	Frequency of meeting	Main deliberated items (2020)
ESG Committee	<ul style="list-style-type: none"> Develop policy and strategy for Kao's ESG activities Gain an understanding of the issues, risks and opportunities for sustainability of Kao and society and ESG Deliberate and decide on matters raised in the ESG Promotion Meeting Confirm the status of company-wide ESG activity implementation and take action accordingly 	Committee chairperson: President & CEO; Members: Senior managing executive officers, managing executive officers, other executives	Four times / year	<ul style="list-style-type: none"> Confirmation of the ESG Strategy considering the spread of COVID-19 Deliberation and approval of the ESG Strategy linked to the new Mid-term Plan K25 Deliberation and approval of the revised draft of the mid- to long-term targets for the KLP Examine the proposals from the ESG External Advisory Board Review of the progress made on each Kao Action in the KLP Discussion on how to conduct ESG performance evaluations
ESG External Advisory Board	<ul style="list-style-type: none"> Give advice and recommendations to the ESG Committee from outside viewpoints Provide information to the ESG Committee to enable development and implementation of world-class plans Provide opportunities for collaboration and cooperation with external parties 	Members: External influential experts • Lisa MacCallum Founder of Inspired Companies Specialization: Business reforms • Rika Sueyoshi CEO, Ethical Association Specialization: Ethical consumption • Jalal Ramelan Chairman, ESG Indonesia Specialization: Sustainable development field • Helmut Schmitz Director of Communication and Public Affairs, Der Grüne Punkt - Duales System Holding GmbH & Co. KG Specialization: Recycling systems for packaging	Once / year	<ul style="list-style-type: none"> Proposals on expectations for and risks to Kao based on the social climate Review and evaluation of the progress made on the KLP Proposals on ESG Strategy linked to the new Mid-term Plan K25
ESG Promotion Meeting	<ul style="list-style-type: none"> Promote implementation of the ESG Strategy based on the direction decided by the ESG Committee and its directives and suggestions Confirm the status of division ESG activities and take action accordingly Establish task forces as necessary to implement focus themes 	Chair: Person responsible for the ESG Division; Members: Responsible persons at business divisions, regions, functional divisions and corporate divisions	8–12 times / year	<ul style="list-style-type: none"> Discuss the ESG Strategy and activities considering the COVID-19 pandemic Draft proposed revisions to the mid- to long-term targets in the KLP Confirm the progress and future plan for each Kao Action in the KLP Confirm the progress of division ESG activities Design employee engagement Hold lectures by external experts
ESG Task Force	<ul style="list-style-type: none"> Establish for individual focus themes when a cross-functional structure is needed. Propose activities based on the detailed plan developed by the ESG Promotion Meeting 	Members: Staff of the division relevant to the focus themes	As necessary	<ul style="list-style-type: none"> Establish and release the Fragrance Policy by the Transparency Task Force

Evaluation, requests and future expectations from the ESG External Advisory Board

In addition to Lisa MacCallum and Rika Sueyoshi, who joined the ESG External Advisory Board in 2019 when it was created, Jalal Ramelan and Helmut Schmitz joined the board in 2020. The board members discussed Kao's ESG activities and provided wide-ranging advice from broad viewpoints.

Messages from the ESG External Advisory Board members are published on the following pages.

Message from the ESG External Advisory Board

Achieving sustainability successes even in times of difficulty



Lisa MacCallum

Founder, Inspired Companies

2020 will be remembered as a year where everyone and every company was tested at the same time with the same problem: COVID-19. I saw three types of companies emerge from this abrupt and real-time test of character:

1. Companies that showed up in ways they regret. Those that chose to save a few dollars upfront, but experienced expensive backlash;
2. Companies that did some well-intended things, but delivered from such a low base of trust that their efforts were questioned or ignored;
3. Companies that intuitively moved to action in support of employees, customers, supply chain, government and communities to show us the best of the corporate sector.

It takes work to make it into the third category. That is, to be a company whose best version emerges during the worst of circumstances. It's even harder work to stay there. Key to success in these moments of truth is for leaders and employees to simultaneously draw strength, clarity and confidence from a strong and inspired compass.

Kao has one. I've seen it in action.

The Kirei Lifestyle Plan and vision for success stands on the shoulders of Kao's enduring purpose to strive for the wholehearted satisfaction and enrichment of people's lives. Combined with Kao's unique way of being, the Kao Way, they serve as a powerful compass for Kao to navigate the complexity, nuance and velocity of today's global marketplace.

The ESG team has now spent almost two years working decisively across Kao's global operations to embed the strategy and intention of Kirei Lifestyle. This is a concept that at its core, represents a democratic and deep sense of beauty, respect, kindness, equality and fairness. A concept which at its best, is in complete harmony with humanity and the planet.

With this as Kao's foundation, compass and inspiration, in 2020 we saw Kao urgently deliver care packages to employees around the world as a first priority. Move quickly to collaborate with public officials in several countries, retool production capacity and service urgent sanitation and healthcare supply needs. We witnessed Kao set bold new challenges and targets to collaborate and innovate faster and better to solve big, daunting global problems at local levels for so many issues, including for COVID-19.

We also saw Kao quietly earn the best ranking in the industry with the prestigious and independent 2020 Sustainalytics ESG Risk Ratings, to name just one of several unsolicited

acknowledgments.

From the vantage point of the ESG External Advisory Board, I can confidently say that Kao is indeed superior on the delivery of so many things: engineering and scientific innovation, authenticity of effort, doing the right thing, moral compass of governance...the list is long. Kao is a rare find in the global landscape of a somewhat disappointing corporate sector.

Therein perhaps lies the challenge for Kao in 2021 and beyond, however. With the state of the world today, the bar for excellence has been raised and expectations are higher than ever. Will doing more of the same keep Kao in that third and enviable category of companies that move intuitively in favor of stakeholders and positive impact to create sustainable celebrated success?

The world needs what Kao has. If you have the scientific and engineering answers and innovations but the world cannot access them fast or decisively enough, is that going to be okay as we head into 2021? I'm not so sure.

Like many of you, I prefer small, high quality portions of my favorite things. Less is more, so to speak. For the things Kao is uniquely positioned to solve for globally however? We need bigger, biggest and more, more, more.

The world no longer celebrates companies and brands that "go it alone." The world celebrates companies that open their doors to unique and unexpected partnerships, collaborations and large-scale alliances to get big important stuff done to deliver real, measurable and meaningful impact. That's as simple and as complicated as it is today.

The concept of Kirei Lifestyle is bigger than Kao Corporation. Delivering on its full potential will take intention, courage,

Kirei Lifestyle Plan—Kao's ESG Strategy ¹⁰²⁻⁴⁴

imagination and a doubling up of collaborative effort across Kao and beyond Kao. It is not something that can be implemented as a single initiative, task or milestone. It will require more than incremental change and incremental effort from a single department. Crucially, it will require shared vision and purpose with a significant base of stakeholders both inside and outside of Kao.

The pursuit of Kirei Lifestyle is an open challenge to redefine beauty, kindness, respect, fairness and harmony to make life better and more enriching for everyone. Every day. Kao has set the bar high and presented an irresistible vision of the future.

Now, who and how will you invite others into Kao's world to help you deliver?

Message from the ESG External Advisory Board

Toward full transparency and information disclosure



Rika Sueyoshi

CEO, Ethical Association

The year 2020 was a challenging one for people around the world. Amid the COVID-19 pandemic, Kao was of great service in preventing the spread of infections by supplying hand sanitizer and hand soap, and has been recognized as being a needed presence in society from its significant contributions via its primary business. At the same time, to build the society that will co-exist with COVID-19, this will bring more attention by more people than ever before to Kao's value as a company, and at times Kao will be questioned as well.

It is evident that the COVID-19 pandemic has caused more people to think more deeply about the background to issues in the world. This brings with it hope, but at the same time also risk. For example, those of us who have felt vulnerability in our lives, especially those of us who live in cities, say from the lack of self-sufficiency in supplying our own food, clothing, shelter

and energy, have felt a keen sense of gratitude for being able to secure food and daily necessities from our dependence on essential workers as we limit our activities under the state of emergency. This has caused us to place more importance on the values of showing appreciation to others and gratitude, which are also ethical concepts. This should have a positive meaning for the world, which is advocating for the SDGs to be achieved.

Meanwhile, as there is still no end to the pandemic in sight, there are many highly perceptive people who are thinking seriously about the real causes behind the issues. These people are becoming aware of the correlations the pandemic has with the slapdash destruction of the natural environment by people who have prioritized economic activity. In the business world too, companies that pursue profits while destroying the natural environment in ways not visible to customers will quickly lose the trust of customers in the not-too-distant future. Creating a society resilient to infectious disease is the same as creating the society envisioned by the SDGs, and we much consider these together.

In light of these circumstances, what is most expected from companies right now is transparency and information disclosure. As a company, for Kao to fulfill a role as a leader in leaving a better society for the next generation, it must disclose to customers with transparency both the good things and the bad throughout its supply chain from upstream to downstream while striving to improve the problem areas. Going forward, companies will be increasingly evaluated on their comprehensive disclosure including negative information about their impact on society and the environment, and on their attempts to strategically reform their primary business. Meanwhile, approaches that seek to only communicate convenient truths will be deemed SDG washing, and will make it more difficult to earn the trust of customers. To put it more directly, society will shift from asking companies what they are doing, to asking them what they are not doing. Consumers are directing a more discerning eye to their choices, and by

disclosing new information about its supply chain, Kao will raise problems to other companies and consumers and build unifying momentum. In this sense as well, acts of disclosing new information, including the fragrance policy and the names of fragrance components, will create a very favorable impression.

A major reason that has given rise to environmental and social problems is the capitalist market system that seeks never-ending economic growth, and undoubtedly the business activities of large companies and global companies who have built up their assets have been a part of this. If this is the case, then it is vitally important to take a stance not of "contributing to solving problems that have arisen in the outside world," or "meeting consumers needs and wishes to live a more sustainable lifestyle," but a stance that says we ourselves share the blame in creating these problems, and therefore we will take responsibility for solving them. With the Kirei Lifestyle Plan, Kao has shown the resolve to embark on this path of awareness and responsibility. I very much want to see Kao now take this resolve and turn it into action. In implementing the Kirei Lifestyle Plan, I am confident that broadly communicating to stakeholders what it achieves according to plan as well as what difficulties prove to be more formidable than initially thought will prompt others to join together in support of this new Kao.

In conclusion, Japan has finally committed to the target of becoming carbon neutral by 2050. While companies around the world are making commitments to become carbon neutral, I would like to see Kao take the lead in these efforts not just in advanced countries, but across its entire supply chain including developing countries. We must part ways with the approach of creating clean ways of doing things in advanced countries while externalizing wastefulness in developing countries. In order to also achieve the words in the Kirei Lifestyle Plan, of enriching lives by finding ways for people the world over to live its lifestyle, I hope that Kao becomes a leader in creating a sustainable future based on full transparency and information disclosure.

Message from the ESG External Advisory Board

Aiming higher while sustaining high-level ESG activities



Jalal Ramelan

Chairman, ESG Indonesia

When Kao Corporation invited me to discuss sustainability issues toward the end of 2019, I only had limited knowledge about the company. I knew that I used some of its products for decades. And, as a person who has been observing corporate sustainability issues for the past two decades, I also knew that Kao Corporation is one of the few companies in Asia that has a global reputation for sustainability performance. However, to be honest, my knowledge about the initiative and its sustainability performance was shallow. I was much more familiar with the performance of European companies within the same industry.

Because of the invitation, I took the time to visit the website to learn about the latest developments in this company. Since I have always admired several European consumer

products companies that are known as global leaders in the industry, I thought that Kao Corporation would show weaker sustainability policies, strategies, programs and performance. I was wrong.

The longer I browsed the website, reading the contents, downloading the various documents provided for further reading, I felt great admiration. My expectations were far exceeded. I think there are very few company websites that can provide a detailed picture of all the sustainability efforts and performance that is equivalent to that of Kao Corporation.

In order to provide complete information, Kao Corporation publishes its Kirei Lifestyle Plan Progress Report, Sustainability Data Book and Integrated Report. A cross reference between the GRI Standards, the ISO 26000 Guidance and the TCFD Index is provided. The results may feel too technical for most people, but it shows the seriousness of Kao Corporation in leveraging a variety of corporate sustainability standards and guidelines that exist at the global level to shape its policies, strategies and targets.

When I focus my attention on material issues in the consumer products industry, I find that all of these issues have been managed and disclosed satisfactorily. Energy efficiency and GHG emission reduction have long been a concern of Kao Corporation, with ambitious targets and performance that even exceeded the targets. Plastic waste is not only drastically reduced by packaging design, but is also managed with various initiatives that all aim at a circular economy.

I think the clearest sign of Kao Corporation's seriousness in environmental, social and governance issues is the various certifications and awards it has received. Unlike most companies that showing off the certifications and awards they have received, Kao Corporation chooses to

communicate it more carefully, in a segment with a humble title: External evaluations and recognitions. Once inside, we will know that this company has been included in the list of Global Ethical Sustainability Index (ESI) Excellence, ECPI Global Ethical Equity Index, and Ethisphere World's Most Ethical Companies since 2007; it has been included in the FTSE4Good Global Index since 2008, and the DJSI World and the DJSI Asia Pacific indexes in 2008, 2009 and each year since 2014.

Among companies in the same industry, Kao Corporation was in 2020 ranked 4th by the Corporate Knights' Global 100 Most Sustainable Corporations in the World, and 2nd by Sustainalytics, among many other accolades and awards. When I write down my impressions of this company, in early 2021, Kao Corporation has just been declared as one of mere 10 companies in the world to be rated A in the climate, forests and water categories by CDP. The same organization awarded this company as Supplier Engagement Leader for the fourth time in a row. Meanwhile, Bloomberg also stated that Kao Corporation was included in the 2021 Gender-Equity Index list.

Do I see Kao Corporation as a company where there is very little room for improvement? Presumably not. Maintaining all that has been achieved is not easy, while stakeholder expectations of the company also continue to increase. Kao Corporation clearly still has to achieve its climate change mitigation targets that have been validated by SBTi, and it still has wide room for improvement in climate change adaptation. Likewise, the target of fully entering into a circular economy remains to be fought hard.

However, based on what I have witnessed and felt during my interactions during the past year as a member of the ESG External Advisory Board, I am confident that Kao Corporation will be able to achieve, even exceed, its sustainability targets.

Message from the ESG External Advisory Board

Creating a circular society meeting the expectations of the next generation



Helmut Schmitz

Director of Communication and Public Affairs,
Der Grüne Punkt - Duales System Holding GmbH & Co. KG

Kao has a very long corporate tradition and throughout its history has successfully demonstrated its ability to address challenges and develop solutions in an increasingly dynamic changing society. The Kirei Lifestyle Plan is therefore logically based on the realization that taking responsibility at various levels is an opportunity for the company, its customers, its employees and society to master the enormous generational task of the upcoming global transformation process.

The younger generation is quite rightly articulating its right and that of future generations to a future worth living. The realization that we must strive now and holistically to consistently follow the right path to move away from the practiced linear management of economy, of our raw

materials and resources to sustainable circular management permeates the Kirei Lifestyle Plan.

Sustainability is a “win-win proposition”—in fact, it’s a triple win: the environment, society and the company itself all benefit. The palm oil project named in the Progress Report 2020 exemplifies such a joint “win” in the area of renewable raw material production. The publication of the list of palm oil mills from which the raw materials are sourced is an important contribution to increasing the transparency of the entire supply and value chain. The expansion of cooperation with producing smallholder farmers enables an increase in sustainability in many areas. Knowledge transfer and education, certification systems and reliable purchase and supply contracts increase planning security and are key concepts that lend credibility to Kao both internally and externally.

Packaging fulfills a central role in almost all product areas of the economy in logistics, resource protection, consumer information, to name just a few important aspects. Some of the activities described in Kao’s Kirei Lifestyle Plan address the unacceptable situation in the management of plastic as a material, more than 35% of whose global production goes to the packaging sector often as cheap disposable material. The degradation products of plastic, ultimately in the form of microplastics, threaten entire ecosystems, food cycles, and thus our health. Plastic is fundamentally an extremely durable material and must be treated as such. A purely energetic recycling of plastic waste or the exit from the recyclable material cycle into landfills or nature: this is first of all an unnecessary waste of valuable hydrocarbon chains.

The Progress Report 2020 shows that the dramatic nature of the situation has been recognized. Good examples are described. Here, further intensive cooperation in the value chain is needed in the future to reduce superfluous packaging efforts and to keep the materials used in a

high-quality cycle. Frontrunners like Kao, who take responsibility in the design process at the interface of product and packaging, can create “game changers” through their activities.

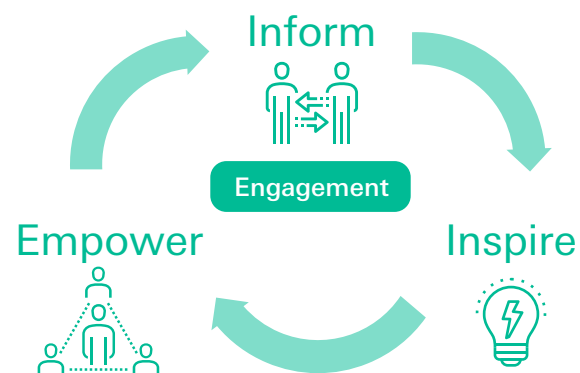
In many areas, we already have the necessary tools and technologies, for example in the recycling of plastics. A cost argument is often cited: But ten years ago, wind energy was three times more expensive than today, and solar energy seven times more expensive. Plastic recycling is not competitive today: crude oil and new plastic are too cheap. Used plastics have no value; we recycle too little. If recycling volumes were greater, the technical facilities would grow and, with corresponding scaling effects, the processes would become cheaper. Intelligently organized cooperation between politics and industry would be able to change the situation and to give the circular economy the necessary impetus.

The young generation is globally networked and informed. They are paying close attention because their future is at stake. If they recognize that the many good goals of the Kirei Lifestyle Plan describe the genetics of a company that strives for these goals to the best of its ability and that they are not just empty words or green washing, then Kao will develop into a good future on the basis of this credibility.

Employee engagement

We believe that when all Kao Group employees act with awareness of the Kirei Lifestyle, both as consumers and as employees, we will all help achieve the goals set forth in our ESG Strategy, the KLP. For this reason, we continue to take steps to cultivate employee engagement, providing employees with information and inspiration that have the potential to spark actions on their part. We have also launched an awareness-raising program to share the knowledge and globally minded approach that are needed to implement ESG-driven *Yoki-Monozukuri*.

Three aspects of employee engagement



Learning the “why” in the Kirei Lifestyle Plan Caravan

We have continued the Kirei Lifestyle Plan Caravan activities carried out the previous year, where employees primarily at divisions in Japan talk directly with the head of the ESG Division. The purpose of the activities is to have divisions understand why Kao is pivoting to ESG-driven management.

With the shift to working from home amid the COVID-19 pandemic, the sessions were switched to an online format, with content customized for each division. All sessions covered the established core topics of global trends surrounding ESG, the impact and value to Kao's business and what opportunities we can explore to make a difference to society.

Some examples of specific changes include: having participants watch a video lecture by the Senior Vice President of the ESG Division, collecting questions on ESG before sessions, adding division-specific content to sessions, and switching to a format where all participants take an active role in the sessions.

In 2020, a total of seven sessions were held, with more than 1,000 employees participating in them.

In questionnaires sent out after the sessions, more than 60% of employees replied that they were able to deepen their understanding of ESG, meeting

our target and laying the groundwork for future action.

These activities will be extended to other parts of Asia starting in 2021. We are planning to raise awareness among Kao Group employees in Asia while modifying the content corresponding with the new Kao Group Mid-term Plan K25.



Content has been modified to accommodate changes in work styles, including creating a video of the lecture by the Senior Vice President of the ESG Division.

Kirei Lifestyle Plan—Kao's ESG Strategy 102-43, 404-2

Empowering all employees knowledge and the “how” in order to implement the KLP

With the assumption that participants have already learned the “why” through the Kirei Lifestyle Plan Caravan, we have started creating an e-learning program to follow that activity. This is done to have employees learn more about the background to the Kao Actions that forms the basis for putting the KLP into practice. Employees also learn related information and about global approaches and standards, and gain more insight into our efforts.

As a first step, we launched a program on Decarbonization on our e-learning platform in November 2020. Looking ahead, we will develop and launch programs on Zero Waste, Responsibly Sourced Raw Materials and Lifecycle Assessment, which are key elements of our environmental actions. We are also planning to release program materials in English in FY2021, with the goal of encouraging Kao Group employees to embody the Kirei Lifestyle as consumers and as employees.



E-learning programs are created to give employees the knowledge that forms the basis for implementing the KLP.

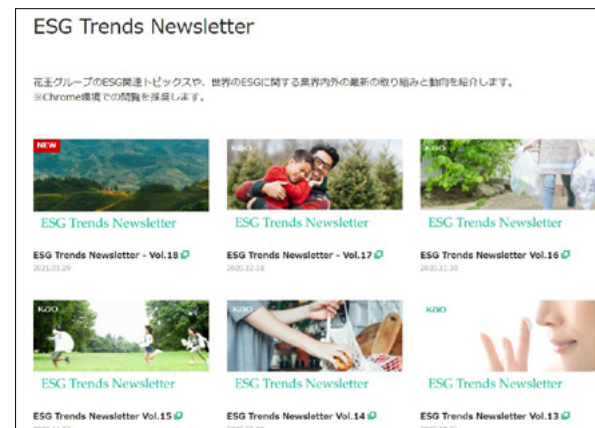
Continuing to improve receptivity to ESG information

Since August 2019, we have been publishing a global ESG newsletter that covers the latest trends and information about ESG from a global outlook as well as messages from the Senior Vice President of the ESG Division and sections introducing ESG activities at Kao Group business locations.

The initial content mainly focused on topics in Europe and the Americas. As we continue to develop the newsletter content, we have added information about trends in Asian markets. We will continue to add content, with the goal of inspiring Kao Group employees around the world.

The newsletter has so far been released on an internal portal, but we are also shifting in stages to sending out the newsletter via e-mail to better ensure that employees receive it and are able to read it when it is convenient for them. Other improvements include the ability to know when recipients open and read the newsletter as well as an upgraded comments feature, which will help us expand content that employees find interesting and relevant.

On December 2020, we conducted a questionnaire and held interviews on the KLP with employees across several divisions. We will use the information we obtained as we consider communication and community-oriented activities that enable employees to easily participate, and then shift to planning and carrying them out in 2021 and beyond.



The global ESG newsletter aimed at increasing employees' receptivity to ESG is published monthly.

Kirei Lifestyle Plan—Kao's ESG Strategy 103-1, 103-2, 103-3

Mid- to long-term targets

Individual mid- to long-term targets are set for each of the 19 Kao Actions.

Based on the mid- to long-term targets, divisions set sub-targets aligned with their business activities and conduct activities based on their plan.

To make more contributions to society through our activities, in 2020 we reviewed these targets through the ESG Committee and ESG Promotion Meeting. As a result of this, we have added new targets and revised some of our mid- to long-term targets. The applicable targets are noted in the table.

We were not able to present some of the 2020 results due to delays in establishing the evaluation methods or framework for collecting results.

For these targets, our anticipated timing for releasing the information is noted in the table.



→ For more information, please see p.232
Explanation of Kirei Lifestyle Plan Mid- to Long-term Targets.

Mid- to long-term targets for the 19 Kao Actions

Kao Actions	Indicator	Results		Mid- to long-term targets		SDGs
		2019	2020	Value	Year	
Making my everyday more beautiful						
Commitment	The number of people empowered to enjoy more beautiful lives—greater cleanliness, easier aging, better health and confidence in self-expression	—	Plan to disclose in 2022* ⁵	1 billion	2030	3,5,6,10,12,14,17
Improved quality of life	The number of products which contribute to a comfortable, beautiful, healthy life and touch the heart of people* ²	—	4.7 billion	7 billion* ²	2030	3,5,12,17
Habits for cleanliness, beauty & health	Cumulative number of people reached by awareness-raising activities for acquiring habits for cleanliness, beauty & health using Kao products and services (cumulative since 2016)* ²	30 million	34 million	0.1 billion* ²	2030	3,6,17
Universal product design	% of new or improved products that meet Kao's Universal Design Guidelines	44%	53%	100%	2030	10,12,17
Safer healthier products	% of targeted ingredients of concern on which views are disclosed	—	31%	100%	2030	3,12,14,17
Making thoughtful choices for society						
Commitment	% of Kao brands that make it easy for people to make small but meaningful choices that, together, shape a more resilient and compassionate society	—	Plan to disclose in 2022* ⁵	100%	2030	4,8,9,10,11,12,13,15,17
Sustainable lifestyle promotion	Cumulative number of people reached by awareness-raising activities for promoting environmentally friendly lifestyles and realizing a sustainable world (cumulative since 2016)* ²	2.61 million	3.07 million	0.1 billion* ²	2030	4,11,12,17
Purpose driven brands	% of Kao brands that make a contribution to solving social issues and that make people feel and sympathize with the brand's social usefulness	—	Plan to disclose in 2022* ⁵	100%	2030	12,17
Transformative innovation	Cumulative number of proposed or realized products with big positive impact on lifestyles (cumulative since 2019)* ³	2	3	10 or more	2030	9,12,13,17
	Cumulative number of proposed or realized businesses and systems with big positive impact on lifestyles (cumulative since 2019)* ²	—	1	10 or more* ²	2030	
Responsibly sourced raw materials	% of certified paper products and pulp for consumer products	91%	94%	100%	2025	8,10,12,15,17
	Confirm traceability to small oil palm farm	Completed for large plantations	Completed up to own farm managed by oil and fat supplier	Finish	2025	

*1 New target

*2 Change of indicator and target value

*3 Change due to enlarging scope

*4 Revised the *Find* employee survey to the employee engagement survey

*5 Reviewed detailed 2020 requirements

*6 Built 2020 data collection system

*7 See p. 65 and p. 115 for detailed information

Kirei Lifestyle Plan—Kao's ESG Strategy 103-1, 103-2, 103-3

Kao Actions	Indicator	Results		Mid-to long-term targets		SDGs	
		2019	2020	Value	Year		
Making the world healthier & cleaner							
Making the world healthier & cleaner	Commitment	% of Kao products that leave a full lifecycle environmental footprint that science says our natural world can safely absorb	—	Plan to disclose in 2022*5	100%	2030	3,6,7,12, 13,14,15,17
		Kao recognition or achievement level by external ratings firms	CDP Climate Change A, Water A, Forest (Timber) A-, Forest (Palm Oil) A-	CDP Climate Change A, Water A, Forest (Timber) A-, Forest (Palm Oil) A	Highest evaluation level	Every year	3,6,7,12, 13,14,15,17
	Decarbonization	% reduction in absolute full lifecycle CO2 emissions (Base year: 2017)	4%	4%	22%	2030	7,12,13,17
		% reduction in absolute scope 1 + 2 CO2 emissions (Base year: 2017)	9%	15%	14%*1	2025*1	
		% of renewable energy in electricity consumption*1	21%	28%	55%*2	2030	
	Zero waste	Quantity of innovative film-based packaging penetration for Kao and others per annum	—	1 million	300 million	2030	12,14,15,17
		Practical use of innovative film-based packaging made from collected pouches*1	—	Continued development	Products launch*1	2025*1	
		Use of PCR (recycled plastic) for PET containers*1	—	Plan to disclose in 2022*5	Plan to disclose in 2022*5	Plan to disclose in 2022*5	
		Quantity of waste not for recycling from factories and offices	—	Plan to disclose in 2022*5	Zero	2030	
		Reduction from discarded products and discarded sales promotion materials*1	—	Plan to disclose in 2022*1	Plan to disclose in 2022*1	Plan to disclose in 2022*1	
		% of products which have eliminated eye-catching plastic stickers*7*1	—	73%	100%*1	2021*1	
	Water conservation	% reduction in full lifecycle water use per unit of sales (Base year: 2017)	6%	-5%	10%	2030	6,12,15,17
		% reduction in full lifecycle water use per unit of sales in regions with water scarcity (Base year: 2017)	—	Plan to disclose in 2022*6	40%	2030	
	Air & water pollution prevention	% of factories which disclose VOC and COD emissions	VOC 0%, COD 100%	VOC 0%, COD 100%	100%	2025	3,6,12,14,17
Walking the right path							
Effective corporate governance	Kao recognition or achievement level by external ratings firms	Highest evaluation level (World's Most Ethical Companies® selection)	Highest evaluation level (World's Most Ethical Companies® selection)	Highest evaluation level	Every year	8,16	
	Number of serious compliance violations* per annum * Compliance violations that have a significant impact on management and significantly damage corporate value	Zero	Zero	Zero	Every year		
Full transparency	% of consumer product brands for which people can easily access complete ingredients information	—	8%	100%	2030	8,12,16,17	
Respecting human rights	% response rate to human rights due diligence (risk assessment across internal, suppliers, and contractors respectively)	Internal: 100%, suppliers: 20%, contractors: 0%	Internal: 100%, suppliers: 55%, contractors: 0%	100%	2030	5,8,10,17	
Inclusive & diverse workplaces	Affirmative answer rate to a question on “Inclusion and Diversity” on our employee engagement survey*4	—	Did not conduct	75%	2030	5,8,10	
	% of female managers	29.4% (% of female employees: 49.6%)	28.8% (% of female employees: 49.7%)	Same as % of female employees	2030		
Employee wellbeing & safety	Lost time accident frequency rate (per million hours worked)	0.78	0.53	0.1	2030	3,8	
	Average number of lost long-term work days (days/people) * Starting from Japan	129	146	105	2030		
	Ratio of employees who have lost long-term work days per one thousand employees * Starting from Japan	0.198	0.185	0.12	2030		
Human capital development	Affirmative answer rate to a question on “Development Opportunities & Climate” on our employee engagement survey*4	—	Did not conduct	75%	2030	3,4,5,8,10	
	Affirmative answer rate to a question on “Engagement/Employer of Choice” on our employee engagement survey*4	—	Did not conduct	75%	2030		
Responsible chemicals management	% of chemical products and raw materials with disclosed information of benefit and safety to ensure safe usage for our customers	—	Plan to disclose in 2022*6	100%	2030	3,6,12,14,17	
	% of areas where impacts on health, environment and safety from chemicals are managed responsibly and sustainably considering their stages from raw materials procurements to disposal	—	Plan to disclose in 2022*6	100%	2030		

*1 New target

*2 Change of indicator and target value

*3 Change due to enlarging scope

*4 Revised the *Find* employee survey to the employee engagement survey

*5 Reviewed detailed 2020 requirements

*6 Built 2020 data collection system

*7 See p. 65 and p. 115 for detailed information

Performance in 2020

Our 2020 performance and returns to business and society are as follows.

Beneficial effects on business

1. Business growth

Beneficial effects of products made with sustainability in mind

As a result of the COVID-19 pandemic in 2020, our unit sales of hygiene products (hand soap, hand sanitizer, home care products, etc.) grew and contributed significantly to business performance. Sales in the Skin care and hair care (Japan), which handles hygiene products, compensated for categories where business conditions were challenging due to the COVID-19 pandemic. Sales were 177.7 billion yen in 2020, with like-for-like growth of 7% over 2019.

Our consumer business in Japan saw sales decline 9.9%, from 899.6 billion yen to 811.0 billion yen. The ratio of environmentally friendly products was on par with the previous year, and these products made a definite contribution to sales similar to 2019. In addition, the 2020 sales ratio of products displaying the “eco together” logo (consumer products excluding cosmetics and human health care in Japan) was 28%, an increase from 27% in 2019.



→ p.77 Making thoughtful choices for society >
Transformative innovation: Recent new products and technologies developed through Essential Research

2. Cost reductions

Economic effects as a result of environmental conservation measures

We received an economic benefit of 4.1 billion yen in 2020. The largest factor was resource conservation, which contributed 2.6 billion yen.



→ p. 142 Making the world healthier & cleaner >
Environmental accounting

3. Risk reductions

As people were forced to stay home due to the COVID-19 pandemic in 2020, the Chemical was also impacted from a decline in industrial demand as a result of the worldwide economic downturn and lower demand for products people use when away from home, including lower unit sales of cosmetics.

Meanwhile, during the pandemic we implemented rigorous risk management measures, moved quickly to increase our ability to produce sanitizer and hygiene products, and were able to successfully target business opportunities by unswervingly implementing our ESG Strategy, which also enabled us to control company-wide risks.

4. Increased credibility

In February 2021, Kao was selected for the list of the World's Most Ethical Companies 2021® by the U.S. think-tank Ethisphere Institute. We have been named to the list for 15 straight years since the award's inception in 2007. We are the only Japanese company, and the only manufacturer of fast-moving consumer goods and chemicals in the world, to be honored for 15 consecutive years.

This recognition reflects the fact that the spirit of integrity passed down from our founder continues to be implemented by all Kao Group members in day-to-day operations through practice of the Kao Way and the Kao Business Conduct Guidelines.

Beneficial effects on society

Our primary activity that benefited society in 2020 was contributions to preventing the spread of COVID-19.

In Japan, per a government request we sharply increased our production of sanitizer some 20-fold over the previous year and supported people's ability to maintain stability in their daily lives. In Germany, we manufactured sanitizer to donate to hospitals based on a government request. We undertook similar activities to support people in Asia, the U.S. and the U.K.

We communicated useful hygiene information while delivering proven related products to consumers, contributing to infection prevention in the general public. For example, on our Japanese website offering hygiene information for daily life situations, we posted easy-to-follow videos to show people how to maintain hand hygiene and how to wash cloth masks. We also created a website with information from experts and research findings to communicate both information for medical professionals and information for the general public.

We are also delivering Multiunit Packages of Kao Products free of charge to medical professionals out of a desire to give everyone working on the front lines to protect lives from COVID-19 a small measure of relief and comfort. In return we have received many appreciative comments from healthcare facilities, relating how their staff working on the front lines of medical care settings were able to relieve some of their stress.

As a new activity in 2020, we participated in the ESG Disclosure Study Group. In this study group, we

will propose ways to disclose ESG information with the goal of contributing to enhancing dialogue between companies and investors. As there are growing calls to quantify corporate value and non-financial aspects, in 2018 we conducted a trial evaluation and converted our social impacts into monetary equivalents. In 2020, we continued examining the various methods under development and review around the world while collecting information and performing trial calculations.



→ Study on Returns to Kao's Stakeholders in FY2017
www.kao.com/content/dam/sites/kao/www-kao-com/global/en/sustainability/pdf/databook-2017-study.pdf

Changing business environment and Kao's response measures

As a result of the COVID-19 pandemic of 2020, some trends are expected to gain momentum in the coming years. We are leveraging the 19 Kao Actions defined in the Kao ESG Commitments and Actions to adapt and meet needs for these trends, with a focus on the conditions in the international society in which we operate.

Changes in consumers' awareness and behavior

The spread of COVID-19 has changed the awareness and behavior of consumers around the world. People now pay more attention to hygiene and are in the habit of wearing masks and washing and sanitizing their hands. As part of the Kao Actions "Improved quality of life" and "Habits for cleanliness, beauty & health," we will improve people's hygiene and safeguard their health and lives.

The COVID-19 pandemic has given rise to social unrest and a global economic downturn, increased people's dissatisfaction and surfaced social issues that existed before more prominent. We project that the movement to consciously choose companies that are working to solve these social issues and products with a social mission will gain greater momentum. We also believe that the drive for ethical consumption will grow stronger among Millennials and Generation Z, who will become the primary consumer groups in the future. We will respond to this trend with the Kao Action "Purpose driven brands," where we place more emphasis on brands' reason for existence than before and focus on the story behind the brand or

Kirei Lifestyle Plan—Kao's ESG Strategy¹⁰²⁻¹⁵

product to build empathy among consumers.

There is a greater degree of personalization and an ongoing shift in values from owning goods to having experiences. This involves not merely experiences but choosing a product that enriches one's spirit. Personalization is connected to the pursuit of being oneself, and this is a major element making up the Kirei Lifestyle. The experience value that many consumers have come to demand is in fact realized through "Improved quality of life."

Growing severity of human rights issues

The COVID-19 pandemic has shown a light on social issues that already existed. One of these issues is human rights. The Black Lives Matter movement started in the U.S. has brought attention to several issues at the same time, among them human rights, worsening work conditions, late payment of wages and inequality. As a company directly connected to consumers, engaged in society through the value chain and a corporate citizen in communities, we prioritize taking action to combat human rights abuses through the Kao Actions of "Respecting human rights" and "Responsibly sourced raw materials."

Aged society

Developed countries are already experiencing aging populations, and developing countries are also expected to have aging populations in the future. The Kao Actions "Improved quality of life" and "Universal product design" are important solutions for helping people live more comfortably as they get older.

Ocean plastic pollution

While attention continues to be focused on the problem of ocean plastic pollution, the COVID-19 pandemic has caused plastic use to rise in some fields. We believe that this in turn has created greater urgency to solve this problem. This situation can be considered a risk for us, since we use plastics in our packaging, but by implementing the Kao Actions of "Zero waste" and "Transformative innovation," we can contribute to society by reducing packaging and building a recycling system, leading to increased corporate value.

Climate change

Climate change has been one of the world's highest priority issues for some time and is receiving more attention with each passing year, including from the frequent occurrence of extreme weather events, stalled international cooperation and progressive moves by companies and the financial industry. Despite the COVID-19 pandemic, governments, companies and others have made ambitious commitments in 2020, and we believe this will become a major movement in the years ahead.

Suspended operations from extreme weather events and increased costs from strengthened regulations are risks, but taking aggressive action to fight climate change will reduce social costs and corporate financial risks. Meanwhile, the Kao Action of "Decarbonization" will help reduce CO₂ emissions not only in our own operations but also in the activities of consumers and our business partners. As such, by connecting lifecycle CO₂ reductions with "Sustainable lifestyle promotion," we believe that more customers and consumers will choose Kao

products and that we can increase our business opportunities.

Digital society

The COVID-19 pandemic has shifted more of our life online, from shopping to work to communication with others, amid restrictions on people's movements. Consumers are predicted to demand greater amounts of information when selecting products due to this trend. Part of "Making thoughtful choices for society" in the KLP is strengthening communication and marketing by increasing the amount of product information available pertaining to sustainability.

Meanwhile, digitalization will not only affect how employees work and bring greater efficiency and innovation to work processes and operations, but also encourage greater efficiency and innovation in social systems. We will advance the use of digital technologies to realize the Kirei Lifestyle among consumers.

Kirei Lifestyle Plan—Kao's ESG Strategy 102-12

Contributions to the SDGs

Looking ahead to 2030, Kao is focused on the Sustainable Development Goals (SDGs) that have been agreed upon and adopted by the international community. As indicators for realizing a sustainable society, the SDGs set forth an integrated approach for improving the economy, society and the environment. Contributions by companies are considered extremely important to achieving the SDGs.

As indicated below, we are working to address the Kao Action topics set in the Kao ESG Commitments and Actions with the aim of achieving the SDGs.

The SDGs that the 19 Kao Action topics contribute to

Kao Actions	1 NO POVERTY	2 ZERO HUNGER	3 GOOD HEALTH AND WELL-BEING	4 QUALITY EDUCATION	5 GENDER EQUALITY	6 CLEAN WATER AND SANITATION	7 AFFORDABLE AND CLEAN ENERGY	8 DECENT WORK AND ECONOMIC GROWTH	9 INDUSTRY, INNOVATION AND INFRASTRUCTURE	10 REDUCED INEQUALITIES	11 SUSTAINABLE CITIES AND COMMUNITIES	12 RESPONSIBLE CONSUMPTION AND PRODUCTION	13 CLIMATE ACTION	14 LIFE BELOW WATER	15 LIFE ON LAND	16 PEACE, JUSTICE AND STRONG INSTITUTIONS	17 PARTNERSHIPS FOR THE GOALS
Making my everyday more beautiful																	
Improved quality of life			●		●							●					●
Habits for cleanliness, beauty & health			●			●											●
Universal product design										●		●					●
Safer healthier products			●									●		●			●
Making thoughtful choices for society																	
Sustainable lifestyle promotion				●							●	●					●
Purpose driven brands												●					●
Transformative innovation									●			●	●				●
Responsibly sourced raw materials								●		●		●			●		●
Making the world healthier & cleaner																	
Decarbonization							●					●	●				●
Zero waste												●		●	●		●
Water conservation						●						●			●		●
Air & water pollution prevention			●			●						●		●			●
Walking the right path																	
Effective corporate governance								●								●	
Full transparency								●				●				●	●
Respecting human rights					●			●		●							●
Inclusive & diverse workplaces					●			●		●							
Employee wellbeing & safety			●					●									
Human capital development			●	●	●			●		●							
Responsible chemicals management			●			●						●		●			●

Kirei Lifestyle Plan—Kao's ESG Strategy ¹⁰³⁻¹

Impacts on society through the value chain

Our business activities have various impacts on society through the value chain.

The table below shows the 19 Kao Actions set in the Kao ESG Commitments and Actions, our ESG Strategy and their relationship to the value chain.

The items indicate areas where our impact on society is particularly large and where the expectations on us are similarly greater. These are high-priority areas for our business growth and increasing our corporate value.

Relationship between the 19 Kao Actions and the value chain

Kao Actions	Material procurement	Development / Manufacturing	Distribution	Sales	Use	Disposal / Recycling
Making my everyday more beautiful						
Improved quality of life				●	●	
Habits for cleanliness, beauty & health				●	●	
Universal product design				●	●	●
Safer healthier products					●	●
Making thoughtful choices for society						
Sustainable lifestyle promotion				●	●	●
Purpose driven brands	●	●			●	●
Transformative innovation	●	●			●	●
Responsibly sourced raw materials	●					
Making the world healthier & cleaner						
Decarbonization	●	●	●	●	●	●
Zero waste	●	●	●	●	●	●
Water conservation	●	●	●	●	●	●
Air & water pollution prevention		●			●	●
Walking the right path						
Effective corporate governance	●	●	●	●	●	●
Full transparency	●	●	●	●	●	●
Respecting human rights	●	●	●	●	●	●
Inclusive & diverse workplaces		●	●	●		
Employee wellbeing & safety		●	●	●		
Human capital development		●	●	●		
Responsible chemicals management	●	●	●	●	●	●

Stakeholder Engagement 102-40

Kao's important stakeholders include consumers and customers as well as suppliers, employees, local communities, national and local governments, non-governmental and non-profit organizations (NGOs / NPOs), academia, industry groups and peer companies, and shareholders and investors.

In the Kao Way, our corporate philosophy, we define our vision as this: "We aim

to be the global group of companies that is closest to the consumers and customers in each market, earning the respect and trust of all stakeholders."

Through two-way communication with stakeholders, we deepen mutual understanding and provide information useful to society and daily life, and use feedback we receive to improve our corporate activities and services.

Important Kao stakeholders

Employees

Recognizing that the vitality born from diversity supports our business growth, we create the conditions and culture that allow diverse employees to demonstrate their capacities and individuality to the maximum extent as well as enable both personal and company growth.

Consumers / Customers

We aim to utilize feedback in developing new products and services and improving products by listening to the concerns and opinions of consumers and customers and engaging in close communication.

Suppliers

We consider suppliers as our business partners vital to *Yoki-Monozukuri* and undertake procurement activities according to the Guidelines for Supplier's Assessment, including compliance with laws, regulations and social norms, protection of human rights, assurance of health and safety and fair trade.

Shareholders / Investors

We earn the trust and meet the expectations of shareholders and investors by striving to raise our corporate value, proactively disclosing information and engaging in communication activities.

National and local governments

Maintaining healthy and equal relationships with national governments is defined in the Kao Business Conduct Guidelines. Based upon this, we participate in and exchange opinions with government organizations that are closely related to our business. We also cooperate with local governments in efforts to resolve social issues in communities.

Local communities

We strive to co-exist with local communities by understanding the impacts of our business activities on local communities, conducting business activities to meet the demands of local communities and engaging in communication activities.

NGOs / NPOs

Through dialogue and collaboration, we gain a deeper understanding of society's demands, and we work together to resolve global environmental issues and issues faced by society through our business activities.

Academia

We not only share knowledge and broadly engage in opinion exchanges for mutual benefit, we also aim to make joint contributions to society and create innovative returns.

Industry groups / Peer companies

We contribute to the development of various industries by working to address common demands from society on a shared industry basis.

Stakeholder Engagement 102-40, 102-43

Stakeholder engagement

Stakeholders	Communication methods and frequency	Related pages
Employees	<ul style="list-style-type: none"> • Kao Forum: Twice a year • Welfare committees: Monthly • <i>Find</i> (employee survey): Every other year • Health and Safety Committee / Committee on Health and Welfare: Monthly • Standardization of systems: As needed • Equal Partnership promotion activities: As needed • Support for employee health: As needed • Communication events: As needed 	<ul style="list-style-type: none"> • Human capital development • Inclusive & diverse workplaces • Employee wellbeing & safety
Consumers / Customers	<p>Consumers</p> <ul style="list-style-type: none"> • Consumer consultations: As needed • Environmental events: As needed • Communication events: As needed • Communication center for <i>Relief</i> adult diaper users: As needed • Home visits to consumer monitors: As needed <p>Chemical and Professional-use Product Customers (Suppliers)</p> <ul style="list-style-type: none"> • Opinion exchange meetings with distributors: Twice a year • Workshop and plant tours for new employees at distributors: Every other year • Lectures on sanitation: As needed <p>Consumer Product Retailers (Suppliers)</p> <ul style="list-style-type: none"> • Business planning meetings with retailers: Twice a year • New product presentations: As needed • Product study meetings: As needed 	<ul style="list-style-type: none"> • Improved quality of life • Universal product design • Sustainable lifestyle promotion • Decarbonization • Zero waste • Effective corporate governance • Respecting human rights
Suppliers	<ul style="list-style-type: none"> • Quality Improvement Meetings: Yearly • Monitoring of compliance status with Guidelines for Supplier's Assessment: As needed • Supplier satisfaction surveys: Every three years • Vendor Summits: Yearly 	<ul style="list-style-type: none"> • Responsibly sourced raw materials • Zero waste • Effective corporate governance
Shareholders / Investors	<ul style="list-style-type: none"> • General Meeting of Shareholders: Once a year • Financial results briefings: Four times a year • IR roadshow: As needed • Small meetings with the President: As needed • Business briefings and facility tours: As needed • IR meetings: As needed • Briefings for individual investors: As needed • Reports to shareholders: Issued twice a year • Integrated Report: Issued once a year 	<ul style="list-style-type: none"> • Corporate governance • Investor Relations websites www.kao.com/global/en/investor-relations/
National and local governments	<ul style="list-style-type: none"> • Committees, councils: As needed • Opinion exchanges: As needed • Environmental events: As needed • Communication events: As needed • Educational curriculum proposals: As needed 	<ul style="list-style-type: none"> • Improved quality of life • Habits for cleanliness, beauty & health • Universal product design • Purpose driven brands • Decarbonization • Zero waste • Air & water pollution prevention • Respecting human rights
Local communities	<ul style="list-style-type: none"> • Corporate citizenship activities: As needed • Education in the classroom: As needed • Activity (plant tour): As needed • Meetings and collaborations with local residents: As needed 	<ul style="list-style-type: none"> • Improved quality of life • Habits for cleanliness, beauty & health • Purpose driven brands • Responsibly sourced raw materials • Decarbonization • Respecting human rights
NGOs / NPOs	<ul style="list-style-type: none"> • Opinion exchanges: As needed • Environmental events: As needed • Communication events: As needed 	<ul style="list-style-type: none"> • Decarbonization • Zero waste • Water conservation
Academia	<ul style="list-style-type: none"> • Information exchanges: As needed • Joint research: As needed 	<ul style="list-style-type: none"> • Transformative innovation • Employee wellbeing & safety
Industry groups / Peer companies	<ul style="list-style-type: none"> • Committees, councils: As needed • Opinion exchanges: As needed • Provision of products and services: As needed 	<ul style="list-style-type: none"> • Safer healthier products • Sustainable lifestyle promotion • Air & water pollution prevention • Responsible chemicals management

2020 Our initiatives

Realization of the Kao Corporate Philosophy	37
Making my everyday more beautiful	42
Making thoughtful choices for society	60
Making the world healthier & cleaner	87
Walking the right path	143
Kirei Lifestyle Plan KPI definitions	232
External evaluations and recognitions	238
Independent assurance report	242
GRI Standards table	243
ISO 26000 table	255
TCFD Index	257

Realization of the Kao Corporate Philosophy 102-15, 102-16, 103-1

The Kao Way embodies our corporate philosophy and is the foundation for our corporate culture and business activities. It is the source of our unique corporate identity and forms the essence of our corporate brand. As our cornerstone, the Kao Way provides consistency to Group activities, aligning our mission, purpose, culture, growth strategy and day-to-day decisions.

Kao Group employees share the Kao Way not as a manual or set of rules but as a foundation from which we are able to determine both the meaning of our work and the concerns we share.

ESG Keyword

Kao Way (corporate philosophy)

Internal branding

#oneKao (internal communication)

Kao's creating value to address social issues

Social issues we are aware of

Since our foundation, our reason for existing has always been to enrich the lives of consumers and contribute to society through *Yoki-Monozukuri*.

(*Yoki-Monozukuri* is the word we use to communicate our strong commitment to providing products and brands of excellent value for consumer satisfaction. The “*Yoki*” in *Yoki-Monozukuri* literally means “good” or “excellent.”)

Although our purpose and corporate identity have not changed, over the years our understanding of what constitutes a “*yoki*” or excellent product, brand, process or organization has evolved. Our management team is increasingly aware that the passion and motivation of our employees are a critical intangible asset that drives our ability to deliver on our aspiration to be a company that is essential to a sustainable society. We believe that each of our employees can only be motivated to deliver their best performance when they find their work personally meaningful. Therefore, we invest in creating a corporate culture where employees feel a sense of meaning and purpose in their work, and each

individual's sense of meaning and purpose connects to a strong shared mission, vision, values and principles: the Kao Way.

Kao's creating value

We invest in our employees for two reasons. First, as research shows*, this investment in the intangible asset of employees' motivation and sense of purpose ultimately leads to better financial performance. Second, we feel that providing meaningful work for employees reflects our commitment to the “S,” or social value, emphasized in ESG management.

We see these two goals as mutually reinforcing. We believe that sustainability will require human ingenuity and technological innovation. Kao has long appreciated the insights of famed management scholar Dr. Ikujiro Nonaka of Hitotsubashi University, an expert on knowledge creation. Following Dr. Nonaka's SECI model of knowledge creation, we invest in creating opportunities for our employees to reflect together on our shared purpose, because this strengthens trust and communication in our organization. By cultivating a high-trust culture where

employees are empowered to share their ideas and access each other's experience and tacit knowledge, we foster the conditions for innovation. As a result, we are more able to achieve the technical and process innovations necessary not only to create products that delight consumers and customers, but also to help us deliver on our commitment to contribute to a sustainable society.

* Gartenberg, C., Prat, A., and Serafeim, G., 2019, “Corporate Purpose and Financial Performance,” *Organization Science*, 30 (1), pp. 1–18.

Risks related to realization of What Kao Aims to Be by 2030

By 2030, we aim to create a corporate image of a company with a global presence. We understand that to achieve this goal we must develop a unique corporate identity and earn the respect and trust of all our stakeholders.

We consider employees to be an especially important stakeholder in achieving What Kao Aims to Be by 2030. Without the trust, creativity and passion of employees who embrace our corporate philosophy and align their actions with our core values, we will not be able to earn the trust of external stakeholders

Realization of the Kao Corporate Philosophy 102-12, 102-15, 102-16, 103-1, 103-2

or achieve our goal of becoming a positive presence in the global society by 2030. Therefore, we believe that it is critical to invest in communicating our corporate identity to employees to further establish the Kao Way as a “common language” across the Kao Group.

Opportunities related to realization of What Kao Aims to Be by 2030

The Kao Way is based on the values of our founder, Tomiro Nagase, who established Kao in 1887. The Kao Way was translated into various languages in 2004 and established as a framework for developing our global corporate culture the same year. These early efforts created a strong foundation for global communication of the Kao Way. We believe that this foundation will enable us to further strengthen our corporate identity and the values-based corporate culture required to achieve What Kao Aims to Be by 2030.

Contributions to the SDGs



Policies

We believe that the best way to strengthen our unique corporate identity and help each employee feel a sense of purpose in their work is not to enforce a uniform set of values and behaviors on them but rather to create the opportunity for them to reflect on their own values and how they connect to the Kao Way. It is critical to our internal branding and corporate philosophy communication strategy that employees are empowered to make their own connections between the abstract language of the Kao Way and their day-to-day business decisions.

Following best practices in internal branding as well as the insights of Dr. Yoshiaki Takao of Tokyo Metropolitan University, we concentrate on three goals in our corporate philosophy communication activities.

1. Awareness and understanding

Employees must know what the Kao Way is and have a basic understanding of its components. To achieve this, we ensure that the Kao Way has an established presence in our organization: the Kao Way is

displayed on a poster on the wall of every conference room, posted in a prominent spot on our corporate intranet, and referenced frequently by division leaders and managers in their routine workplace communication. We also ensure new employees learn about our corporate philosophy during the hiring process and receive a basic introduction to the Kao Way soon after they join the company.

2. Emotional engagement

For our employees to find a sense of meaning in their work, they must first develop a positive impression of our corporate philosophy and identify points where their own values and aspirations overlap with the Kao Way. To achieve this, we help managers conduct workshops across the Kao Group where participants can freely discuss what the Kao Way means to them and how they can practice it in their daily work. We ask each location and division in the Kao Group to conduct such workshops once every three years as a guideline.

3. Behavior

Employees must understand what the Kao Way “looks like” in practice, in the context of the specific routines and demands of their divisions and teams. To achieve this, we concentrate on developing leadership based on the Kao Way both through standardized cross-functional training sessions implemented by Human Capital Development, as well as department-specific Kao Way workshops and other trainings implemented by each department.

Realization of the Kao Corporate Philosophy 102-16, 103-2, 404-2

Education and promotion

The Kao Way was published in 2004, and Kao Way communication activities have been conducted on an ongoing basis since then.

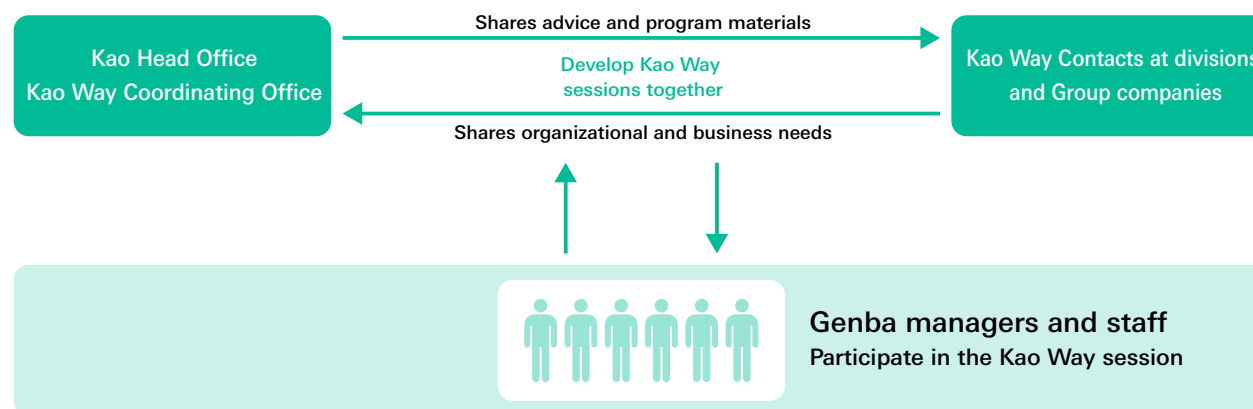
Line managers are the owners of Kao Way communication, and they have the right and obligation to design and implement Kao Way training sessions and other communication activities for their teams. The Kao Way Coordinating Office at our Head Office monitors global Kao Way communication activities and provides program materials and advice to leaders who request assistance in designing customized communications. The office also produces and distributes standardized Kao Way communication materials such as videos, pamphlets, and posters.

Framework

The Kao Way Coordinating Office supports managers within and outside Japan by maintaining a network of Kao Way contact persons at divisions and group companies. These “Kao Way contacts” share organizational and business needs with the Coordinating Office and work with it to develop programs customized for their division and company. The Coordinating Office communicates its priorities and strategy with the members of this network at an annual global meeting, and remains in frequent contact with them throughout the year.

The Kao Way Coordinating Office reports to the Senior Vice President of Corporate Communications. It presents an annual report on its activities to the Corporate Committee, and the content of this report is shared with the Board of Directors.

Framework for promoting Kao Way activities



Mid- to long-term targets and performance

Mid- to long-term targets

We intend to continue communicating the Kao Way globally in order to strengthen our unique corporate identity and develop a shared sense of purpose and strong values-based leadership across the Kao Group. By more firmly establishing our corporate philosophy as a “common language” across the Kao Group globally, we expect to strengthen employee identification with our corporate identity and, as a result, create both financial and non-financial value for society.



Anticipated benefits from achieving mid- to long-term targets

Business impacts

Realizing our goals will result in employees with a strong sense of shared purpose, which will result in more efficient use of employee time and more thorough, creative and brand-consistent use of our group assets. Although it is difficult to directly measure the return on investment of corporate culture and values communication, research shows that investing in the corporate brand to strengthen employees’ sense of meaning and purpose regarding

their work is correlated with stronger financial performance.

Social impacts

Strengthening values-based leadership and employees’ resonance with our unique corporate identity heightens our ability to practice our core value of *Yoki-Monozukuri* on a global scale, creating innovative value for consumers and at the same time contributing to the environment and becoming a positive presence in the societies we serve.

Performance in 2020

Performance

We have focused on activities to communicate the Kao Way globally for 16 years. As a result of these efforts, we have achieved a strong level of shared, group-wide understanding of the Kao Way, with manager recognition for the importance of values-based leadership.

In 2020, our three objectives (understanding, emotional engagement, and reflecting the Kao Way in one’s behavior) remained unchanged. Our operational structure and reporting lines also remained unchanged. However, due to the COVID-19 pandemic, we were not able to travel overseas or hold face-to-face workshops from March 2020 through the end of the year. We instead shifted to new methods to achieve our goals: online Kao Way sessions and digital content.

Therefore, in 2020, the Kao Way Coordinating Office set the following priorities:

1. Emphasize to all employees the importance of responding to the COVID-19 pandemic in ways that are consistent with the Kao Way

2. Pivot successfully from face-to-face communication to leveraging digital tools and content to ensure that the Kao Way remains an established presence in the organization and continues to have emotional resonance with employees
3. Support Kao Group employees as they adjust to working from home by offering online opportunities to connect with their coworkers and discuss the Kao Way

Reviews of performance

For 1:

- With the full support of the CEO and senior management, communications to employees about our response to the pandemic consistently referenced our commitment to the Kao Way.
- In collaboration with the Internal Communications Team, we created a special communications campaign called #oneKao to further emphasize to employees how Kao is responding to the COVID-19 crisis in line with the Kao Way.

For 2:

- We quickly reallocated budget and redesigned workflows to shift from face-to-face Kao Way sessions to online sessions and content.
- With the help of the Human Capital Development, we delivered Kao Way training to new employees in Japan via recorded video.
- We established new relationships with digital content production agencies to create timely videos and animations to engage employees around the world.

For 3:

- We held a series of online dialogue sessions under the above #oneKao campaign where employees could reconnect with one another and discuss our shared corporate philosophy.
- We collaborated with our overseas colleagues at Kao Industrial (Thailand) to implement an online Kao Way training session.

Our initiatives

Toward achieving our objectives

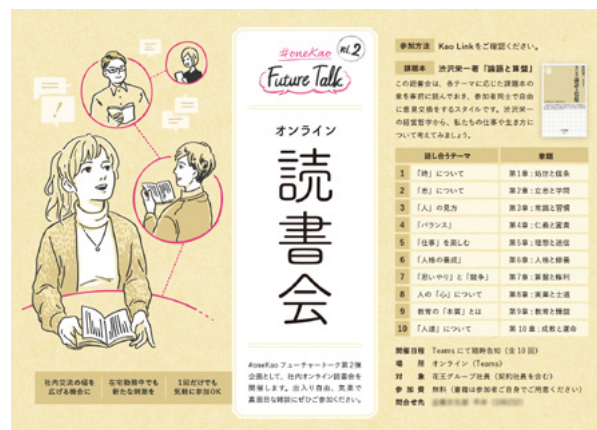
Details on our performance in 2020 are as follows:

- Page views of the #oneKao campaign on the corporate intranet: 27,467
- Participants in online #oneKao Future Talk dialogue sessions (held in Japanese): 82
- Participants from Kao Industrial (Thailand) in the online Kao Way training session: 540
- Participants in global new employee trainings (global excluding Japan): 1,678
- Participants in mid-career new employee trainings (Japan): 125
- Participants in new employee trainings (Japan): 532

Note: We also have two corporate museums, the Kao Museum and the Kao Eco-Lab Museum, which we invite employees to visit to further their understanding of the Kao Way. However, as these facilities were closed for much of 2020, we were unable to incorporate them into our Kao Way communication activities in 2020.



Invitation to the online #oneKao Future Talk corporate philosophy dialogue sessions



Flyer advertising an online discussion series as part of the #oneKao Future Talk campaign



Kao Way training

Scenes from the Kao Way training session facilitated jointly by Kao HQ (remote) and Kao Industrial (Thailand) (on site)

2020 Our initiatives

Making my everyday more beautiful

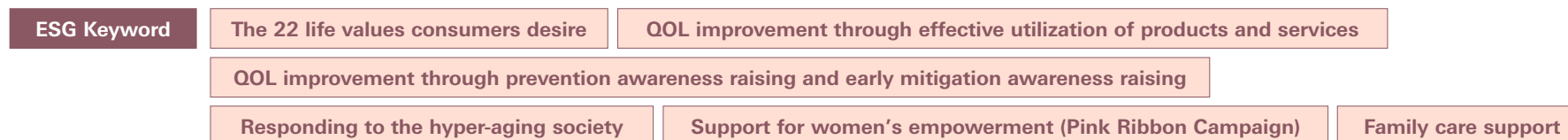
Improved quality of life	43
Habits for cleanliness, beauty & health	48
Universal product design	51
Safer healthier products	57



Improved quality of life 102-12, 102-15, 103-1



Help people to enjoy more beautiful lives through our products, services and communications.



Kao's creating value to address social issues

Social issues we are aware of

The social issues that can lead to a deterioration in quality of life (QOL) for consumers include not only issues relating to the global environment, such as the increased frequency of natural disasters resulting from climate change, but also changes in the social environment. We have identified five key issues affecting society that are closely related to QOL: global warming, changes in the hygiene environment, women's empowerment, the hyper-aging society and the diversification of society.

The COVID-19 pandemic has been accompanied by a rise in consumers' hygiene awareness, and an increased risk of infectious disease throughout the global community as a whole. Also, as women have come to participate more actively in society and the number of households where both partners are working has grown, there has been an increase in both emotional and physical stress relating to the need to balance work and household responsibilities, and in many cases, this has a detrimental effect on people's health.

As one of the first countries in the world to become a hyper-aging society, Japan is experiencing problems such as the social isolation of senior citizens and an increased burden on caregivers. The current situation is that not only senior citizens, but also members of other disadvantaged groups such as foreign residents and

people with disabilities, as well as people in general, are not necessarily receiving the services and products they need in order to live happily.

As a result of social issues such as these, many consumers are at risk of a significant lowering of their QOL in their lives.

The five key issues affecting the environment in which Kao operates, and the risk of reduced QOL for consumers

Global warming	Changes in the hygiene environment	Women's empowerment	Hyper-aging society	Diversification of society
Excessively dry skin due to increased ultraviolet radiation	Increase in bacteria and viruses Reduced immunity	Increased stress due to the need to balance work and child care and housework, which has an adverse impact on health	Increased burden on caregivers, social isolation for caregivers and loss of purpose in life	Racial discrimination, insufficient concern for people with disabilities and other socially disadvantaged groups

Kao's creating value

We will contribute to consumers' being able to realize authentic, comfortable and fulfilling daily lives. We will do this not only by offering products, but also by using our comprehensive capabilities to educate consumers across society. Additionally, in collaboration with stakeholders, we also strive to achieve sustainable QOL improvements.

We have established 22 life values consumers desire to ensure that our activities support our goal of

realizing authentic, comfortable and fulfilling daily lives through QOL improvement activities. Going forward, we will confirm the degree to which these lifestyle values have been realized each year, and improve our activities using the PDCA (plan, do, check, action) cycle.

The 22 life values consumers desire

Clean life	Hygienic life	Healthy life	Beauty preserving and cultivating life
Safe life with peace of mind	Invigorating life	Stable, peaceful life	
Ecofriendly life	Natural life	Family-oriented life	
Humanistic, socially beneficial life	Socially-integrated life with extensive human contact		
Life that is unconstrained by stereotypical gender roles	Free life where you can do what you want		
Independent life where you are not dependent on others	Life that benefits from new innovations and trends		
Simple, nonmaterialistic life	Comfortable life	Simple, convenient life	
Economical, thrifty life	Life with plenty of free time	Fulfilling life	

Contributions to the SDGs





Policies

Having identified five QOL impingement risks that may be associated with social issues or with social or environmental change, we have decided on key themes to address these risks, and we are taking action accordingly.

We have formulated action plans for the themes that we are addressing. There are three types of action plan: action plans that are being implemented company-wide, cross-category action plans and brand-specific action plans.

1. Company-wide ESG themes

New products that utilize new technology and activities that enhance QOL in new fields

2. Cross-category themes

Activities that enhance QOL across categories in a new way, in relation to multiple existing brands

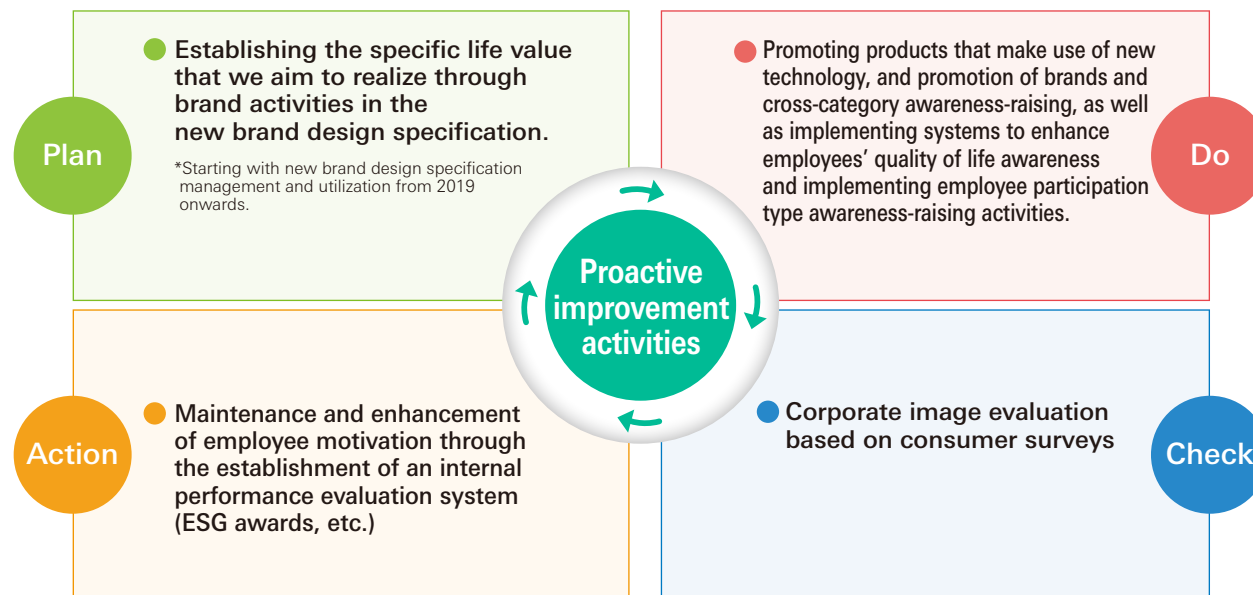
3. Individual brand-specific themes

Activities that enhance QOL at the level of individual brands

Education and promotion

With the implementation of a PDCA cycle that includes the proposal of products that use new technology, collaboration between employees, consumers and other stakeholders, the wide-ranging dissemination of information both within and outside the company, obtaining evaluations from third-party organizations, etc., we are constantly reviewing our activity themes and working to expand them.

PDCA cycle aimed at enhancing QOL





Collaboration and engagement with stakeholders

Deterioration in QOL can lead to physical and mental distress, and can be harmful to the health. In order to prevent QOL deterioration, besides utilizing products and services, in the future it will also be increasingly important to make use of prevention awareness raising and early mitigation awareness raising.

As the content and location of the awareness raising will vary depending on the consumer's age, gender, lifestyle and life stage, we are working to promote QOL enhancement by collaborating with stakeholders who have extensive contact with consumers.

Next-generation awareness raising

- Educational curriculum proposals for schools and other educational institutions that are in line with the Curriculum Guidelines formulated by Japan's Ministry of Education, Culture, Sports, Science and Technology

Raising awareness in relation to the aging of the population

- Measures in collaboration with local government authorities, which often constitute the most accessible opportunity for consultation for senior citizens

Women's health support

- Education for the next generation, etc., aimed at strengthening women's proactive self-management of their own health

Framework

The ESG Division will lead collaboration with our Business, Manufacturing, Supply Chain Management & Logistics and Sales divisions to promote ESG-based manufacturing, aimed toward promotion of the Kirei Lifestyle Plan (KLP). Each individual activity will be performed in accordance with the 19 actions of the KLP. Activity progress status reports are issued at company-wide ESG Promotion Meetings hosted by ESG Promotion, and progress for individual company divisions is monitored at monthly ESG Promotion Meetings.



→ p. 18 ESG promotion structure

Mid- to long-term targets and performance

2030 long-term targets

- The number of products which contribute to a comfortable, beautiful, healthy life and touch the heart of people
Target for 2030: 7 billion products
- Increase the number of new products that help to enhance QOL
- Increase the number of activities and initiatives undertaken in collaboration with national and local governments that help to enhance QOL

Anticipated benefits from achieving mid- to long-term targets

Social impacts

By increasing the number of new products that help to enhance QOL in the future, we expect to be able to expand brand recognition and brand usage rates. Our corporate image as a company that is working to improve QOL can also be expected to boost people's awareness of Kao.

Performance in 2020

- The number of products which contribute to a comfortable, beautiful, healthy life and touch the heart of people
Performance in 2020: 4.7 billion products

Due to the impact of the COVID-19 pandemic, the initiatives that we had planned to implement in collaboration with local governments in FY2020 had to be postponed until the following year.

Our initiatives

Support for women's empowerment through the Pink Ribbon Campaign

With increased female participation in society, higher female employment rates, an increase in the number of female managers, etc., society now offers more opportunities for women's advancement. At the same time, however, because of the trend toward later marriage and the fall in the percentage of women with experience of pregnancy and childbirth, there has been an increase in the incidence of female-only cancers, which has become a significant social problem. We support the Pink Ribbon movement, a global initiative that seeks to educate women about the importance of early diagnosis for breast cancer, and since 2007 we have been implementing the Kao Pink Ribbon Campaign. We are also undertaking development of related products that contribute to enhanced QOL.



→ Pink Ribbon Campaign 2020
www.kao.com/jp/pinkribbon/ (Japanese)

We are currently taking the following two activities as the main pillars of our support for women's health.

1. Preventive awareness-raising and donation activities that make effective use of Kao's resources

Since 2007, we have been implementing activities to communicate the importance of early diagnosis of breast cancer directly to customers through in-store *Sofina, est* and *Kanebo Cosmetics* counters, focusing mainly on Japan and the Asia region.

In 2020, a method for performing self-checks using *Body Lipid Wear* was introduced to customers at *Kanebo* outlets and via the *Kanebo* website. Part of the revenue from product sales was donated to a cancer education project.

In addition, our *Laurier* sanitary products brand implemented a limited-period brand-wide campaign to support women's health. During the campaign period, donations were made to activities that support women's health through a click-to-donate platform using a special website established for this campaign.



2. Providing support for activities to educate the next generation through Pink Ribbon Advisors

Since FY2018, we have been supporting the "Project of Cancer Education by Pink Ribbon Advisors*" (Organizer: Japan Society of Breast Health, certified specified non-profit organization).

Pink Ribbon Advisors who have experienced cancer visit junior high schools and high schools to give special lectures. The aim is for the advisors to use their own experience to help children develop an accurate and deeper understanding of cancer, thereby helping to boost cancer screening rates in the future, and also cultivate greater health awareness among the students' families and society as a whole.

In 2020, special lectures were given at five schools.



Special lecture given by a Pink Ribbon Advisor

Improved quality of life 102-43

* Pink Ribbon Advisors:

This is a certification program run by the Japan Society of Breast Health, an NPO, participants in which learn about cancer, cancer screening and treatment etc., and take a test to check their knowledge. Approximately 7,000 Pink Ribbon Advisors are undertaking awareness-raising activities throughout Japan, with the aim of creating a society that takes breast cancer seriously, by encouraging people to safeguard themselves from breast cancer, talk to their family and friends about breast cancer, encourage work colleagues to undergo breast cancer screening, etc.



→ Corporate citizenship activities: Support for cancer education through the Pink Ribbon Campaign
www.kao.com/content/dam/sites/kao/www-kao-com/global/en/sustainability/pdf/sus-db-2021-e-all.pdf#page=98

Product proposals to enhance QOL

CuCute Ato-raku Mist pre-dishwashing spray

CuCute Ato-raku Mist pre-dishwashing spray, which can be used when you are unable to do the washing-up immediately after eating, was launched in April 2020. Using CuCute Ato-raku Mist, dirt that has congealed and become difficult to remove can be washed off quickly and more easily than by leaving the dishes to soak. Ato-raku Mist also has antibacterial properties that retard the growth of bacteria during the period when tableware is left before being washed.

During the COVID-19 pandemic, we have received comments from people who are spending more time working at home noting that, because they tend to leave the dishes from lunch without washing them up immediately, they were delighted to have discovered this new product. By making it easy to just spray the

dishes and then leave them and do the washing-up later, for example when you are short of time or different members of the family eat at different times, or if you want to prioritize spending time with family members after meals, Ato-raku Mist makes washing up easier and more convenient.



CuCute Ato-raku Mist

Quickle Home Reset household cleaner

Quickle Home Reset, a foam cleaner / sheet cleaner household cleaning product which makes it possible to get rid of dirt and bacteria*¹ that can become a daily irritant from the whole house with just a single product, was launched in October 2020. This new product gets rid of a wide variety of different types of dirt throughout the house, as well as disinfecting*¹ and combating viruses*^{1, *2}. Quickle Home Reset dries quickly, doesn't leave marks, and doesn't require a second wiping off, making cleaning a less onerous task.

*1 Please note that this product is not effective against all types of bacteria and viruses.

*2 Testing has confirmed the product's efficacy against one type of enveloped virus.



Quickle Home Reset

Healia Deodorant Pads

Responding to comments from cancer patients living at home who find that the odors associated with cancer-affected parts of the body prevent them from going out, and who wish to maintain their former lifestyle as much as possible, in August 2019 Kao Professional Services Co., Ltd. launched Healia Deodorant Pads, which help to mitigate these odors.

The pads do an excellent job of deodorizing wounds that have a strong odor, and their soft cushioning effect is easy on the skin when they are attached to the wound area. They are also designed not to slip off easily. Besides sales to hospitals, Healia Deodorant Pads are also sold to ordinary consumers via Kao-direct, our official online shopping service, and have proved very popular. In the future, we will be working with hospital doctors and nurses to help improve the QOL of cancer patients who experience serious distress.



Healia Deodorant Pads



Habits for cleanliness, beauty & health 102-12, 102-15, 102-43, 103-1, 103-2, 404-2



Inspire and enable people to develop better habits for cleanliness, beauty and health through our products, services and communications.

ESG Keyword

Establishment of habits for cleanliness and hygiene

Awareness-raising activities for the next generation (hand-washing lessons, the Foaming Hand Washing Song and housecleaning lessons)

Working to prevent the spread of COVID-19

Kao's creating value to address social issues

Social issues we are aware of

The ongoing process of globalization has led to rapid improvements in people's lives. However, there are still significant differences between individual countries and regions in terms of the hygiene environment, for example with respect to the quality of the water supply.

In 2020, the spread of the COVID-19 pandemic throughout the world brought home to people once again just how important it is to maintain good hygiene.

Kao's creating value

Through our business activities, we develop products that support clean, beautiful, healthy lifestyles, and provide these products to consumers.

Rather than just providing products, we also undertake the proactive provision of information, and we consider awareness-raising activities that seek to instill habits for cleanliness, beauty & health to constitute very important initiatives.

Contributions to the SDGs



Policies

We support activities that help to establish a wide range of cleanliness habits, thereby enabling consumers to realize the Kirei Lifestyle they seek.

In the future, we will be adopting a more proactive approach to implementing activities that aim to promote adoption of good hygiene habits in the countries of Europe and the Americas, where people tend to be lax about hand-washing and mask-wearing, and also in the Asia region.

Education and promotion

As part of our efforts to encourage all Kao employees to participate in economic, ESG activities, we provide support for the implementation of visiting classes at schools, including hand-washing lessons.

Rather than selecting a fixed group of employees to act as instructors for the visiting classes, we recruit as widely as possible within the company using the company intranet. Employees who wish to participate in visiting classes as instructors undergo training in advance, and then act as instructors at least twice over a two-year period.

Kao Group Customer Marketing Co., Ltd. has also put in place a framework that enables its company employees, and the employees of individual

production plants, to participate in activities within their own area, to provide a means of fostering contact with the local community. New employees are informed about this system during their initial training, and Kao Group Customer Marketing is playing a leading role in creating workplaces where employee participation is facilitated.

After employees have participated in a visiting class, the participants' views and impressions are compiled in a report, which is then presented.

Collaboration and engagement with stakeholders

Our awareness-raising activities for the next generation have been developed as an educational program that can be utilized in schools. We aim to work together with government agencies, local government authorities, schools, etc. to further expand the content of these programs.

Habits for cleanliness, beauty & health 103-2, 103-3



Framework

Of the 19 actions included in our Kirei Lifestyle Plan, improved quality of life, habits for cleanliness, beauty & health, universal product design, sustainable lifestyle promotion and purpose driven brands are being promoted as a common framework.



→ p. 18 ESG promotion structure

Mid- to long-term targets and performance

2025 mid-term targets

- Cumulative number of people reached by awareness-raising activities for acquiring habits for cleanliness, beauty & health using Kao products and services
Target for 2030: 0.1 billion people

Within Japan, we will be using remote technology to support even more schools, with the aim of establishing good hygiene habits in all children.

We will also be working to disseminate accurate information and expand the scope of hygiene awareness-raising activities in the Asia region, and in Europe and the Americas.

Anticipated benefits from achieving mid- to long-term targets

Business impacts

Awareness-raising activities that make use of Kao products can be expected to facilitate the launch of hygiene-related products in more countries, and to create greater opportunities for consumers to use these products.

Social impacts

It can be anticipated that the adoption of habits for cleanliness, beauty & health will help to improve people's quality of life, improve public hygiene, and reduce the risk of infectious diseases.

Performance in 2020

- Cumulative number of people reached by awareness-raising activities for acquiring habits for cleanliness, beauty & health using Kao products and services
Performance in 2020: 34 million people

During the COVID-19 pandemic, we have worked actively to disseminate accurate information that is useful in preventing infection and fostering clean lifestyles.

In a period in which there was a severe shortage of masks, the information that we posted on our website about "How to wash cloth masks" was accessed around 15 million times.

We also provided translations of the Foaming Hand Washing Song, which makes correct hand-washing fun, into six different languages, so that it can be used all over the world.



→ Hygiene Information Useful in Daily Life
www.kao.com/jp/corporate/eisei/
(Japanese)



Our initiatives

Educational program to cultivate habits for cleanliness, beauty & health

Education for the next generation through providing education in the classroom and educational materials

As part of our education activities for the next generation, since 2009 we have been providing hand-washing lessons and housecleaning lessons as visiting classes for the lower grades at elementary schools. Over the ten-year period up until 2019, a total of around 90,000 children received either or both of these two types of visiting classes.

In 2020, the visiting classes had to be suspended because of the COVID-19 pandemic, but we made the teaching materials available free of charge so that teachers could teach the classes themselves. Besides providing Hand-washing Posters for approximately 20,000 elementary schools throughout Japan, we also uploaded materials for online teaching to our website. In 2020, around 60,000 children benefited from classes taught using hand-washing lesson materials provided by Kao.



→ Foaming Hand Washing Song
www.kao.co.jp/bioreu/family/hand/song/en/

Yoki-Monozukuri manufacturing to make acquiring the habit of washing your hands fun

In order for children to be able to grow up healthily, it is important for them to acquire hygienic habits from a young age. In particular, the habit of washing your hands is vitally important for having a hygienic, healthy life.

So as to help children—who represent the future—to learn proper hand-washing technique, we implement hand-washing lesson visiting classes that aim to get children washing their hands regularly.

In order that children will be proactive about putting into practice at home the correct hand-washing technique that they have learned in the hand-washing lessons, in 2019 we launched *Bioré u Whip Stamp Handwash*, a fun-to-use new product. Conventional hand soap products require the use of two hands to get the foam out, but with our new product the user can easily use just one hand to extract foam that comes out in a cute flower shape that can be carried in the palm of the hand. The soap comes out easily as dense foam in just the right amount, making this product a fun and enjoyable way to wash your hands.



→ Promoting Healthy and Inclusive Lifestyle: Cleanliness and hygiene

• Kao Hygiene Development Program in Vietnam
www.kao.com/content/dam/sites/kao/www-kao-com/global/en/sustainability/pdf/sus-db-2021-e-all.pdf#page=93

• Contributions to improving menstrual education and menstrual hygiene conditions
www.kao.com/content/dam/sites/kao/www-kao-com/global/en/sustainability/pdf/sus-db-2021-e-all.pdf#page=95

→ Promoting Healthy and Inclusive Lifestyle: Considerations for women and children (the next generation)

Support for school education through the provision of educational materials
www.kao.com/content/dam/sites/kao/www-kao-com/global/en/sustainability/pdf/sus-db-2021-e-all.pdf#page=99

Universal product design 102-12, 102-15, 103-1, 103-2



Develop products and services based on our Universal Design Guidelines that are easier for everyone to use.

ESG Keyword

UD considerations in relation to products

Barrier-free access to information

Initiatives to prevent ingestion accidents among the elderly

Kao's creating value to address social issues

Social issues we are aware of

Modern society is becoming both older and more globalized, while values and lifestyles are diversifying. More recently, the spread of the COVID-19 pandemic has brought about changes in attitudes to hygiene, emphasizing the need to provide the products that people need for everyone, including socially disadvantaged groups such as senior citizens, people with disabilities, and members of ethnic and religious minorities, etc. For this reason, we believe that it is vitally important for us to implement *Yoki-Monozukuri* manufacturing which creates products that are easily accessed and easy to use.

Kao's creating value

We have promoted development and provision of products that anyone can use easily under the basic concept of our consumer-focused *Yoki-Monozukuri*. Going forward, to contribute to the universal SDG target of leaving no one behind, we will deliver satisfaction and inspiration to all the consumers we serve, and strive to enrich people's lives.

To this end, we will implement manufacturing and provide products so that all consumers can enjoy a stress-free experience in the various stages of selecting, purchasing, using and disposing of products. We also aim to provide support so that

using our products will contribute toward a strengthening of the links between people and between people and society.

Risks related to realization of What Kao Aims to Be by 2030

Failure to provide products that anyone can use easily could lead to a heightened risk of improper usage and other safety issues. Furthermore, even products developed with safety in mind may be used improperly if not accompanied by easily understood guidance to promote safe usage. Failure in this regard could lead to a loss of trust in our products, and conceivably even to a loss of trust in the company itself.

Opportunities related to realization of What Kao Aims to Be by 2030

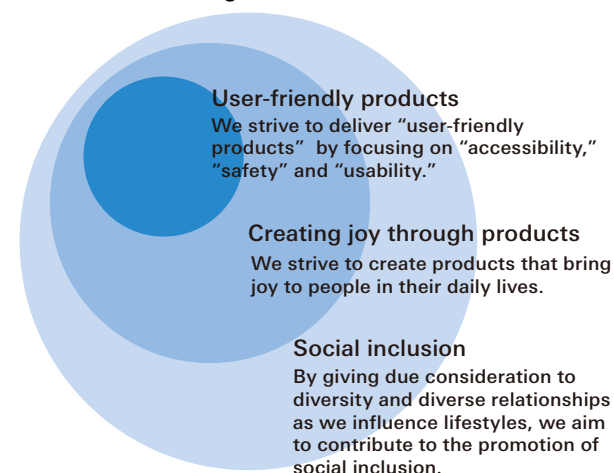
Helping to enrich the lives of people all over the world with Kao products will reinforce trust in our company as an enterprise that is vital to maintaining a sustainable society.

Contributions to the SDGs



Policies

Kao Universal Design Guidelines



We have worked to promote the fundamental guidelines of Universal Product Design: user-friendly products, creating joy through products and social inclusion.

Going forward, we will promote ESG-driven *Yoki-Monozukuri* throughout the company, and by delivering satisfaction and inspiration to all consumers in their daily lives through the use of Kao products, we will strive to become a consumer product industry leader in the use of Universal Design (UD).



Specific initiatives to achieve this are set forth below.

1. Adoption of the customer's viewpoint in the promotion of UD, from product awareness to consumption and final disposal in the home

Along with focusing on accessibility and usability as well as safety and security, we will disseminate easily understood product and service information at each stage from product awareness and selection to purchase and disposal.

2. Monozukuri Project promotion and strategic PR from a UD-centered perspective

We believe that for the socially vulnerable, UD is not merely value added, but is the value of the product itself. Going forward, we will launch UD-focused Monozukuri Promotion Projects in each business division that target senior citizens, who constitute a core group in Japan's super-aging society, and we will expand our offering of new products from a UD perspective.

We will also strengthen our information and service offerings that utilize information and communication technology, and collaborate with stakeholders including distribution companies and local governments, and actively convey the customer perspective.

Education and promotion

Deploying a structure for UD-centered manufacturing throughout the company

A cross-business approach is vitally important for UD promotion. Each business division will appoint a new

UD promotion leader to collaborate with our Consumer Communication Center, which features a consultation window that deals directly with consumer requests and feedback, as well as with R&D and Creative, to promote UD-centered manufacturing.

We have also established an internal ESG awards program, which formally recognizes new products with ESG impact. We will expand our lineup of UD-centered new products through reinforced and internalized employee awareness of UD.

Internal education system

We hold Workshops for Promoting Empathy with Elderly People, with the aim of helping our employees develop greater empathy for the elderly and a sense of direct connection with the problems they face. Taking into account the needs of infectious disease prevention strategies, we are also expanding the provision of online and virtual activities for our employees.

As our employees need to communicate with diverse groups of people, including senior citizens, we have been encouraging employees to study for the Universal Manners Test overseen by the Japan Universal Manners Association.

Collaboration and engagement with stakeholders

Manufacturing that reflects consumers' views

Kao's consumer support desk inside our Consumer Communication Center receives large numbers of consumer comments on and responses to Kao

products that are already on sale. We are committed to taking consumer feedback seriously in order to create consumer-oriented products that take consumers' views into account and embody them in product development and product improvements, and in the provision of information.

Exchanging information with consumer groups and consumer protection agencies

By exchanging information on a regular basis with government consumer protection agencies, including local consumer affairs centers, and with consumer groups, we are able to secure their understanding regarding the proper ways to use and dispose of products, which can help to prevent consumer issues from emerging in advance, and regarding risk prevention, ensuring product effectiveness from a hygiene perspective, and the key aspects of UD. We have also been able to win the support of local communities for our efforts to ensure that consumers can enjoy safe lives with peace of mind.

Framework

Of the 19 actions included in our Kirei Lifestyle Plan, improved quality of life, habits for cleanliness, beauty & health, universal product design, sustainable lifestyle promotion and purpose driven brands are being promoted as a common framework.



→ p. 18 ESG promotion structure



Mid- to long-term targets and performance

2030 long-term targets

1. Practice UD-centered manufacturing on a continuous basis

We will expand ESG-driven *Yoki-Monozukuri* from a UD perspective not only in Japan, but also globally. We will also promote the UD-centered *Yoki-Monozukuri* Project, which aims to solve social issues, and accelerate the release of UD-centered new products. To this end, we will undertake product development that takes third-party opinions from a UD perspective into account at an early stage, across all household products businesses, and this content will be disclosed outside the company.

2. Adopt a UD perspective when disseminating information

We will adopt a UD perspective in information dissemination and retail shop design. In particular, by 2025 we will fully utilize DX to provide information for all products that enables anyone to easily access and confirm what they need to know when selecting and using those products. At the same time, we will undertake the dissemination of information in collaboration with retailers and with the media so that senior citizens, who tend to have restricted access to information, can be sure of receiving the information they need.

We will also strive to ensure that as many people as possible can access vital hygiene information, in a stress-free way.

3. Promote understanding on the part of stakeholders

We aim to enrich the lives of people globally and to contribute to the sustainability of the world by spreading awareness of UD initiatives as widely as possible and fostering understanding of these measures among stakeholders.

Anticipated benefits from achieving mid- to long-term targets

Business impacts

The need to respond to the aging of society and the diversification of society so that all people can live healthy lives constitute global challenges. By utilizing our attention to detail to develop products that are easy to use for diverse groups of people throughout the world, we can enhance our global presence, which will also lead to growth as a brand and as an enterprise.

Social impacts

We believe that providing products that are easy to use for everyone, regardless of age, gender, disability, race, ethnicity, birthplace, religion or economic status, etc., and making consumers aware of our efforts in this regard, can itself contribute toward generating greater diversity among consumers.



Performance in 2020

Performance

1. Product development from a UD perspective

- Implementation rate of new and improved product enhancement from a UD perspective
Japan: 84%, 940 items
Europe and the Americas: 18%, 173 items
- We have launched a number of products that are designed to meet the needs of senior citizens, including *Quickle Mini Wiper*, which makes it easy to clean behind the toilet where it is difficult to reach without having to get down on your knees, and *Deepclean Shushudent*, which enables dentures to be cleaned easily in only around five minutes using spray technology.



→ p. 55 Our initiatives: UD considerations in relation to our products launched in 2020

2. Initiatives targeting diverse groups of people Initiatives to aid people with visual impairments

- We provided lifestyle information content, and our employees volunteered to help record narrated information, for *Home Life*, a voice-based magazine published by the Japan Braille Library.

Initiatives to aid people with hearing impairments

We have been promoting the airing of closed captioning TV commercials in regular broadcasts since 2011. So far, around 1,800 commercials (including commercials on the Kao website) featuring closed captioning have been produced. Commercials

that have not been broadcast on TV have been made available on the website. In addition, with the growing demand for information about correct hand-washing technique that has resulted from the spread of the COVID-19 pandemic, closed captions have been added to the animation content on the Kao website that teaches children how to wash their hands properly.

3. Promote understanding on the part of stakeholders

Due to the spread of the COVID-19 pandemic, we did not implement awareness-raising activities relating to our UD-driven initiatives in 2020. However, we strove to ensure the widespread dissemination of information, for example in relation to hygiene actions that households using our products can implement, by disclosing methods that anyone can use easily, and providing the evidence to show why they work.

Reviews of performance

We have been emphasizing the UD-driven aspects of product design when launching new products in Japan since 2012, and an emphasis on UD is now firmly established in all segments of our Household products. However, as the pursuit of UD is an ongoing process with no end-point, we recognize the need for a more objective assessment of our efforts in this area. Going forward, we will be considering seeking evaluation from third parties in addition to our own in-house evaluation.

Our initiatives

UD considerations in relation to our products launched in 2020

We are continuing to develop products that make it possible for diverse groups of people to use our products in a stress-free manner in different circumstances. In this section, we present some examples of how products that Kao launched in 2020 took UD into account.

Quickle Mini Wiper

Within the toilet area, the toilet floor is second only to the toilet seat in terms of concern about dirt and bacteria, but because cleaning the floor can be physically challenging, the frequency of cleaning tends to be reduced. With this in mind, in the autumn of 2020 we launched *Quickle Mini Wiper*, which makes it easy to clean even the part of the toilet floor behind the toilet bowl. *Quickle Mini Wiper* features a compact design with a small head and short handle. With half a *Toilet Quicle* sheet attached to the head, *Quickle Mini Wiper* makes it possible to clean even the difficult-to-reach area behind the toilet bowl easily without needing to get down on your knees.

We have received a great deal of positive feedback from people who have actually used, including comments such as the following: “Being a carer, cleaning the toilet was a real pain because I’d no sooner got it clean than it got dirty again. Now, cleaning behind the toilet bowl is really easy.” “Previously, I had had to press my head up against the toilet bowl in order to clean the floor properly. I am really pleased that it is now so much easier to clean it. This is exactly the product that I was waiting for.”

Since it was first launched in 1989, the *Quickle* brand has provided ways to perform cleaning easily and cheaply, in line with changes in home facilities, lifestyles and approaches to housework, thereby contributing toward the maintenance of clean lifestyles. In the future, *Quickle* will continue to make a positive contribution toward realizing happy lifestyles by providing consumers and society in general with even better products and services.



Employees' voice

Aiming to reduce the burden of toilet cleaning

Yosuke Natori

Development Leader*,
Product Development
Home Care Business, Kao Corporation



The toilet floor is one of those areas that you really want to keep clean, but because having to kneel down can be painful, and because your face is near the toilet bowl, people often find this task physically challenging, and feel reluctant to clean this area. By getting various different divisions within the company to work together, we developed a product that embodies our vision of making it easy for anyone to clean the difficult-to-reach area behind the toilet bowl, while emphasizing ease of use and functionality.

* As of December 2020

Bioré u The Body - Body Lotion for Wet Skin

Bioré u The Body - Body Lotion for Wet Skin is a whole-body moisturizing lotion that can be used on wet skin in the bathroom. For the first time, we have adopted a hanging-type container, utilizing the *Raku-raku Eco Pack Refill* container design, which was previously used for shampoo products etc., as a regular container. A *Raku-raku Switch* is used to make it possible to adjust the amount of liquid that comes out of the container's nozzle with just slight pressure. Not only does this reduce the amount of plastic used in packaging production, regarding usability, we have received positive feedback from consumers of all ages, including the following comments: "Because the bottom of the container doesn't come into contact with the floor, it doesn't get dirty." "The hanging-type container doesn't fall over, and it is easy for young children to use, so I have been able to get the kids moisturizing by themselves."

How the *Raku-raku Switch* and hanging-type pack are used



Attach the nozzle



Attach the hook



Hang it up

Promoting employee UD understanding

Holding a study session featuring a representative of the Accessible Design Foundation of Japan

In December 2020, we held an online internal study session on the theme of "Shared Products and Shared Services for the Inclusive Society," with the instructor being Mr. Yasuyuki Hoshikawa, Executive Director of the Accessible Design Foundation of Japan.

Mr. Hoshikawa provided wide-ranging insights and concrete examples relating to the promotion of UD. The participants, who mostly comprised team members involved in UD promotion within Kao, noted that they had gained a better understanding of the significance of UD promotion, as well as insights from outside the company, with comments such as: "The study session brought home to me once again the significance of, and vital importance of, the company's efforts to help realize the inclusive society as a business enterprise."

Going forward, we intend to continue providing internal study sessions and experiential activities, etc., in various formats.

Barrier-free access to information



→ Corporate citizenship activities > Barrier-free access to information
www.kao.com/content/dam/sites/kao/www-kao-com/global/en/sustainability/pdf/sus-db-2021-e-all.pdf#page=97

Initiatives to prevent ingestion accidents among the elderly

Not only children, but also adults can be involved in

accidental ingestion of potentially hazardous substances, such as detergents, bleach or cosmetics. In particular, the elderly and those suffering from dementia may have difficulty detecting taste or smell, or may have vision loss, making such accidents more likely and requiring vigilance from family members and caregivers. In addition, where accidental ingestion is followed by vomiting, aspiration pneumonia may develop.

Products involving the risk of accidental ingestion are equipped with warning labels, but to reduce risk further, we have prepared a booklet for the elderly and their family members to raise awareness of accidental ingestion risk, as well as stickers highlighting the risk of accidental ingestion by the elderly, for sticking on products. In 2020, all of the awareness-raising lectures that we had planned had to be canceled because of the COVID-19 pandemic, but we publicized accidental ingestion risk via our website and our consumer support desk. We received comments such as "When staff members see the stickers, it reminds them to be careful about where they put cleaning agents" from persons working at senior citizen care facilities that we have provided accidental ingestion risk awareness-raising materials to. We will continue to implement accidental ingestion risk prevention awareness-raising activities going forward.

Sticker highlighting the risk of accidental ingestion by the elderly



Front side of sticker



Back side of sticker (with explanation)

Safer healthier products 102-12, 102-15, 102-43, 103-1, 103-2



Create products made with carefully selected ingredients that people everywhere can use with peace of mind.

ESG Keyword

Safe and reliable ingredient use and information disclosure

Preservatives

Parabens

Plastic microbeads

Silicones

UV absorbers

Kao's creating value to address social issues

Social issues we are aware of

In recent years, with the development of social media including social networking services and blogs, a wide range of information is now easily accessible online. As a result, more consumers are expressing an increasing interest in the effects on human health and the environment of the ingredients used in daily products, as well as related social and ethical issues. In addition, today it has become possible for consumers to search for related information. At the same time, however, scientifically-unfounded, inaccurate information is also available on the internet, and such misleading information may spread as if it is the truth.

Kao's creating value

With so much information available, in order for consumers to feel peace of mind when using Kao products, we believe that it is necessary to disclose our approach to the ingredients we use, along with safety information based on scientific evidence.

Contributions to the SDGs



Policies

Safety is always our first priority. With this in mind, we care not only about human health and wellbeing but also about the environment when developing our products. Regarding ingredients with a high level of consumer interest, we disclose our approach, along with safety information that is based on scientific evidence, and we strive to develop products that can be used with peace of mind by customers and consumers. We also help consumers to choose suitable products and use them safely by providing appropriate, easy-to-understand product information.

Education and promotion

In order to promote the development of safer, healthier products, human and environmental safety information about our products and the ingredients is shared on our internal portal site. This information is shared with various divisions such as Business and R&D, so that each employee can enhance their understanding from a global perspective.

Collaboration and engagement with stakeholders

We continuously research the latest information regarding human health and environmental safety from all over the world and utilize it for raw materials selection, product safety evaluation and development of products that can be used with peace of mind. In addition, we closely review safety information through industry association activities in various countries and regions and communication with government agencies. These activities help us to provide science-based safety information to consumers and customers. We consider that enhancing the correct understanding of products and ingredients helps people to use our products safely, and helps them to choose suitable products.

Disclosure of information to customers and consumers

Under the current environment, customers and consumers can easily access incorrect or out-of-date information about the ingredients. So that customers and consumers understand information accurately, we deliver accurate information by disclosing our approach, along with science-based safety information.



→ p. 59 Safe and reliable ingredient use and information disclosure



Framework

We implement activities through a cross-divisional working group led by Product Quality Management under the ESG Committee and ESG Promotion Meeting, in collaboration with relevant functions around the world. The working group members discuss ingredients that society is particularly interested in by utilizing their expertise in order to examine the scientific information and deepen the understanding of social issues. We also have many discussions with the heads of relevant Business and R&D divisions, and then we disclose our approach along with safety information that is based on scientific evidence.



→ p. 18 ESG promotion structure

Mid- to long-term targets and performance

2022 mid-term targets

We establish our policy on ingredients that society is particularly interested in based on our research for available scientific evaluations of safety, and our evaluation of their validity. We are aiming to disclose our policy with respect to 8 ingredients by 2022, and with respect to all 16 planned ingredients by 2030.

Anticipated benefits from achieving mid- to long-term targets

Business impacts

We anticipate avoiding business risks and winning trust in our products by disclosing our approach with accurate safety information, and anticipate enhancing corporate value through the contribution to *Yoki-Monozukuri*.

Social impacts

We encourage customers and consumers to enhance their understanding of our products by sharing our approach together with safety information based on scientific evidence. This helps them to choose our products with greater confidence.

Performance in 2020

With regard to five product ingredients—preservatives, parabens, plastic microbeads, silicones and UV absorbents—about which there is a high level of interest in society, in December 2020 we have disclosed our approach to these ingredients, along with safety information based on scientific evidence on our sustainability website.

Reviews of performance

The working group held meetings constantly in order to thoroughly discuss the contents of each of the five ingredients, and drafted our policies. The draft policies were then reviewed by the heads of related Business and R&D divisions, and further discussed to finalize the policies for publication. We continue to proactively research ingredients in which society has a high level of interest from multiple perspectives, and strive to achieve our mid-term targets ahead of the schedule.



Our initiatives

Safe and reliable ingredient use and information disclosure

We actively share our approach to the ingredients that society has a high level of interest in. In December 2020, we disclosed our approach and safety information based on scientific evidence for five specific ingredients: preservatives, parabens, plastic microbeads, silicones and UV absorbents.

We internally organize management structure for ingredient information including health impact, environmental impact as well as fundamental information to promote disclosing our approach on more ingredients.



→ About Ingredients Contained in Kao's Products
www.kao.com/global/en/sustainability/topics-you-care-about/ingredients-contained/

Industry association activities / communication

To address environmental concerns relating to microplastics, including plastic microbeads, the Japan Cosmetic Industry Association, of which Kao is a member, has collaborated with its partner associations around the world. It has also coordinated scientific research and usage surveys in Japan, and provides information to the government. We play a central role in these activities and lead cosmetics industry activities in Japan. Furthermore, we actively participate in industry activities related to our business, such as those of the Japan Soap and Detergent Association and the Japan Chemical Industry Association. We also participate in industry association activities in other major regions of the world to research local information, and in particular in the ASEAN and other Asian regions, contribute to the exchange of information with governments.

Moreover, we strive for adequate communication with consumers and customers. For example, when we receive inquiries regarding our use of ingredients or their safety, we provide adequate information quickly. At the same time, we utilize inquiries to examine areas of high social interest, and to further improve our products.

2020 Our initiatives

Making thoughtful choices for society

Sustainable lifestyle promotion	61
Purpose driven brands	69
Transformative innovation	73
Responsibly sourced raw materials	79



Sustainable lifestyle promotion 102-15, 103-1, 306-1 (Waste 2020)



Enable people to live more sustainable lifestyles through information, services and products that save precious resources such as energy and water.

ESG Keyword

Lifestyle suggestions

Total elimination of eye-catching plastic stickers

Plastic cycling in collaboration with peer companies

Dissemination of information to consumers

Environmental challenges relating to container packaging (*Raku-raku Eco Pack Refill, Smart Holder, Raku-raku Switch, Air-in Film Bottle, Tube-Like-Pouch*)

Kao's creating value to address social issues

Social issues we are aware of

Our rich lifestyles are supported by consuming the planet's resources. Progress in science and technology has enhanced humanity's standard of living, but at the same time, inappropriate economic activity is exhausting resources and destroying the environment.

For example, average atmospheric concentrations of CO₂, which is a cause of global warming, have been increasing since the Industrial Revolution, and currently exceed 400 ppm. One of the causes is burning of waste. According to the Ministry of the Environment's FY2017 report on greenhouse gas (GHG) emissions in Japan, CO₂ emissions from waste disposal, including burning, for FY2017 totaled 29.8 million tons, an increase over FY2013 of 1.6%, and over FY2016 of 0.5%.



→ Ministry of the Environment report: GHG Emissions in Japan
www.env.go.jp/press/798.pdf

Japan's Consumer Affairs Agency report, Promoting Consumer-oriented Management, calls for businesses to realize their social responsibilities and conduct business activities that will lead to building a sustainable, desirable society, and as one major pillar to this end, to

provide consumers with abundant information and conduct two-way information exchange.



→ Consumer Affairs Agency report: Promoting Consumer-oriented Management
www.caa.go.jp/policies/policy/local_cooperation/local_consumer_administration/meeting_001/pdf/meeting_001_190416_0007.pdf (Japanese)

Building a sustainable society will require not only products and services that leverage enterprise strengths, but new sustainable lifestyle ideas and information.

Kao's creating value

Responsible consumption is also an important theme of the SDGs. Our mission is to support consumer cleanliness, beauty and health in daily life. This positions us to offer consumers new ways of living through products and services, and collaborate with consumers around the world to realize enrichment of the lives of people globally and contribute to the sustainability of the world.

Our aim is for a little adaptability and product selection on the part of consumers in daily life to contribute effortlessly to the realization of a sustainable society. We will achieve this through *Yoki-Monozukuri* and daily life solutions.

Risks related to realization of What Kao Aims to Be by 2030

We believe that if we cannot realize the sustainable manufacturing desired by society, or we are unable to offer products and services that change the way people live, there will be a negative impact on progress toward a sustainable society, we will lose the sympathy of consumers and society, and this will impair our brand value as well as our profitability and competitiveness in the market.

Opportunities related to realization of What Kao Aims to Be by 2030

Since our founding, we have strived to enrich daily life through our business activities by listening closely to consumers, and developing and accumulating our own unique technologies over a period of 130 years. We believe that by contributing to decarbonization and zero waste, water conservation, and air and water pollution prevention, we can help realize a sustainable society and demonstrate our commitment on a global basis.

In addition, through new ideas for living reinforced by educational and awareness-raising efforts, we are encouraging consumers around the world to make more sustainable choices, and by maximizing the results of those efforts, we are helping solve global environmental challenges.

Sustainable lifestyle promotion

102-12, 102-43, 103-1,
103-2, 306-2 (Waste 2020)



Contributions to the SDGs



Policies

To realize the goals embodied in “making thoughtful choices for society” and “making the world healthier & cleaner” in the Kirei Lifestyle Plan (KLP), we will actively promote technical innovations that are characteristic of Kao as well as lifestyle solutions, to realize sustainable human life.

By offering environmentally friendly, sustainable products, and receiving support for our products through the choices consumers make, we will build a sustainable society.

In addition, through our wide range of marketing, information dissemination, education and awareness-raising activities, we will strive to foster understanding by consumers themselves of the importance of sustainable lifestyles, and collaborate with them to promote contributions to sustainability.

Four actions

1. Propose sustainable solutions through manufacturing and products themselves
2. Disseminate information related to sustainable lifestyle solutions
3. Offer opportunities for hands-on learning
4. Conduct educational activities in collaboration with companies, organizations and public institutions

Through these activities, we will raise consumer awareness that the individual daily life choices they make can help realize sustainable lifestyles. In addition, through our contact with consumers and in-store sales promotions, we will promote awareness-raising activities for a range of topics, including the environment, water conservation and hygiene. Moreover, we are helping the next generation understand the importance of responsible choices.

Collaboration and engagement with stakeholders

Collaboration with our diverse stakeholders is essential to enhance consumer awareness and spark a movement to change people’s lives and lifestyles.

As such, we are promoting collaboration with stakeholders with respect to the following.

• Consumers

By providing information about the basic functionality of our products as well as guidance for their use, we promote reductions in environmental impact when the product is used.



→ p. 90 Making the world healthier & cleaner > Decarbonization / Collaboration and engagement with stakeholders: “eco together” with consumers / customers

→ p. 128 Making the world healthier & cleaner > Water conservation / Implementing education and activities based on “eco together” / Customers

• Corporate customers (retailers)

We maintain ongoing information exchange to provide in-store suggestions for realizing a sustainable lifestyle, and promote the achievement of highly productive logistics that incorporates the realization of work-style reforms.

• Suppliers

At each stage, from raw material procurement to production and transport, we coordinate with numerous business partners in our efforts to realize a sustainable society.



→ p. 128 Making the world healthier & cleaner > Water conservation / Implementing education and activities based on “eco together” / Business partners

• National and local governments

Today we are working with five local governments to collect used refill packs of soap, shampoo and other products, and promoting their reprocessing into resin.



→ Kao’s RecyCreation Project Gives Back in Kitami, Hokkaido
www.kao.com/global/en/news/sustainability/2019/20191128-001/



• Peer companies

The resource-circulating society cannot be realized by a single enterprise. An industry-wide change in awareness will be necessary. One symbol of this change is our collaboration with our industry peers to recycle film packaging.



→ RecyCreation activities in collaboration with Lion Corporation

www.kao.com/global/en/news/sustainability/2020/20200929-002/

www.kao.com/global/en/news/sustainability/2020/20201124-001/

Framework

The ESG Division will lead collaboration with our Business, Manufacturing, Supply Chain Management & Logistics and Sales divisions to promote ESG-based manufacturing, toward promotion of the KLP. Each individual activity will be performed in accordance with the 19 actions of our KLP. Activity progress status reports are issued at company-wide ESG Promotion Meetings hosted by ESG Promotion, and progress for individual company divisions is monitored at monthly ESG Promotion Meetings. Activities to totally eliminate eye-catching plastic stickers, and to promote the use of recycled polyethylene terephthalate (PET) bottles, were chosen at these meetings and are being promoted.



→ p. 18 ESG promotion structure

Mid- to long-term targets and performance

Mid- to long-term targets

- Cumulative number of people reached by awareness-raising activities for promoting environmentally friendly lifestyles and realizing a sustainable world
Target for 2030: 0.1 billion people

Based on two of the three commitments in the KLP (“making thoughtful choices for society” and “making the world healthier & cleaner”), we will raise awareness of more sustainable lifestyles in collaboration with consumers.

To help accomplish this, we will make the purpose of all Kao brands clear, and engage in a wide range of activities, including communication with consumers.

Anticipated benefits from achieving mid- to long-term targets

Social impacts

By raising awareness of sustainable lifestyles, we promote ethical consumption and solution of social challenges.

Business impacts

Aware consumers choose Kao products actively. This leads to greater loyalty to Kao products, and enhances our brand value, profitability and competitiveness.

Performance in 2020

- Cumulative number of people reached by awareness-raising activities for promoting environmentally friendly lifestyles and realizing a sustainable world
Performance in 2020: 3.07 million people
- Strengthening in-store sales of *Smart Holder*
- Launch of products using *Raku-raku Switch*
- *Air-in Film Bottle*-equipped product sales launch in the U.S.
- Launch of activities to eliminate eye-catching plastic stickers (attention stickers) attached to packages
- Recycled PET for use in PET bottles. Start using them with improved *Attack Zero* and *CuCute Clear Foam Spray* in spring 2021

Reviews of performance

In 2020, as planned, products were offered with innovative packaging technologies. We also began to employ recycled materials, including recycled resin. Specific targets will be formulated in FY2021.

Also due to the impact of the COVID-19 pandemic, activities to eliminate the use of eye-catching plastic stickers were affected for some products, but due to strengthening of sales promotion and of other measures, we anticipate complete elimination in 2021, as planned.

These activities have drawn praise on social media and are being received positively. Going forward, in addition to the use of recycled materials, we will develop recycling technologies and install recycling infrastructure. As part of this initiative, we have begun RecyCreation Field Testing in collaboration with Lion Corporation.

Our initiatives

Solving problems through *Yoki-Monozukuri* manufacturing and through products

We have created environmentally friendly products and product packaging innovations—exemplified by our sustainable detergent base, single-rinse laundry detergents and rapid-rinse dishwashing detergents and shampoos—and promoted sustainable lifestyle solutions based on manufacturing and products themselves.

In 2019, we commercialized products using Bio IOS sustainable detergent base. During 2020 in particular, we proposed various new packaging concepts.

Addressing the environmental challenges presented by containers

We announced our intention to transition almost completely from plastic bottles to refillable film containers for products like shampoo and conditioner by 2030, and are aiming to deploy new technology effectively to reduce the environmental impact. In addition, we have set a goal of boosting production of environmentally friendly containers to 0.3 billion units by 2030.

We have strived to drive adoption of disposable refill pouches, which have reduced plastic waste from original containers by approximately 78%, as well as *Raku-raku Eco Pack Refill* containers, which have reduced the same type of waste by around 80%. Now we are working to accelerate the propagation of these products even further and develop new technologies to further bolster their effectiveness.

Full-scale in-store sales of *Smart Holder*

Installing the *Raku-raku Eco Pack Refill* lets you use the product repeatedly without refilling, and with our

proprietary *Smart Holder* pump, you can use nearly all of the contents.

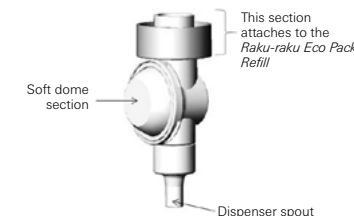
After the product was developed in 2017, it was available principally online, but through collaboration with retailers, in-store sales have begun. We will promote the product widely.



→ Kao Is Working to Accelerate the Shift Away from Rigid Plastic Bottle Use
The Full-Scale Launch of In-Store *Smart Holder* Sales Starts This Spring in Japan
www.kao.com/global/en/news/sustainability/2020/20200317-002/

Launch of products using *Raku-raku Switch*

We introduced products equipped with *Raku-raku Switch*, which when attached to *Raku-raku Eco Pack Refill*, makes it easy to dispense a uniform amount of liquid with a light touch. Compared to bottles with pumps, *Raku-raku Switch*-equipped products are reducing the amount of plastic used by around 50%.



→ Launch of the *Raku-raku Switch* for Dispensing a Fixed Amount from Film Packaging with One Light Push
www.kao.com/global/en/news/sustainability/2020/20200826-001/

Sustainable lifestyle promotion 301-2, 306-2 (Waste 2020)



Launch of *MyKirei* by KAO using *Air-in Film Bottle*

MyKirei by KAO, launched in the U.S. in April 2020, uses a revolutionary *Air-in Film Bottle* as its original container. While consisting of film alone, the insertion of air allows the bottle stand on its own and function as primary packaging. Compared to bottles with pumps, this container is reducing the amount of plastic used by around 50%.

We are planning to extend the *MyKirei* by KAO brand, which embodies the Kirei Lifestyle, to a wide range of products.



Air-in Film Bottles



→ Kao USA, Inc announces the launch of *MyKirei*: New product collection inspired by the Kirei philosophy promotes sustainability and simplicity, without sacrifice
www.kao.com/global/en/news/sustainability/2020/20200407-001/

Launch of products using *Tube-Like-Pouch*

Tube-Like-Pouch uses material featured principally in our film packaging for refill packs as the original product container. As a result, use of plastic is reduced by 50%, and nearly all the liquid can be dispensed.

We are offering *Tube-Like-Pouch* containers for our *John Frieda* hair care brand products, which we market in Europe and the Americas. In July 2020, we offered these containers in-store and online at the U.S. retailer Walmart on a limited-edition basis.



Tube-Like-Pouch



→ Innovative Packaging Using 50% Less Plastic Launched by *John Frieda* Hair Care
www.kao.com/global/en/sustainability/topics/sustainability-20201007-001/

Activities to eliminate eye-catching plastic stickers completely

While eye-catching stickers made of plastic can convey product advantages or instructions for correct product use, they also lead to increased plastic waste and CO₂ emissions when burned. We aim to eliminate the use of

eye-catching plastic stickers by the end of 2021.

We will achieve this by moving information from conventional sticker to product bottle, and using other means to convey needed information. When it is essential to convey information regarding the use of the product, we use FSC-certified or other certified paper.

The impact of COVID-19 slowed the elimination of stickers for some products, but by the end of 2020, they had been eliminated for around 70% of items. We expect total elimination to be completed as planned by the end of 2021.



Eye-catching plastic sticker used

Eye-catching plastic sticker eliminated



→ Kao Is Promoting the Elimination of the Use of Eye-Catching Plastic Stickers on Products
www.kao.com/global/en/news/sustainability/2020/20200317-001/

Use of recycled PET in PET bottles

We are investing effort in Innovation in Recycling toward the realization of a circular society for plastics. Our goal is to use recycled PET in all of our PET bottles.

We are already using bottles made of 100% recycled PET in containers of *Attack ZERO* and *CuCute Foam Spray*, which were launched in spring 2021.

We will promote the transition to recycled PET containers by focusing on products most frequently used by consumers and which therefore have the

greatest impact on the environment.

Note: Excluding colorants, label film, pumps and caps

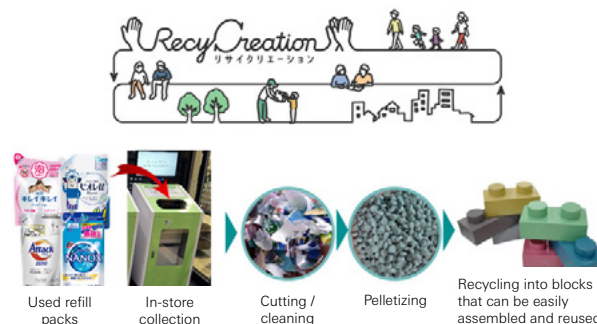


→ Kao to Start Using 100% Recycled Plastic for its Bottles in Japan

www.kao.com/global/en/news/sustainability/2021/20210331-002/

Launch of Recycling Field Testing activities in collaboration with Lion Corporation

To carry out field testing for segregated collection of used refill packs, we have begun working with Ito-Yokado Co., Ltd. on RecyCreation activities. Special recycling boxes are placed at stores for consumers to return used refill containers of detergent, shampoo and other products from Kao and Lion Corporation. Refill packs collected in this way can be recycled into blocks and other shapes for a variety of uses, such as events to convey the importance of recycling.



→ Kao and Lion Begin Collaboration on Recycling Field Testing

www.kao.com/global/en/news/sustainability/2020/20201124-001/

Disseminating information related to sustainable living

Dissemination and sharing of information with consumers

We use our website, social media and corporate communication activities to disseminate and share a wide range of information with stakeholders. These efforts convey our activities to consumers, and enable us to reflect consumer opinion in *Yoki-Monozukuri*.

We use principally the following to disseminate and share information relating to sustainable lifestyles with consumers.

Kao Plaza

Kao Plaza is a community website for loyal Kao users in particular and consumers in general. We profile not only sustainable lifestyles but a wide range of our activities, and share opinions from consumers (member registration may be required).

In 2020, our profile of efforts to eliminate eye-catching plastic stickers generated significant consumer feedback.



→ Kao Plaza: Project to eliminate eye-catching plastic stickers

webmember.kao.com/jp/kaoplaza/contents/esg/001/?taskid=T0000101362&adobe_mc=MCMID%3D53678356976548077853734051239738041008%7CMCORPID%3D952B02BE532959B60A490D4C%2540AdobeOrg%7CTS%3D1605682068 (Japanese)

→ Communication with consumers

www.kao.com/content/dam/sites/kao/www-kao-com/global/en/sustainability/pdf/sus-db-2021-e-all.pdf#page=77

Sustainable lifestyle promotion 102-43



Kao corporate website

Our corporate website is another means for sharing information on a wide range of activities.



→ Aiming to make our plastic packaging fully recyclable
www.kao.com/global/en/who-we-are/actions/recyclable-package/

Social media

We use social media extensively to disseminate information relating to our activities. We listen to consumers and draw on their opinions in our sustainability-related activities.



→ Kao Official Twitter
twitter.com/KaoCorporate_jp/status/1280695004147732481 (Japanese)

→ Kao Official Instagram
www.instagram.com/p/CEsgOtsD_MZ/ (Japanese)

Responding to questions from consumers

We are offering active support through social media, such as Yahoo! Chiebukuro, as well as our website, to consumers with housekeeping-and beauty-related concerns.

Our responses based on specialist knowledge are posted to social media, which enables other consumers with similar concerns to benefit from the responses.

→ Yahoo! Chiebukuro: Kao Official Support
chiebukuro.yahoo.co.jp/my/1020588266 (Japanese)

Offering ideas for living through product use

On our Go! Kurashi no Kirei website, we strive to achieve social impact by advocating environmentally friendly living through our product communication, and by raising consumer awareness of sustainable lifestyles.



→ Go! Kurashi no Kirei (lifestyle information website)
www.kao.co.jp/lifei/support/ (Japanese)

Sustainable lifestyle promotion 102-43



Awareness-raising activities carried out with society, organizations and public institutions

Using opportunities to raise public awareness

Participation in Sustainable Brands 2020 Yokohama

Among the many presentations relating to such social issues as climate change and human rights that were held at the international conference, we profiled our activities aimed at making consumers agents of change, using the issue of plastic waste as a case study. In addition, our corporate booth featured a display relating to our activities to reduce the use of plastics.



The Senior Vice President of ESG addresses the conference



Booth displays profiled our KLP and activities to reduce the use of plastics

Participation in EcoPro Online 2020

We participate in the EcoPro exhibition every year to profile our activities. During the 2020 exhibition, which was held online, we gave a presentation titled Kao's Plastics Strategy, which outlined measures to reduce ocean plastic pollution.



→ EcoPro Online 2020
eco-pro.com/2020/ecopro/1125_2.html (Japanese)

The Kao International Environment Painting Contest for Children

Our International Environment Painting Contest for Children aims to raise environmental awareness among the next generation, with paintings expressing how we should preserve our critical global environment for the future.

Our 11th contest, held in 2020, drew a total of 12,884 entries from around the world.



11th "eco together" Planet Earth Grand Prix
Artist: Liang-En Yu (age 8)
Title: The Color of Future



→ Kao Announces Winners of the Eleventh Kao International Environment Painting Contest for Children
www.kao.com/global/en/news/sustainability/2020/20201130-001/

Employees' voice

Ways to eliminate eye-catching plastic stickers

Momoko Tanaka

Bioré u Soap*, Skin Care Business,
Health & Beauty Care,
Kao Corporation



We wanted to convey the gentle, user-friendly qualities of *Bioré u* to consumers without using plastic eye-catching stickers. However, the limited surface area of the bottle made this difficult.

The solution was to arrange and condense the information in the original container and refill pack in order to convey it with maximum efficiency.

There are many different ESG initiatives under way, but I would like to find ways to contribute through the products I am handling.

* As of December 2020

This message regarding employee innovation and views on sustainable lifestyles with respect to activities to eliminate eye-catching plastic stickers, was originally posted on the Kao Plaza community website.

Purpose driven brands 102-12, 102-15, 103-1



Every Kao brand will have a purpose that offers solutions to social issues within the communities or societies it touches.

ESG Keyword	Our brand's purpose	Changes in consumer awareness	Products that make a positive impact on society and the earth
	Education for the next generation	Responding to a super-aging society	

Kao's creating value to address social issues

Social issues we are aware of

The situation we live in is changing dramatically—globally, there are environmental issues such as climate change and marine plastics, and within Japan, an approaching super-aging society along with diversity in values and in race.

As with changes in society and the global environment, consumer awareness is also changing. Not wanting to add to waste caused by mass consumerism and purchasing, in response to this more steps are being taken to choose only those things which are necessary. In light of this, the definition of the concept of ownership is as something owned by a single individual is expanding to include sharing. Now there is demand for a mindset where lifestyle is something created together with consumers.

Kao's creating value

We aim to setting a clear purpose for each of our brands, and with our various practices, foster empathy and activity through communication between stakeholders such as consumers, in order to enrich the lives of people as well as contribute to the sustainability of society as well as the Earth.

Contributions to the SDGs



The social issues each brand contributes to depend on its category and the value it provides. For example, in order to contribute to the fundamental SDG goal of “no one will be left behind,” we are developing and providing easy-to-use containers for our products. The zigzag notches on our shampoo bottles make it possible to distinguish shampoo from rinse through touch. This enables not only people with visual impairments, but anyone with their eyes closed to identify bottles by touch when washing their hair.

Regardless of disability or age, we strive to develop products that are safe, easy to understand and easy to use for all people.

In addition, our products that require fewer rinse cycles and less quantity save on water and electricity, helping to reduce environmental impact.

Each of our brands has a different purpose based on various social issues, and by responsibly manufacturing products and providing them to consumers, we believe that their usage is able to contribute to the achievement of the 12th SDG Goal.

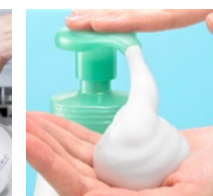
Containers that anyone can easily use



Shampoo bottle notches



One-hand push type *Attack ZERO* dispenses liquid with light touch



Hand soap that easily allows children who experience difficulty creating enough foam using regular soaps to dispense enough foam to cover their entire hand



➔ Easy to Use for All—Tactile Marks on Shampoos
www.kao.com/global/en/sustainability/topics-you-care-about/universal-design/shampoo-notches/

➔ History of Major Initiatives
www.kao.com/global/en/sustainability/topics-you-care-about/universal-design/initiatives-history/

➔ “eco together”: Ways we can save water in our daily lives
www.kao.co.jp/lifei/support/50/ (Japanese)

Purpose driven brands 102-43, 103-2, 404-2



Policies

When it comes to Kao's brand purpose, we refer to what positive impacts we can make on daily life, society and the Earth.

The activities of our purpose driven brand include the following efforts: (1) an explanation of why the brand exists, (2) specific brand actions, (3) communication.

During our first year of these activities in 2019, we focused on (1) an explanation of why the brand exists. From 2020 onward, we have been focusing on making changes in the world through the result of (2) specific brand actions, in order to give them meaningful purpose when it comes to consumers and society.

Education and promotion

Communication with consumers is essential for making a positive impact on daily life, society and the Earth. In order to achieve this, we provide educational training to staff in order to reconfirm the significance of our existence as a brand based on consumer perspective, working with ESG management and global unity.

In addition, conveying brand attitude and participating in awareness-raising activities in order to create social change together with consumers is important. For instance, with *Bioré u*, we were able to develop a foam hand soap that makes hand washing easier, along with a Foaming Hand Washing Song children can enjoy singing as they wash their hands with it.



→ p. 50 Making my everyday more beautiful >
Habits for cleanliness, beauty & health / Educational program to cultivate habits for cleanliness, beauty & health

Collaboration and engagement with stakeholders

Important stakeholders

Consumers are the most important stakeholders concerning our business activities. It's important to foster empathy and action by creating consumer awareness using various means beyond utilizing different types of media and storefronts. These means include school education for the next generation and working with local governments and worksites to take initiatives toward a super-aging society.

Next-generation awareness raising

As part of our activities to educate the next generation, since 2009 we have been providing hand-washing lessons as visiting classes for lower grades at elementary schools with our *Bioré u* brand, which promotes good physical hygiene.

However, in 2020, the visiting classes had to be suspended because of the COVID-19 pandemic, but we made the teaching materials available free of charge so that teachers could teach the classes themselves. Besides providing Hand-washing Posters for approximately 20,000 elementary schools throughout Japan, we also uploaded materials for online teaching to our website.



→ Foaming Hand Washing Song
www.kao.co.jp/bioreu/family/hand/song/en/

Initiatives for a super-aging society

In cooperation with local governments and worksites, we are working to extend healthy life expectancy through visualizing how much visceral fat they have at measurement sessions, encouraging citizens to walk and offering them healthy meal menus.

Under the *Healthya* brand, through the service LINE we are conducting a campaign that allows users to easily check their percentage of visceral fat.



→ Monitoring Health with *Healthya*
www.kao.co.jp/healthya/product/monitoring/
(Japanese)

Framework

Of the 19 actions included in our Kirei Lifestyle Plan (KLP), improved quality of life, habits for cleanliness, beauty & health, universal product design, sustainable lifestyle promotion and purpose driven brands are being promoted as a common framework.



→ p. 18 ESG promotion structure



Mid- to long-term targets and performance

2025 mid-term targets

Clarify the purpose of all of our brands. State the purpose of our brands in a way that is obvious to consumers, and promote consistent communication.

Following the completion of our educational training for brand managers in 2019, we clarified a purpose for each brand. From 2020, we began communicating these purposes publicly and began taking clear, concrete actions in line with them. By 2025 we aim to realize all target activities regarding each of our brands.

2030 long-term targets

Become a brand with meaningful purpose by appealing to consumer and social empathy by responding to consumer lifestyle, social and environmental issues through all of our brands.

In addition, we will formulate brand evaluation criteria to inspect the conditions of each brand in 2021 as we look toward 2030.

Anticipated benefits from achieving mid- to long-term targets

Business impacts

The support of meaningful brands leads to the growth of brands and the company, and as a result, makes it possible to invest in new social issues.

Social impacts

Through empathy and support from consumers, we are able to make a positive impact on daily life, society and the Earth.

Performance in 2020

In 2019 we reviewed our brand designs from the perspective of KLP, clarifying the purpose of each brand and what kind of positive impact it has on our lives, society and the Earth.

From 2020, we began taking clear, concrete actions in line with these purposes.

For example, we stated that both the purpose of our *MyKirei by KAO* brand, launched in the U.S. in April 2020, as well as our *athletia* brand, launched in Japan in February 2020, would be to contribute to a sustainable global environment.



Our initiatives

Brands launched in 2020 that epitomize the Kirei Lifestyle

MyKirei by KAO (by KAO USA in the U.S.)

MyKirei by KAO brand, epitomizing Kao's Kirei Lifestyle, was launched in the U.S. in April 2020.

MyKirei by KAO was created with the brand concept "Every facet of daily life is filled with caring," and a brand purpose of providing unique products with low environmental impact that anyone can use with ease, made possible through our Essential Research.

We used our company developed *Air-in Film Bottle* for the first time with MyKirei by KAO. Made with flexible materials, these bottles gain their rigidity through an air fill, allowing them to stand upright like a traditional bottle, and compared to pump bottles, uses 50% less plastic. Furthermore, our line of refills encourages consumers to keep using the same bottle pump again and again. Additionally, compared to other conventional bottles it allows one to finish using product in them with less liquid waste, making it more environmentally friendly.



MyKirei by KAO



→ Kao USA, Inc announces the launch of MyKirei
www.kao.com/global/en/news/sustainability/2020/20200407-001/

athletia (known in Japan as e'quipe)

athletia is for people who live active lives. It was designed for people of any gender or age. No matter how one's skin condition fluctuates, *athletia* preserves skin's natural suppleness. Launched in February 2020, it was founded on these concepts as well as controlling the balance between "dynamic" and "tranquil."

Everything from its ingredients and raw materials incorporates the concept of clean beauty, in consideration of its impact on people, society and

nature.

Common ingredients found in the brand such as *ashitaba* and perilla are cultivated on farms using circulation type agriculture free from agrochemicals or fertilizers, and 90%–100% of fragrances are derived from natural, plant-based essential oils.

We use as much recycled and bio-based materials for packaging as possible, and actively use recycled and recyclable materials for the interior, flooring, fixtures and decorations that make up our flagship store in Omotesando. We strive to make the best choices possible, aiming for a more sustainable future.



→ *athletia*
www.athletia-beauty.com/jp/ja/about-us/clean-beauty/ (Japanese)



Pursue Essential Research to unleash breakthrough innovations that help realize more sustainable lifestyles by solving social issues and easing people's pains.

ESG Keyword

Essential Research

COVID-19 measures

Solving ESG issues through technology innovation

Kao's creating value to address social issues

Social issues we are aware of

Technology innovation has contributed greatly to safer, more reliable lifestyles and societies, but today we are facing unprecedented challenges due to the COVID-19 pandemic. Science and technology are being harnessed to prevent infection as well as facilitate diagnosis and treatment as a top priority. Moreover, the United Nations (UN) has stressed the importance of science-based information and early, widely delivered healthcare guidance to address consumer fears of invisible viruses.

As the outlines of new-normal lifestyles emerge amid efforts to prevent infection, calls for a sustainable society continue to increase. The rise in plastic waste from increased use of face masks, gloves and protective products, as means for infection prevention, and increased use of packaging represents a challenge, but we believe it is time to reconsider the best form of the recycle-based society from a safety and reliability standpoint, while maximizing the role and advantages of plastic as a material.

As the UN's Sustainable Development Goal (SDG) 12 (Responsible consumption and production) states, it is our responsibility to realize efficient use and management of natural resources, waste reduction and lifestyles that are in harmony with nature, as well as a low-carbon, safe, reliable society. We are aware that expectations toward science and technology to facilitate these efforts are strengthening rapidly.

Kao's creating value

We conduct product development research to satisfy a broad range of needs with an awareness of changes in consumer lifestyles and society. We also conduct fundamental technology research that elucidates the nature of materials and phenomena in a wide range of areas, and creates functional materials and advanced technologies. We engage in each of these research themes with a high degree of specialist expertise that enables us to grasp their essence more deeply.

These two domains of research, product development and fundamental technology, complement and enhance each other continually. With respect to environmental change as well, we are capable of deploying knowledge and assets from both research domains swiftly, allowing us to present consumers with epoch-making ideas.

We are conducting R&D activities from three perspectives—human, social and environmental—so people all over the world can realize enriched lives.

The human perspective

We have strived since our founding to enhance consumer quality of life. The human perspective of our R&D activities means protecting consumers' lives as a top priority. We use knowledge we have acquired from Essential Research into microbial control, including disinfectant and antimicrobial technology, to expand our target to viruses. We have elucidated the propagation and inactivation of the causes of

infection by the norovirus and other viruses, and are extending that knowledge to the development of products that can prevent infection in everyday life.

In addition, so that everyone can lead comfortable, beautiful, healthy lives, we are applying scientific analysis of RNA and other biological information to a wide range of skin- and health-related concerns, and are continuing our efforts to make appropriate care suggestions.

The social perspective

From the social perspective, we are sharing microbe- and virus-related knowledge that we have acquired from Essential Research with other specialists, providing innovative products and services and making use of this knowledge for public health and to strengthen precautions against infectious disease in hospitals and other medical facilities.

Moreover, we are contributing to the creation of a safe society by offering highly functional chemicals for road and bridge construction such as *Visco Top*, which does not pollute water, as well as asphalt additives that enhance pavement durability and useful life.

The environmental perspective

From the environmental perspective, we are working to realize a recycle-based society by adhering to 4R for packaging, reducing the use of plastic, recycling used refill packs for further use, and developing technology to recycle reprocessed materials back into containers and film.

Transformative innovation 102-12, 102-15, 103-1, 103-2



At the same time, we are promoting the use of natural raw materials and converting inedible biomass to multi-purpose materials. We are also developing highly functional materials that can be added in small quantities. We are also working to reduce the environmental impact of consumer products excluding cosmetics and human health care, and are continuing to research ways to reduce the amount of water and energy consumed by their use.

Risks and opportunities related to realization of What Kao Aims to Be by 2030

Through innovation and the creation of value, our goal is to realize a sustainable society in which no one is left behind, and everyone can be confident of spending vital, beautiful daily lives with peace of mind.

Despite the existence of a variety of risks, including changes in our operating environment and other uncertainties, we are collaborating widely with consumers, customers, industry, government, academia and others to develop and offer products and services that are based on our technological assets and Essential Research, and which reflect Kao's unique and novel perspective. In addition, by sharing technology that contributes to society broadly outside the company and with academics, we will enrich daily life for consumers all over the world.

Contributions to the SDGs



Policies

We have adopted the following three basic policies for our R&D activities.

1. Create the seeds for new businesses
2. Bring about innovation that creates new customers' needs in existing business domains
3. Share scientific technologies with society

Based on these basic policies, we seek to enrich people's lives through innovation, promoting research activities in two directions.

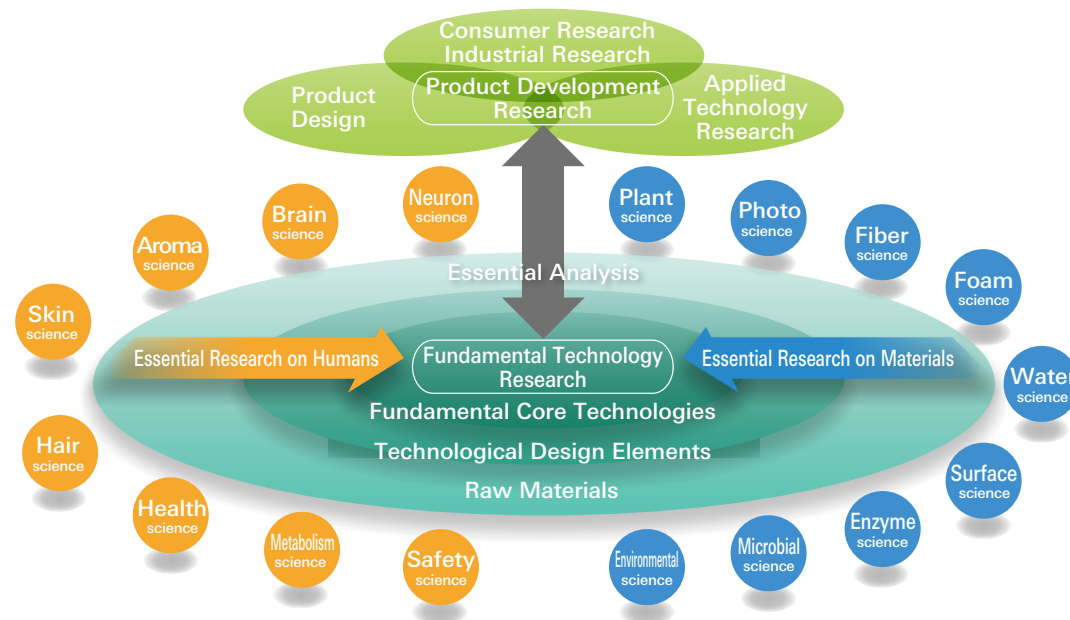
One direction is the promotion of technology innovation to create seeds for new businesses and products. Our Essential Research is the driver behind these efforts, supported by the latest science and technology as well as our accumulated knowledge and passion for discovery. The essence of objects and

phenomena as discerned through the eyes of science can provide the opportunity to solve challenges. We believe that by combining these insights with *Yoki-Monozukuri*, we can create innovations that will have a major positive impact on people's lifestyles.

The other direction involves recasting our accumulated technology assets from an SDG perspective, and incorporating them in the planning of Kirei Lifestyle products. In carrying out that planning, business strategies for a purpose driven brand, assurance of high safety and quality, and development and procurement of materials with low environmental impact are essential.

Through the accumulation of these innovation activities, our aim is for all Kao brands to have a social mission and exert a positive influence on people and society.

Essential Research





Education and promotion

Promoting R&D activities requires opportunities for all of our research staff to familiarize themselves with the latest technology and research results from inside as well as outside the company, and occasions where they can collaborate to generate ideas.

One of our strengths is our business unit diversity. Lateral deployment of in-house knowledge and technology assets is facilitated by a research report database available to all research staff, as well as presentations where personnel from different divisions can exchange opinions, and contribute to new discoveries. We also host lectures and technical guidance by external specialists, to give our research staff opportunities for learn from the leading-edge science and technology. Many presentations of this type were held in 2020 using online conferencing tools, and broad participation by research staff is helping to drive innovation.

Collaboration and engagement with stakeholders

Multi-faceted linkage and collaboration between industry, government and universities are necessary to solve challenging environmental and social issues. Open innovation is one example of this approach. Broad collaboration helps us deliver products and services with new value to consumers quickly, and enables us to deploy groundbreaking technology to new business domains and implement them in society.

By presenting important knowledge gained through R&D activities at academic conferences and

through publications, we strive to propagate science and technology and have received high evaluations, including prizes.

To gain broad support from society for our activities, in 2020 we disseminated bacteria- and virus-related information with relevance to COVID-19 to specialists, and engaged in activities to help consumers prevent infection in their daily lives. Going forward, we will use dialogue and awareness-raising activities to communicate the value and possible futures being created by science and technology.

Framework

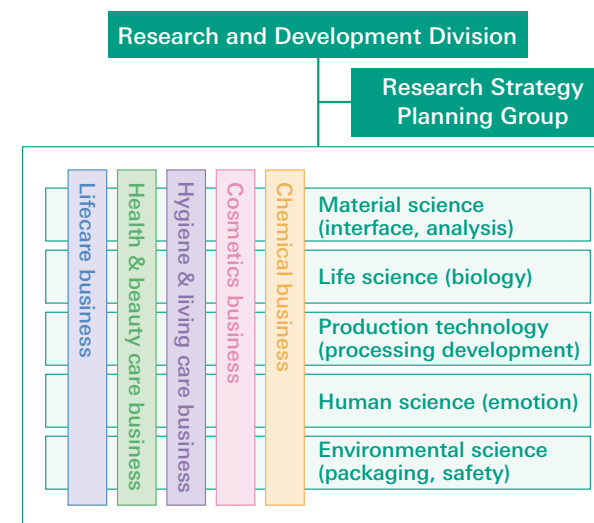
To gather knowledge across business and technological boundaries, we are promoting matrix management. Each of our research facilities reports directly to the R&D Division, with coordination between Fundamental Technology Research and Product Development Research laboratories. This helps us respond swiftly to climate change trends with product suggestions.

In particular, with respect to the important social issues of hygiene and recycling, we are creating new projects and accelerating our efforts. In addition, R&D policy sharing with management and business divisions, and strategy implementation and progress confirmation at each research facility, are carried out as part of the yearly plan. This results in faster decision making and accelerated global growth.



→ p. 18 ESG promotion structure

Research and Development structure



* As of December 2020



Mid- to long-term targets and performance

2020 mid-term targets

We will strengthen existing businesses and offer new innovation within existing business boundaries. For example, these include the hygiene domain, centering on infectious disease prevention; the domain in which RNA and other biological information can contribute to health and beauty; and the recycling and other domains oriented toward sustaining the environment. We coordinate with the business divisions with respect to field testing and other early-stage evaluation methods to realize new businesses.

2030 mid-term targets

Research staff prepare concrete plans for two research objectives, to ensure that they conduct R&D activities with a high level of awareness.

1. Propose products with a major positive impact on lifestyles
Propose 10 or more product releases by 2030 incorporating innovations capable of causing major positive change with respect to lifestyles, society or the environment (cumulative beginning in 2019)
2. Propose businesses and schemes with a major positive impact on lifestyles
Propose 10 or more businesses or schemes by 2030 that incorporate innovations capable of causing major positive change with respect to lifestyles, society or the environment (cumulative beginning in 2019)

Anticipated benefits from achieving mid- to long-term targets

Business impacts

We will achieve higher sales from new or improved products and create new business areas through R&D activities.



Performance in 2020

At the Kao Group Technology innovation session in November 2018, we announced our new technologies in five domains: skin, health, hair, surface chemistry and environment. This presentation accelerated collaboration with enterprises in other business domains, and is leading to new products and services.

In 2018, we established our Fine Fiber Technology for forming an extremely thin, natural membrane on the skin through deposition of ultra-fine fibers. In 2019, we offered this technology in a skin care serum, and in 2021 we plan to extend its unique membrane characteristics to foundation powder.

In addition, we are making progress in data gathering and development of AI-driven predictive algorithms for skin surface lipids-RNA monitoring, which can make visible precise, day-by-day changes in skin and body condition, and have begun testing its use in beauty counseling.

Animal testing includes skin sensitivity and eye irritation testing on animals to determine the safety of

Social impacts

We will solve environmental and social problems, and realize a circular society for resources and safer, more reliable, healthy lifestyles by offering distinctive technologies and innovative businesses and products.

chemicals, and Kao has long been engaged in research into alternatives to such testing. In 2020, two of our case studies on the evaluation of systemic toxicity, whose mechanisms are complex, was selected by the OECD IATA Case Studies Project. We expect these studies to contribute to the issuance of guidance relating to alternative methods to animal testing.

Reviews of performance

Through our R&D activities since 2019, we have been proposing distinctive technologies, businesses and products. However, with consumer lifestyles changing and society becoming more affluent, it can be said that we achieved innovation. Going forward, we will develop and implement methods for measuring the impact of our ideas, verify our proposals by these methods, feed the results back to our R&D activities, and aim for high-level innovation.

Our initiatives

Recent new products and technologies developed through Essential Research

Essential Research on Materials: Environmentally friendly, highly functional materials

As a measure to achieve decarbonization, efforts are being made to switch from petroleum raw materials to renewable, including plant-based, raw materials. However, since it is important that the use of such materials not compete with food supplies, have minimal impact on biodiversity, and not burden the environment through their production, they should ideally exhibit maximum effectiveness with minimal use.

Based on this stance, we are developing cationic hydroxypropyl cellulose (C-HPC), a cellulose found in tree-based biomass, and LUNAFLEX (high-performance resin containing modified cellulose nanofibers).

C-HPC

C-HPC, a cellulose derivative, was developed and commercialized over a period of 15 years by our Material Science Research Laboratory. It is a polymer that can be used in shampoos and hair care products for a variety of purposes, including increased foaming, making hair easier to style by distributing silicone and other fat constituents more evenly, and sebum absorption, which makes individual hair strands less prone to adhere to each other. Recent research has shown that C-HPC can also reduce the amount of tiny particulate matter, including dust and pollen, that adheres to hair.

C-HPC is derived from plant sources and is defined as an environmentally friendly material due to its minimal impact on CO₂ emissions when used. In addition, since it is inedible, it has the advantage of not competing with food supplies. Moreover, it can be manufactured using methods with low environmental impact that use 93% less energy and emit 75% less CO₂ than conventional methods (Kao estimate).

C-HPC has been evaluated highly thanks to its friendliness to the environment and society as well as its advanced functioning. In FY2019, the material received double awards: KCS Award in Chemical Technology of the Kinka Chemical Society, Japan, and the Cellulose Society of Japan Technical Award.



Products containing C-HPC
(from left, *Merit* shampoo, *Essential* shampoo and *Bioré u* body wash)
Note: Product texture and function varies depending not on one ingredient, but on combinations of multiple ingredients. The goal of adding C-HPC to a product may vary.

Employees' voice

Many years of research bear fruit in the successful development and practical application of C-HPC, an environmentally friendly material

Yoichiro Imori

Group Leader, Material Science Research Laboratory, Kao Corporation



This research finally bore fruit thanks to the enthusiasm, hard work and unwillingness to admit defeat of a group of over 30 researchers over a period of 15 years.

Through the continued implementation of *monozukuri* that embodies thorough eco-design, by undertaking material science research in harmony with nature, we succeeded in developing a C-HPC cellulose derivative base design that uses environmentally friendly cellulose to provide high functionality and high performance, as well as developing a manufacturing method that reduces the negative impact on the environment.

Going forward, we will strive to make an even greater contribution toward the realization of the enriched society of the future by focusing on manufacturing that embodies concern for people, society and the Earth.

Transformative innovation



LUNAFLEX

LUNAFLEX contains cellulose nanofibers (CNF) with a wide range of functions. It is a compound, highly functional resin with enhanced transparency and strength to match user objectives and applications.

As a sustainable, highly functional material, CNF is attracting global attention. Because the surface of the resin is hydrophilic (highly compatible with water), it is not compatible with oil-based resins, and a broad range of expertise was necessary to achieve uniform dispersion. We were able to overcome this challenge with new interface control for CNF surface design based on our quantum chemistry calculations, and succeeded in creating a high-performance composite resin. Using LUNAFLEX to enhance the physical properties of resin should reduce resin use, which in turn would make for reduced size and weight reduction, and contribute significantly to durability, energy conservation and efficient material use.

Going forward, we will help solve a wide range of problems, from consumer to industrial issues, by developing unique, natural materials.

Essential Research on Humans: Skin surface lipids-RNA monitoring

In 2019, we announced skin surface lipids-RNA monitoring, a proprietary technology enabling comprehensive analysis of the approximately 10,000 varieties of RNA expression information contained in sebum. While DNA is useful in assessing a person's innate characteristics, RNA is especially useful for understanding the state of day-to-day changes influenced by environmental and other factors.

It has been found that skin surface lipids-RNA, which can be collected easily without damaging the skin surface, displays the same tendencies to change expression information as adult and infant atopic dermatitis, and reflects changes occurring in the body during the monthly menstrual cycle and during the process of aging. In addition, we are verifying whether skin surface lipids-RNA, when combined with AI, can serve as a multifaceted predictor of dermatological and physical conditions, in the same way these conditions can be detected through such means as machine measurement and specialist visual evaluation. Skin surface lipids-RNA analysis can make the constant changes in skin condition visible at a fine level. Our goal is to begin using this capability to offer personalized beauty advice and skin care.

Essential Research on Humans: Protecting human lives by opening up new domains

We are opening up new domains for protecting human lives by making maximum use of our technology assets. One of these new domains is acquiring the VHH antibody*¹, which may make development of drugs for COVID-19 diagnosis and

treatment possible. This antibody's most distinctive feature is its capacity to neutralize novel coronavirus by preventing it from attaching to human cell receptors, which may prevent infection.

This research is being carried out jointly with Epsilon Molecular Engineering, Inc. (EME) and Kitasato University. Candidate VHH antibodies are identified using EME's cDNA display technology. Replication is carried out using our bio-manufacturing technology, while the antibody's infection control potential was confirmed by Kitasato University. To replicate the antibodies, we utilized our established expertise in *Bacillus subtilis**² production technology for laundry detergent enzymes.

In addition, applying protein production technology using this cell body has made it possible to mass-produce protein Cry5B, which has shown insecticide effectiveness against soil-transmitted helminthiasis (STH). STH has been designated a neglected tropical disease by the World Health Organization. It is said to infect approximately 1.5 billion people worldwide. In 2019, a joint project between PATH, the University of Massachusetts Medical School and Kao to develop a new drug for STH, was selected by the Global Health Innovative Technology Fund, which is funded by the Government of Japan, private enterprise and world-renowned foundations.

*¹ VHH (variable domain of heavy chain of heavy chain) antibody
An antibody present in animals of the biological family Camelidae. One-tenth the size of common antibodies. Highly stable, it can be produced at low cost using micro-organisms, which has attracted attention in recent years. Said to be a next-generation antibody

*² *Bacillus subtilis*
Close relative of *Bacillus natto*. Known since ancient times as a plentiful source of useful enzymes. Extensively studied and used in industry

Responsibly sourced raw materials 102-12, 102-15, 103-1, 103-2



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

ESG Keyword	CSR procurement (ESG procurement)	Sustainable procurement of palm oil and palm kernel oil	Public disclosure of mill list
	Support for small oil palm farms	Sustainable procurement of paper and pulp	Use of Sedex
			Supplier satisfaction surveys

Kao's creating value to address social issues

Social issues we are aware of

In procuring raw materials for products, environmental destruction and loss of biodiversity due to indiscriminate development at the producing area has become a serious issue.

Protecting the human rights of laborers, safety and hygiene management, the forced relocation of local residents from producing areas, and damage to health are also pressing issues in our supply chain, which provides raw materials and services.

Kao's creating value

Our business is highly dependent on natural capital. Undertaking ESG-driven management requires us to conduct ESG procurement with full consideration for both the environment including resource conservation, climate change and preservation of biodiversity, and society including human rights. At the same time, stable procurement for the stable provision of products to consumers and customers is also vitally important when promoting *Yoki-Monozukuri*. With these two considerations as priorities, our Procurement Division is conducting responsible procurement.

As a result of these activities, stable procurement

of materials that take ESG into consideration becomes possible, and we are able to provide products that consumers and customers can use with reassurance.

Risks related to realization of What Kao Aims to Be by 2030

Procurement risks include risks relating to the stable procurement of raw materials and the risk that we will be questioned about whether we are fulfilling our social responsibilities by practicing ESG procurement.

Opportunities related to realization of What Kao Aims to Be by 2030

In light of the aforementioned risks, it is ESG procurement that can contribute to a sustainable society. We are conducting human rights due diligence based on the Kao Human Rights Policy, and supplier risk assessments based on the Guidelines for Supplier's Assessment for social issues, and promoting procurement of palm oil, paper and pulp based on the Guidelines for Sustainable Procurement of Raw Materials for environmental issues. We set mid- to long-term targets to be achieved by 2030 under the Kirei Lifestyle Plan and are undertaking responsible procurement.

We believe that this approach will facilitate stable procurement from suppliers that take into consideration social and environmental factors, and as such can even lead to corporate growth and enhancement of corporate value.

Contributions to the SDGs





Policies

We have formulated Guidelines for Supplier's Assessment and Guidelines for Sustainable Procurement of Raw Materials to facilitate the practical implementation of procurement activities in accordance with our Policies for Procurement.

The Policies for Procurement include items relating to fairness and equity in trading, adherence to laws and ethics, and social responsibility. With regard to social responsibility, we seek to contribute to the establishment of a sustainable society, provide for due consideration for protection of natural resources, environmental preservation and human rights, and support ESG procurement along with compliance with laws and ethics.

We conduct procurement activities based on our Guidelines for Supplier's Assessment, which position suppliers as an essential partner in *Yoki-Monozukuri*. In our procurement activities, we give priority to those suppliers that place importance on social responsibilities, including compliance with laws, regulations and social norms, protection of human rights, assurance of health and safety and fair trade, and to those suppliers that collaborate fully on environmental issues such as the environmental management system that we consider to be important. We also prioritize eco-friendly procurement of raw materials and packaging. Our standard contract with suppliers clarifies provisions concerning the aforementioned issues including the environment, human rights and labor.

We are also pursuing sustainable procurement based on the Guidelines for Sustainable Procurement

of Raw Materials, which takes into account environmental problems including global warming and the loss of biodiversity as well as resource constraints, human rights and other pertinent issues.

We understand that our business depends on natural capital, and that a natural resource-dependent supply chain entails the risk of damage to that capital. We pursue zero deforestation at the source in our procurement of raw materials including palm oil and paper. We also support the NDPE* and request that suppliers and supplier group companies comply with it. Over the mid- to long term, we will be taking measures to reduce the amount of raw materials that needs to be used, and other measures to switch over to the use of non-food biomass sources such as algae, striving to promote sustainable and responsible procurement that gives due consideration to the ethical issues that have been thrown into relief by the process of globalization.

* NDPE: No Deforestation, No Peat and No Exploitation



➔ Policies for Procurement
www.kao.com/content/dam/sites/kao/www-kao-com/global/en/sustainability/pdf/procurement-policy.pdf

➔ Guidelines for Supplier's Assessment
www.kao.com/content/dam/sites/kao/www-kao-com/global/en/sustainability/pdf/procurement-supplier-guidelines.pdf

➔ Guidelines for Sustainable Procurement of Raw Materials
www.kao.com/content/dam/sites/kao/www-kao-com/global/en/sustainability/pdf/procurement-raw-materials-guidelines.pdf

Education and promotion

To carry out responsible procurement, each of our Procurement Division employees must acquire the needed knowledge, and ensure that they understand and adhere to the Policies for Procurement and related guidelines. To this end, we conduct various training and awareness-raising activities. We use new employee training for recent graduates and mid-career hires, training for young employees, and other training programs, for example, to deepen understanding of ESG procurement, stable procurement and strategic procurement.

Collaboration and engagement with stakeholders

We are promoting opinion exchanges with suppliers through vendor summits, quality improvement meetings and other initiatives. We utilize Sedex for supplier monitoring, and by mandating Sedex membership and response, we are undertaking to assess risk for our entire supply chain. We are strengthening coordination with our suppliers through various initiatives including the Carbon Disclosure Project (CDP) Supply Chain Program, and developing our global procurement activities.

In addition, we engage in continuous dialogue with NGOs and respond in good faith to points raised from a variety of perspectives.

We also participate in such organizations as SUSTAIN and JaSPON, which strive to realize sustainable procurement and traceability, engaging in active opinion exchange with other enterprises and organizations.

Responsibly sourced raw materials 102-20, 103-2, 103-3



Framework

The Procurement Division underwent a reorganization in January 2020. By strategically coordinating three policies—ESG procurement, stable procurement and strategic procurement for enhancing competitiveness, we are promoting responsible procurement to all stakeholders. The strategy and activities of the Procurement Division are reported to the Board of Directors via reports to the Management Committee. The Global Procurement Meeting is held once each year to share information on our procurement strategy, ESG Strategy, supply chain management methods and other topics. In 2020, however, the meeting was postponed to prevent the spread of COVID-19 and because of organizational restructuring.



→ p. 18 ESG promotion structure

Mid- to long-term targets and performance

Mid- to long-term targets

1. Promoting the sustainable procurement of raw materials

We recognize risks associated with sustainable development based on resource constraints, global warming and other environmental problems, loss of biodiversity and human rights issues, and are working to sustainably procure raw materials.

We take into consideration preservation of biodiversity and pursue zero deforestation in our procurement of palm oil and palm kernel oil. In addition, we seek to procure 100% RSPO certified palm oil for consumer and industrial applications by 2025 and to complete confirmation of traceability back to small oil palm farms, also by 2025. With regard to paper and pulp procurement as well, we take into consideration preservation of biodiversity, pursue zero deforestation, and are working toward 100% procurement of certified paper products and pulp used in consumer products by 2025.

2. Human rights initiatives

We established the Kao Human Rights Policy in 2015 to address various risks associated with human rights issues. In addition to our own activities, we also request that our suppliers' activities embody respect for human rights based on the Guidelines for Supplier's Assessment, and we conduct human rights due diligence accordingly.

To conduct this risk assessment, in 2014 we joined Sedex, a platform for sharing information on ethical practices by global companies. We have been

also encouraging our suppliers to join Sedex. We aim to achieve 100% implementation of due diligence by suppliers by 2025.

Anticipated benefits from achieving mid- to long-term targets

Business impacts

Achieving these targets will reduce various related environmental and social risks and contribute to cost reductions. It will also enhance our brand image and social trust.

Social impacts

We will be able to supply the products that support daily life and are indispensable for sustainable living so that they can be used when needed.



Performance in 2020

Performance

1. Promoting the sustainable procurement of raw materials

- Palm oil and palm kernel oil procurement Confirmation of traceability to the palm oil mills based on supplier information: Completed
Disclosure of mill list (mill names and locations): Completed
Procurement of certified oil: Procurement of a volume of RSPO certified oil equivalent to the total volume of palm oil for consumer applications



→ FY2020 mill list
www.kao.com/content/dam/sites/kao/www-kao-com/global/en/sustainability/pdf/progress-2020-001.pdf

- Paper and pulp procurement*¹
100% confirmation of traceability
Of this, 94% ☒ of certified paper and pulp*² (as of December 2020)

*1 Covers paper and pulp used in Kao products (excludes 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.



→ p. 83 Our initiatives: Initiatives toward sustainable procurement of palm oil and palm kernel oil

→ p. 85 Our initiatives: Initiatives toward sustainable procurement of paper and pulp

2. Human rights initiatives

We have been conducting assessments based on Sedex since 2017. We expanded these assessments in 2018 to cover all of our global business.

- Overall evaluation of supplier risk assessment based on Sedex (as of December 2020): S evaluation: 17%, A evaluation: 37%



→ p. 85 Our initiatives: Using Sedex in supplier monitoring

In 2020, Kao, Apical Group and Asian Agri launched the Smallholder Inclusion for Better Livelihood & Empowerment program (SMILE), a small oil farms support program in Indonesia, a palm oil producing region, to solve social issues including forest destruction, poor working environments for workers on palm oil farms and child labor.



→ p. 84 Our initiatives: Support for small oil palm farms

Reviews of performance

With regard to confirming traceability to palm oil production regions (palm farms), we have completed tracing to palm oil mills and farms owned and managed by oil suppliers. We will continue to pursue traceability confirmation for small- and medium-scale farms in coordination with suppliers, farmers, NGOs, specialists and third-party organizations. In addition, we are steadily performing confirmation of palm oil mills identified as requiring observation through risk assessments. Concerning procurement of RSPO certified oil, we procured a volume of RSPO certified oil equivalent to the total volume of palm oil for consumer applications. Going forward, we will expand procurement to include industrial applications.

We once again achieved nearly 100% traceability for paper and pulp producing areas, maintaining the results from 2019, and the certified product ratio was 94%. We will continue to introduce certified products for small-scale suppliers and encourage confirmation of sustainability with the aim of achieving 100% by 2025.

To address human rights, we request that all direct materials suppliers worldwide join Sedex, respond to Sedex questionnaires and set up data access rights. As of the end of 2020, suppliers accounting for 83% of global transactions (on a monetary value basis) were Sedex members (including Kao SAQ, an alternate program). We will continue to encourage Sedex membership in the future and request improvements by suppliers whose assessment results are low (scores of B or C and response rates below 80%).

Our initiatives

Initiatives toward sustainable procurement of palm oil and palm kernel oil

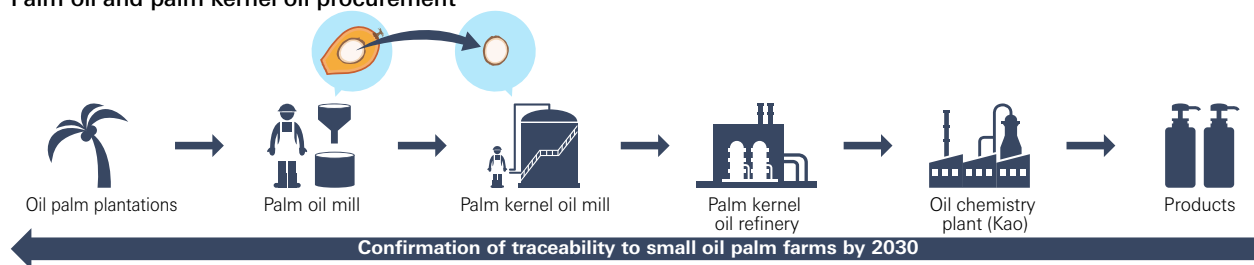
With respect to Guidelines for Sustainable Procurement of Raw Materials, we comply with the NDPE^{*1}. We strongly request that suppliers and supplier group companies comply with the NDPE and do not tolerate violence, improper accusations or threats against defenders of human rights. We also place priority on purchases from suppliers that comply with the NDPE policy and HCSA^{*2} concepts. In addition, we conduct third-party audits (SMETA audits) of suppliers to confirm the status of compliance.

In accordance with the above policies, we strive to procure sustainable palm oil and palm kernel oil by confirming traceability to the place of origin and through activities as an RSPO member.



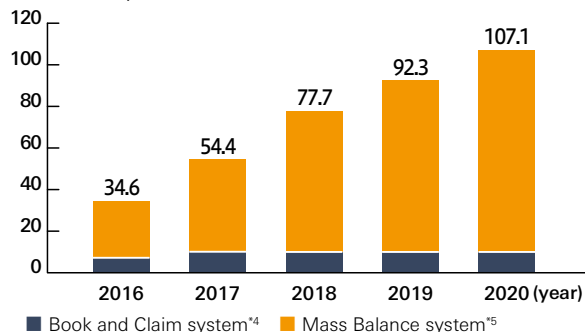
→ Guidelines for Sustainable Procurement of Raw Materials

Palm oil and palm kernel oil procurement



Certified palm oil purchases^{*3} (Kao Group)

(thousand tons)



^{*1} NDPE: No Deforestation, No Peat and No Exploitation

^{*2} HCSA: High Carbon Stock Approach

^{*3} Total of palm oil, palm kernel oil and their derivatives

^{*4} Book and Claim system

RSPO-certified palm oil credit trading system. By purchasing "certification credits" issued in proportion to the amount of palm oil produced and registered by plantations certified by the RSPO, users of palm oil are considered to have purchased the amount of certified palm oil corresponding to the amount of credits. This system encourages plantations to produce certified oil.

^{*5} Mass Balance system

A certification system that permits mixing of RSPO-certified palm oil with non-certified palm oil

Targets under the sustainable palm oil procurement guidelines and 2020 results

When procuring palm oil and palm kernel oil, we give due consideration to the preservation of biodiversity, pursue zero deforestation, and take action to achieve four targets.

Targets	Performance in 2020
① By the end of 2015, purchase only sustainable palm oil traceable to the mill for use in Kao Group consumer products.	Completed traceability confirmation for the mills
② By 2020, adequately confirm zero deforestation at the source through cooperation with plantations, suppliers (mills and refineries) and third-party organizations. In addition, we will not take part in procurement activities that use high conservation value (HCV ^{*1}) forests, high carbon stock (HCS ^{*2}) forests or peatlands.	Completed mill identification, deforestation monitoring for surrounding areas Continued investigation of high-risk mills Disclosure of mill list on website
③ By 2020, purchase only sustainably sourced palm oil that is traceable to the plantation for use in Kao Group consumer products.	Procurement of a volume of RSPO-certified oil equivalent to the volume of palm oil used in consumer products in 2020. Expansion of industrial applications will be promoted in the future. Completed tracing to farms owned and managed by oil suppliers and continued confirmation to small- and medium-scale farms
④ By 2020, work to obtain RSPO SCCS certification of Kao Group manufacturing sites in order to build a traceable supply chain for the group.	Acquisition of RSPO SCCS certifications: Completed acquisition for group plants and offices within and outside Japan in 2018

^{*1} HCV: High conservation value

^{*2} HCS: High carbon stock

Responsibly sourced raw materials 308-2, 414-2



Support for small oil palm farms

Kao, Apical Group (a company that manufactures and sells oil and fat products) and Asian Agri (a plantation company) seek to create a sustainable supply chain for palm oil. We announced the launch of the SMILE program, which seeks to improve and sustain the productivity of small-scale palm farms and supports acquisition of certification for sustainable palm oil in Indonesia.

In Indonesia, a palm oil production region, the destruction of forests and wildlife habitats from new plantation development, human rights violations of indigenous people, the working environments of workers on palm plantations and child labor have become serious social problems.

On small oil palm farms in particular, which account for approximately 40% of palm kernel production in Indonesia, productivity is low due to a lack of information concerning production technologies and there are various other issues including poverty and poor living environments, and the path to solving these problems is not yet clear.

The three companies are collaborating to provide support for solving the problems that small oil palm farms are facing. We are providing guidance on farm management techniques and technologies to increase productivity while engaging in dialogue with producers. We are also working to curb the development of new farms by increasing yields, supporting acquisition of certification for sustainable palm oil, and improving and enhancing the lives of producers.

Overview of support

• Details of support

We established highly experienced farm management and technical support groups for the small oil palm farms eligible for support. The groups visit the farms and carry out the following three measures.

1. Educate farmers on how to improve their yields and sustainably manage their farms, as well as on the importance of staying committed to sustainable practices such as no-deforestation and zero-burning, no exploitation
2. Provide support for RSPO certification
3. Provide training on how to implement robust safety measures across their estates, and safety equipment (including safety helmets, gloves and fire extinguishers)

• Implementation period

11 years from 2020 to 2030

• Implementation regions

Provinces of North Sumatra, Riau and Jambi

• Targets

Number of small oil palm farms eligible for support: Approximately 5,000 (farm area: Approximately 18,000ha)

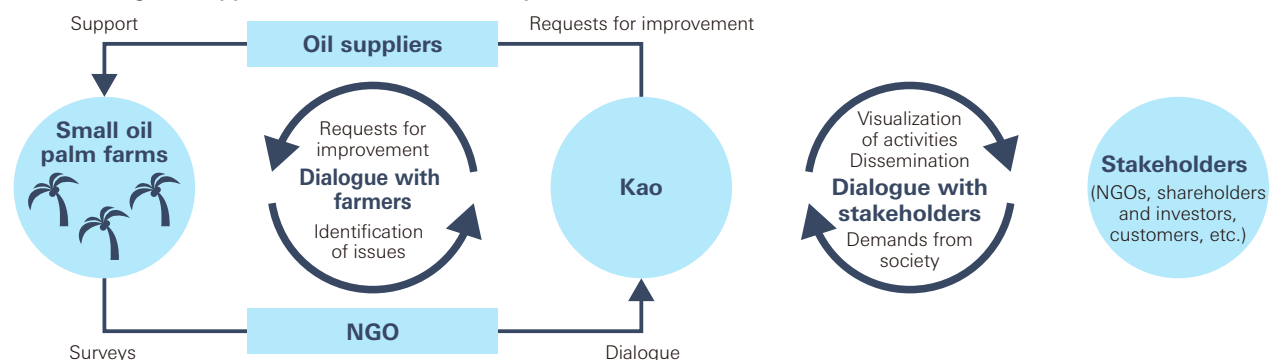
Provision of *Adjuvant* series of agricultural materials

In addition, support unique to Kao includes the provision of the *Adjuvant* series of agricultural materials (a functional spreader) created through Kao's many years of surface science research. Through the use of *Adjuvant*, which supports the efficient distribution of agricultural chemicals, we seek to reduce the amount of chemicals used, reduce costs, stabilize farm income and reduce environmental impact.



→ Kao, Apical and Asian Agri Launch 'SMILE' Program to Help Oil Palm Smallholders Improve Yields, Acquire Certifications, and Secure Premiums
www.kao.com/global/en/news/sustainability/2020/20201014-001/

Overall image of support measures for small oil palm farms



By engaging in direct dialogue with production sites and undertaking supply chain improvement measures through collaboration with partners and making those activities visible and publicly disclosing them we seek to create a global platform for procurement of sustainable palm oil.

Responsibly sourced raw materials 308-2, 414-2



Initiatives toward sustainable procurement of paper and pulp

We have committed to including considerations for biodiversity preservation and our pursuit of zero deforestation in paper and pulp procurement.

Targets	Performance in 2020	Rate of achievement (%) of the 2020 target
By 2020, we will purchase only recycled paper and paper produced with due consideration for sustainability for the paper and pulp used in Kao Group products, packaging materials and office paper. When using pulp other than waste pulp (virgin pulp), we will purchase only pulp that is traceable to the source, and confirm zero deforestation at producers of wood materials through cooperation with suppliers and third-party organizations.	Traceable paper and pulp: 100% (certified paper and pulp: 94%)	100%
	Copy paper (green procurement product: domestic): 99%	99%

We are pursuing procurement of sustainable paper and pulp raw materials based on our Guidelines for Sustainable Procurement of Raw Materials.

With regard to the introduction of FSC-certified paper, in 2013 we began introduction of packaging for our products, and in 2016, we became the first company in Japan to use FSC-certified corrugated board.

In 2020, 94% of our paper and pulp products were certified* (by FSC, PEFC, or other organizations). In Japan, we have switched 99% of the copy paper used to paper that takes sustainability into consideration (green procurement products).

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

Using Sedex in supplier monitoring

We use Sedex in confirming compliance with the Guidelines for Supplier's Assessment, which define initiatives in such areas as the environment, safety, conformance with laws and social norms, and human rights and labor problems, and in risk assessments. After joining in 2014, we began full-scale use in 2016, and we request that all direct materials suppliers worldwide join Sedex, respond to Sedex questionnaires and set up data access rights.

As of the end of 2020, suppliers accounting for 83% of global transactions (on a monetary value basis) were Sedex members (including Kao SAQ, an alternate program*). We will continue to raise the proportion of transactions with Sedex members in the future.

We also perform risk assessments using Sedex risk assessment tools of those suppliers that have set access rights on Sedex. We provide feedback of the assessment results to suppliers and request revisions to items that require improvement so that the suppliers can receive an overall evaluation of A or better.

For suppliers that find it difficult to join Sedex, we also use an original survey form (Kao SAQ) as an evaluation tool to supplement Sedex. We have fully revised the items involving confirmation of corporate social responsibility such as compliance, human rights and business practices, as well as items involving confirmation of environmental protection such as environmental policies, environmental objectives and various categories of environmental management, including pollution prevention (air, water, etc.). In 2018, we began to apply this revised standard to some direct material suppliers to our group companies outside Japan, to domestic machinery suppliers, and to indirect material suppliers

(gift item manufacturing and sales companies). In 2019, we expanded the standard to some domestic direct material suppliers.

We are also performing this assessment when onboarding new suppliers.

* EcoVadis and other survey programs used as alternatives to Sedex

Results of 2020 supplier risk assessments based on Sedex*1

Overall evaluation	SAQ response rate*2	Sedex risk assessment*3	Percentage
S	80% or more	3.0 or more	17%
A	80% or more	2.0 to less than 3.0	37%
B	80% or more	Less than 2.0	27%
C	Less than 80%	—	19%

*1 The scope of assessment is 656 sites that responded to the Sedex new Self-Assessment Questionnaire (SAQ)

*2 Sedex new SAQ response rate

*3 Management control score values using Sedex assessment tools (ranging from 0 to 5; the higher the score, the better management is)

Increasing raw material ordering operations efficiency by using IT

We reviewed the operational flows for ordering raw materials and adopted IT to automatically calculate raw material demand forecasts based on sales plan and established a system to share this information with suppliers.

This enables us to share raw material demand forecasts with suppliers up to one year in advance and is expected to prevent raw material shortages and reduce disposal of leftover products resulting from excess production. This is expected to reduce raw materials (resources), energy (CO₂ emissions) and waste in conjunction with excess production and disposal of leftover products and to enable reductions in the labor force.

Operation began with cosmetic products in 2021, and we plan to expand this to raw materials for all Kao products in stages.

We are also developing a system to share

Responsibly sourced raw materials 102-12, 102-43, 404-2



information on raw material risks, production plant site information and ESG information with suppliers and have started partial operation. Through these systems, we will continuously share the latest risk information with suppliers and plan to identify procurement risks at an early stage and respond to them in advance.

Kao vendor summits

We hold vendor summits to provide a venue for sharing information and exchanging opinions with suppliers within and outside Japan. Each year, a specific theme is chosen for the vendor summits, and we seek to foster communication in regard to that theme.

In 2020, unfortunately, the meeting was postponed to prevent the spread of COVID-19.

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

	Held in Japan	Held outside Japan	Total
2016	246	279	525
2017	245	258	503
2018	243	230	473
2019	239	267	506
2020	Suspended	Suspended	—

CDP Supply Chain Program^{*1}

We recognize risks associated with sustainable development based on resource constraints, loss of biodiversity, global warming and other environmental problems as well as problems such as human rights, and are working to sustainably procure raw materials. These initiatives must be managed across the entire supply chain. With regard to climate change, water and forests, we are participating in the CDP Supply

Chain Program and asking our key suppliers to disclose relevant information. In 2020, the supplier response rate was 73% in regard to climate change, 74% in regard to water and 78% in regard to forests.

In regard to forests, we are conducting risk assessments by providing information to the CDP Forest Program^{*2}.

^{*1} CDP Supply Chain Program

The CDP is a nonprofit organization operated by institutional investors that requests corporations and other organizations to disclose information relating to climate change, water and forests. The CDP Supply Chain Program is an initiative in which participating enterprises ask the firms that make up their supply chain to disclose information relating to climate change, water resource use and forest resource use via the CDP platform.

^{*2} CDP Forest Program

A CDP initiative in which enterprises are asked to disclose information regarding forest resource management and usage status, etc.

Surveying supplier satisfaction

We conduct supplier satisfaction surveys every three years in order to ensure that we are carrying out procurement activities fairly and equitably.

In 2020, we conducted a survey and received valuable feedback from 210 suppliers on topics including vendor selection, quality, ordering, customer service and communication.

We received high evaluations concerning fairness in price negotiations and vendor selection, customer service attitudes and corporate ethics. At the same time, we identified issues concerning changes after an order is placed, disclosure of the reasons for non-selection of vendors and mutual exchanges of information. We are working to improve the situation regarding changes after an order is placed by sharing information with the relevant divisions. With regard to disclosure of the reasons for non-selection of vendors and exchanges of information, we will provide thorough explanations that satisfy suppliers.

Number of companies responding to the satisfaction survey (Unit: companies)

	Raw material suppliers	Packaging and packing material suppliers	Machinery and indirect material suppliers	Total
2007	48	37	44	129
2010	55	68	44	167
2013	71	59	45	175
2016	78	69	52	199
2020*	105	69	36	210

* 2019 was in implementation year under the initial plan, but a decision was made to implement the survey in 2020 due to organizational changes in the Procurement Division.

Examples of education and promotion

Employee training and awareness-raising (Japan)

We educate new Procurement Division employees in our basic approach to procurement, which includes fairness and equity, adherence to laws and ethics and social responsibility. Through such education, we strive to encourage our employees to understand global social issues such as human rights and labor, which are fundamental to the United Nations Global Compact and ISO 26000 principles. In 2020, we conducted education on our basic approach to procurement for eight employees newly assigned to the Procurement Division.

Promoting certification testing (Japan)

So that all Procurement Division employees understand the relationship between society and the environment, and as education to modify their behavior accordingly, we encourage them to take certification examinations. In 2020, we encouraged employees to take the Certification Test for Environmental Specialists[®] (Eco Test[®]), and the cumulative number of employees who have passed the test accounted for 78% of division employees in 2020.

* Eco Test[®]

This test promotes an environmentally and economically sustainable society.



➔ For more details about human rights in the supply chain, see p. 164 Walking the Right Path > Respecting human rights

2020 Our initiatives

Making the world healthier & cleaner

Decarbonization	88
Zero waste	105
Water conservation	122
Air & water pollution prevention	131
Product lifecycle and environmental impact ...	140
Environmental accounting	142





We will work toward the goal of reducing CO₂ emissions to zero by 2040, and becoming carbon negative by 2050 to combat global warming. While Kao aims to reduce emissions in our own business activities, we also realize that offering more sustainable products to our customers and consumers is necessary to reduce their carbon footprint as well. Through technologies such as carbon fixation, to developing products that contribute to a more sustainable product cycle, we will continue to take an active role in reducing global warming through innovation. We take this responsibility seriously, and will offer products and services that contribute to realizing a decarbonized society.



Kao's creating value to address social issues

Social issues we are aware of

Today, the vision for society is to realize net zero emissions of greenhouse gases by 2050, so that the average rise in global temperature can be kept to within 1.5°C higher than pre-industrial revolution levels. However, according to the World Meteorological Organization (WMO), as of 2018 average global temperatures were already approximately 1.0°C higher than prior to the industrial revolution, and the 2018 Intergovernmental Panel on Climate Change (IPCC)*¹ Special Report on Global Warming of 1.5°C noted that, if the current situation continues, there is a possibility that average global temperatures 1.5°C higher than pre industrial revolution levels could be reached by 2030.

In recent years, countries and regions around the world, including the European Union (EU), have been issuing carbon neutrality declarations, and in October 2020 Japan also announced that it would seek to become carbon neutral by 2050. In addition, many local governments within Japan have been declaring a climate emergency in relation to the crisis posed by climate change, and large numbers of business enterprises have announced that they are aiming to realize net zero emissions. There have also been movements demanding action on climate change, such as Friday For Future, in which young people—who represent the future—have played a key role.

Global warming has been accompanied by an increase in the scale of damage caused by localized torrential rain and typhoons, frequent forest fires, the melting of the Siberian permafrost and other climatic abnormalities. In some parts of the world, it has become common for daytime maximum temperatures to exceed 40°C for several days in a row, leading to an increase in the number of people affected by heatstroke, with deaths being reported. It has also been suggested that destruction of forests and rising temperatures will create enhanced risk of new types of infectious disease. These threats can be expected to grow even more serious in the future.

A wide range of response strategies are needed, including not only the mitigation of rising temperatures, but also making social infrastructure more resilient, so as to be able to cope with rising temperatures and changing weather patterns, and the provision of products and services tailored to suit the changes in consumers' lifestyles.

For Kao, forest commodities such as palm oil and paper and paper pulp constitute very important raw materials. In contemporary society, there is an accelerating trend toward the destruction of natural forests and creation of new plantations in order to increase supply of these materials. Greenhouse gas emissions deriving from forest destruction and changes in land use account for a significant percentage—6.5%—of total global emissions*². Furthermore, we recognize that degradation of biodiversity and issues relating to the human rights of local workers constitute significant risks in relation to sustainable development.

*1 IPCC

Intergovernmental Panel on Climate Change

An organization was established by the United Nations Environment Programme and the World Meteorological Organization in 1988 for the purpose of conducting comprehensive evaluations from scientific, technical and socio-economic perspectives regarding climate change, its impact, adaptation and mitigation measures.

*2 World Resources Institute, World Greenhouses Gas Emissions 2016

Kao's creating value

Global warming is a problem that affects the whole of society. In response to this issue, Kao has proactively set itself targets, and by actively developing applications for cutting-edge technologies and other new technologies, both within Kao and in the wider society, we aim to demonstrate solutions to the problem of global warming. In order to reduce greenhouse gas emissions associated with our business activities, we are improving the energy efficiency of our worksites and shifting over to green energy use, and we are continuing to implement initiatives aimed at reducing emissions in collaboration with our stakeholders, by cutting emissions at every stage in the product lifecycle, from raw materials procurement through to product use, disposal and recycling. We are also working actively to provide products and services that contribute toward reducing greenhouse gas emissions associated with product use.

By providing environmentally friendly products that take account of transitional and physical risk, and products suited to the changes in consumer lifestyles that have resulted from climate change, we are making a positive contribution toward enriching people's lives and toward the building of a sustainable society.



Contributions to the SDGs



Risks and opportunities related to realization of What Kao Aims to Be by 2030

We have implemented qualitative and quantitative evaluation of the risks and opportunities relating to the realization of our vision of where we want our company to be by 2030, focusing on the 2°C scenario*¹ and 4°C scenario*², and we have identified the key items that could have a major impact on our business.

The results of this evaluation confirmed that some of the most important risks included the potential for the adoption and strengthening of carbon taxes, increases in the cost of petroleum-derived raw materials due to rises in the crude oil price, and an increased risk of flood damage due to the trend toward increased short-term precipitation, etc. We also identified a number of opportunities, including increased demand for summer-use products such as anti-perspirants due to rising temperatures, and changes in consumer behavior such as the widespread trend toward ethical consumption.

*1 2°C scenario

This is equivalent to the IEA's 2DS scenario or the IPCC's RCP 2.6 scenario, etc. It refers to the economic measures that would be needed in order to keep the average global temperature rise down to less than 2°C compared to the situation prior to the Industrial Revolution, and to the environmental damage that is expected to result from such a rise in temperature.

*2 4°C scenario

This is equivalent to the IEA's Current Policy Scenario or the IPCC's RCP 8.5 scenario, etc. It refers to the economic measures that would be needed in order to keep the average global temperature rise down to less than 4°C compared to the situation prior to the Industrial Revolution, and to the environmental damage, etc. that is expected to result from such a rise in temperature.

Policies

Climate change poses a major risk to the realization of an enriched Kirei Lifestyle, both now and in the future. The Kao Way enunciates our mission to strive for the wholehearted satisfaction and enrichment of the lives of people globally and to contribute to the sustainability of society, and we are actively implementing initiatives to both mitigate and adapt to global warming in relation to every aspect of our business strategy.

In our Basic Principle and Basic Policies on Environment and Safety, we undertake to "Assess environment and safety aspects throughout the entire lifecycle of the products, from manufacture through disposal, when developing products and technologies."

Furthermore, the Kao Responsible Care (RC) Policy contains the following declaration: "We shall strive to continue to reduce the environmental impact of our business operations by promoting reduction of uses of resources such as water and energy."

Our Environmental Statement embodies our commitment to ensuring that "Kao products utilize original Kao-developed technologies to minimize the impact they have on the environment, not just in the manufacturing process, but in the daily life of the customers who use them. From materials procurement and manufacturing, to distribution, sales, use and final disposal, we want to engage in 'eco together' with stakeholders and consumers worldwide."

Furthermore, in regard to palm oil and paper and paper pulp, we have formulated the Guidelines for Sustainable Procurement of Raw Materials, and we are aiming toward the reduction of forest destruction to zero by 2020 in the areas where these raw materials are produced.

In line with these policies, as a step toward minimizing CO₂ emissions into the atmosphere, we are

working not only to cut emissions from our own worksites, but also to reduce CO₂ emissions throughout the entire product lifecycle. We also provide products and services that contribute toward reducing other companies' CO₂ emissions. In addition, as a recycling initiative to reduce the amount of CO₂ in the atmosphere, we are developing technology that uses CO₂ from the atmosphere as a raw material, and we are working to realize carbon fixation through tree-planting, etc. Through these activities, we aim to reduce our net carbon emissions to zero, and become carbon negative. Furthermore, we are accelerating the provision of products and services tailored to the changing climate, with its rising temperatures, etc.



→ p. 79 Making thoughtful choices for society > Responsibly sourced raw materials



→ Basic Principle and Basic Policies on Environment and Safety
www.kao.com/content/dam/sites/kao/www-kao-com/global/en/sustainability/pdf/environment-safety-principle-policies.pdf

→ Kao Responsible Care Policy
www.kao.com/content/dam/sites/kao/www-kao-com/global/en/sustainability/pdf/responsible-care-policy.pdf

→ Kao Environmental Statement
www.kao.com/content/dam/sites/kao/www-kao-com/global/en/sustainability/pdf/environmental-statement.pdf

→ Guidelines for Sustainable Procurement of Raw Materials
www.kao.com/content/dam/sites/kao/www-kao-com/global/en/sustainability/pdf/procurement-raw-materials-guidelines.pdf



Education and promotion

Our employees are not only in the position to develop and supply products, but once they leave the company, they are consumers for the rest of their lives and are the ones who select those products. We thus recognize the importance of giving our employees the opportunity to learn about climate change through various programs and to actively engage in decarbonization activities of their own accord.

Starting in 2020, we have begun making and disseminating educational videos for internal use that are specific to the themes of the Kirei Lifestyle Plan (KLP). In 2020 we disseminated videos on the topics of decarbonization and life-cycle assessment (LCA), and in the future we intend to continue spreading awareness of KLP activities among our employees by developing more video content relating to other KLP objectives.

Collaboration and engagement with stakeholders

In line with the “eco together” motto of the Kao Environmental Statement, we are working together with a wide range of stakeholders to promote activities aimed at realizing decarbonization. We are also implementing education about decarbonization and working to spread awareness of our initiatives.

“eco together” with consumers / customers

As the product usage stage accounts for around 40% of total product lifecycle CO₂ emissions, raising consumers’ awareness is extremely important. For example, even if a consumer buys single-rinse laundry detergent, if the consumer sets the washing machine to do two rinses, then there will be no reduction in CO₂ emissions. It is thus very important for us to accurately communicate the environmental value that Kao products can provide and encourage consumers to use them properly. By organizing a wide range of different events, we aim to get across the importance of CO₂ emission reduction and the environmental value of Kao’s activities and products.



→ p. 62 Making thoughtful choices for society >
Sustainable lifestyle promotion: Collaboration
and engagement with stakeholders

“eco together” with business partners

In order to help our customers realize a Kirei Lifestyle, we continue to implement heartfelt *Yoki-Monozukuri* manufacturing and deliver the resulting products to our customers. However, this is not something that

can be achieved by Kao acting alone. We believe that it is important to share our vision with the business partners that we collaborate with at every stage from raw materials procurement through production to delivery and sales, so that we can take action together, and we have established a number of different venues for sharing information with them. As the raw materials stage accounts for around 40% of total product lifecycle CO₂ emissions, we view collaboration with raw materials suppliers as being particularly important.

We support the aims of the Task Force on Climate-Related Financial Disclosures (TCFD), and we are actively implementing information disclosure relating to climate change, and engaging in dialogue with investors.



“eco together” with society

We proactively participate in activities organized by the central government and by the United Nations, local government authorities, NPOs, etc., where we provide information about Kao technologies and exchange opinions with other participants. In order to realize a decarbonized society, reducing the CO₂ emissions associated with electric energy generation is a particularly important approach, and we are working actively to disseminate information about our activities in this area.



Framework

Risk management in relation to climate change issues is carried out by the Internal Control Committee and opportunity management is carried out by the ESG Committee, under the supervision of the Board of Directors. These committees are headed by the President and Chief Executive Officer.

The Responsible Care Promotion Committee, which manages policy / regulatory regime and technology risks, and the Risk and Crisis Management Committee, which manages market, reputational and acute risks, are under the Internal Control Committee. These committees are headed by the executive officer in charge of the Corporate Strategy.

The Responsible Care Department of Corporate Strategy Division acts as the Responsible Care Promotion Committee Secretariat while the Crisis Management Department of Corporate Strategy Division acts as the Risk and Crisis Management Committee Secretariat.

The Responsible Care Promotion Committee meets twice a year to report on and discuss compliance with laws and regulations, status of CO₂ reduction and other matters. It also sets targets for the following year. The Responsible Care Promotion Committee conducts monthly checks on compliance with laws and regulations, monitors CO₂ emission and water use, mainly at plants which have a large impact, and keeps abreast of the amount of chemical substances in wastewater, reporting on these and other matters to the head of the committee, committee members, members of the Internal Control Committee, auditors and others. The Risk and Crisis Management Committee which manages natural disaster including caused by climate change and reputational risks, meets four times a year.

The Internal Control Committee meets one or more

times a year, receiving activity reports from the Responsible Care Promotion Committee and the Risk and Crisis Management Committee which it oversees and auditing the activities of the two committees.

Opportunity management relating to climate change issues is handled by the ESG Committee, which meets four times a year. Committee members are the persons in charge of the Business, Sales, R&D, SCM and other divisions, an arrangement which connects divisions horizontally. The Internal Control Committee, and the ESG

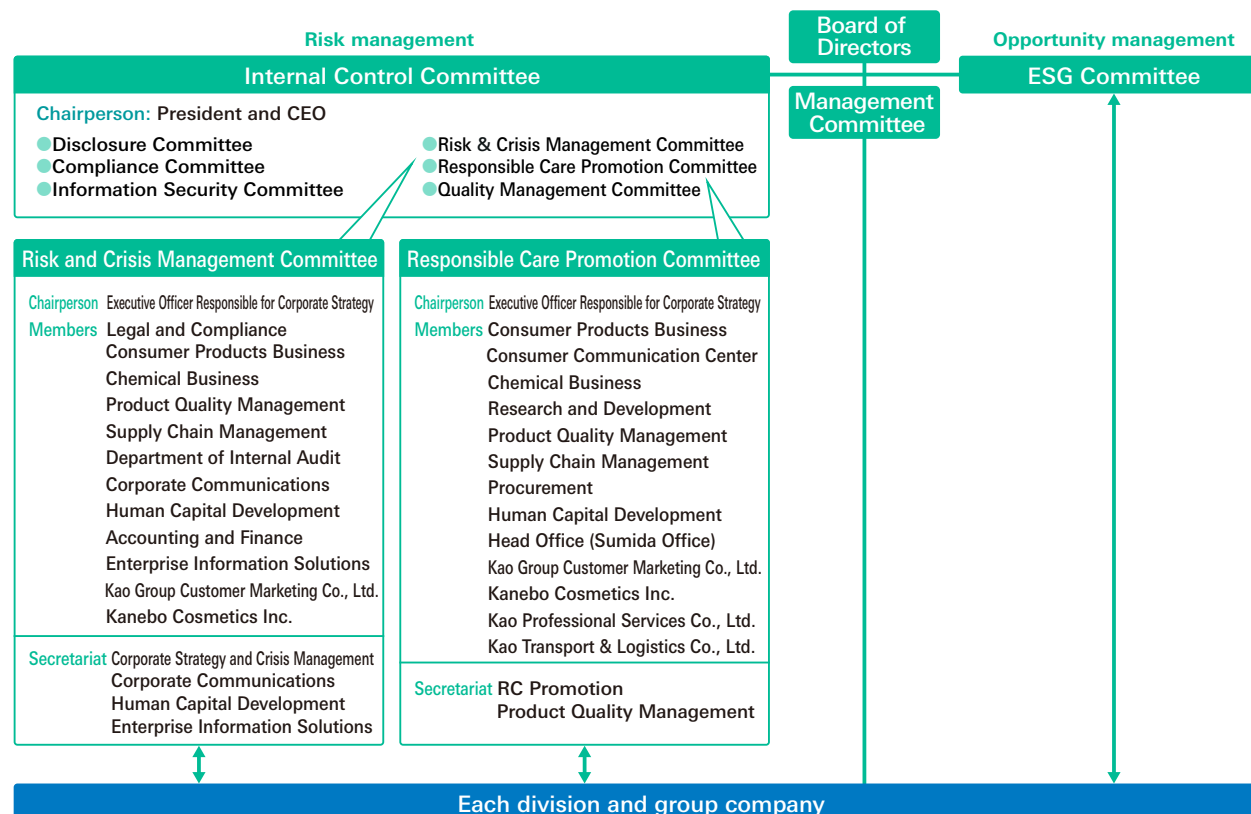
Committee which it supervises, discuss climate change and environmental issues as well as social and governance issues.

The committee reports on its activities to the Board of Directors one or more times a year and is audited by the Board of Directors.



→ p. 18 ESG promotion structure

Decarbonization promotion structure



* As of December 2020



Mid- to long-term targets and performance

Kao aims to be carbon zero by 2040, and carbon negative by 2050, and we are accelerating our activities to achieve these goals. We will also be maximizing our contribution toward reducing greenhouse gas emissions throughout society as a whole.

Targets for 2020

In 2013, we set the 2020 targets for energy consumption and greenhouse gas emissions pertaining to all Kao Group sites and have aimed to achieve a standard 1% reduction each year. In 2009, we set the 2020 reduction targets for CO₂ emissions pertaining to the entire product lifecycle for group companies in Japan, based on the national reduction targets set by the Japanese government at the time (all of the above targets were calculated on a per unit of sales basis).

Targets for energy and greenhouse gas emissions (by comparison with 2005)

Index	Scope	2020 targets
Energy consumption	All Kao Group sites	35% reduction
GHG emissions		35% reduction
CO ₂ emissions	Across the entire product lifecycle for the Kao Group in Japan	35% reduction

2025 mid-term targets

Index	Scope	2025 targets
Purchased power	Kao Group in Japan	100% renewable sources

2030 long-term targets

We aim to enable society as a whole to reduce greenhouse gas emissions by the equivalent of 10 million tons of CO₂ through the provision of Kao Group products and services.

Index	Scope	2030 targets
GHG emissions (absolute quantity)	Across the entire product lifecycle for the Kao Group	22% reduction (Compared to 2017)*
	All Kao Group sites	55% reduction (Compared to 2017)*
Energy consumption (Per sales unit)	All Kao Group sites	1% reduction yearly (year-on-year, from 2021)
Electric power usage	All Kao Group sites	100% renewable sources

RE100

CLIMATE GROUP



Anticipated benefits from achieving mid- to long-term targets

Business impacts

Achieving targets (for energy consumption and greenhouse gas emissions) for all sites in the group leads to higher profits as they contribute to the reduction of business activity operating costs. Additionally, the reduction of CO₂ emissions across product lifecycles can be achieved by reducing raw material use and increasing sales of products with low CO₂ emissions during usage, leading to reduced operating costs and sales growth.

As renewable energy generating costs have been falling steadily for the past few years, switching over to having 100% of the electricity that we purchase

generated using renewable energy can be expected to result in reduced electricity purchase costs in the future.

If no action is taken to reduce usage, then by 2030 our overall CO₂ emissions (Scope 1+2) are forecast to rise to a level that is 1.67 times higher than in 2017. However, we have continued to implement initiatives to address this issue. We adopted an internal carbon pricing system in 2006 in order to control CO₂ emissions (Scope 1+2), and have been coordinating the operation of this system with our business activities for 13 years, and we set ourselves the target of reducing CO₂ emissions by 55% by 2030 (compared to 2017). If carbon taxes equivalent to 89USD/t-CO₂* are adopted in 2030, then assuming that we achieve the target outlined above, our carbon tax burden will be 4.3 billion yen, which is 11.5 billion yen less than it would be if we failed to take any action.

* Kao estimate based on the International Energy Agency (IEA)'s World Energy Outlook 2018

Social impacts

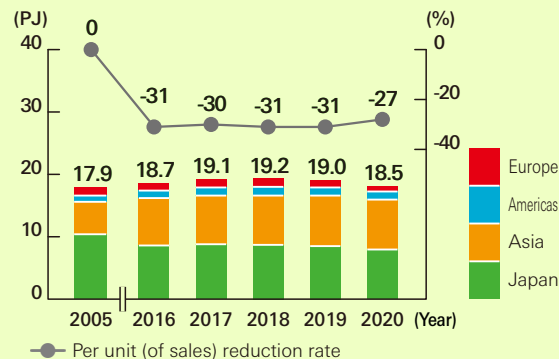
By achieving the above goals, we can reduce greenhouse gas emissions and contribute toward mitigating global warming. Additionally, products with low CO₂ emissions during usage can contribute to reduction in consumer spending because they consume less energy and water. Furthermore, they are also effective in reducing the burden of social infrastructure maintenance and renewal concerning energy, water and sewage systems.



Performance in 2020

Performance*

Energy consumption (all sites)



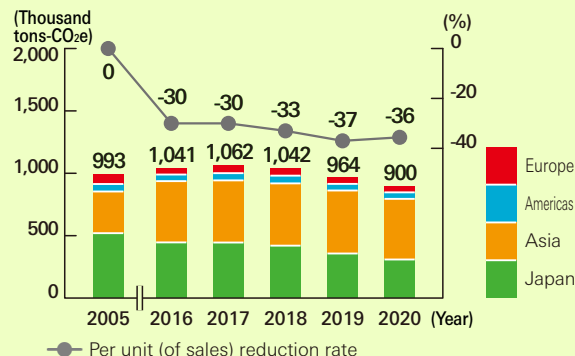
* Boundary: All Kao Group sites including company cars in Japan
 * Assurance provided for energy consumption figures

CO₂ emissions across the entire product lifecycle (Kao Group)



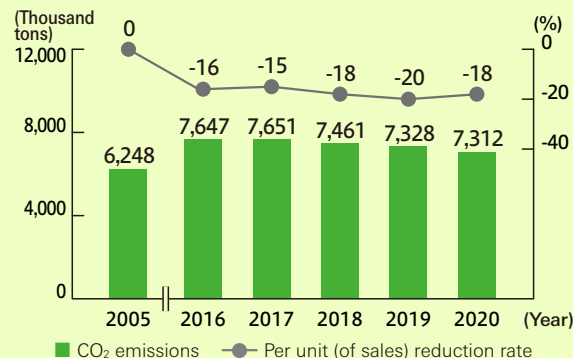
* "CO₂ emissions across the product lifecycle" is defined as the combined total for the amount of lifecycle emissions of individual products, excluding emissions during manufacturing and distribution, multiplied by their annual sales quantity and the amount of emissions from the group's manufacturing and distribution processes. However, this amount does not include emissions related to the use and disposal of Chemical products.
 * Assurance provided for CO₂ emissions figures and per unit (of sales) reduction rates

GHG emissions (all sites)



* Boundary: All Kao Group sites including company cars in Japan
 * Gases included: The seven GHGs specified by the Kyoto Protocol (only CO₂ for sites outside Japan)
 * Assurance provided for GHG emissions figures

CO₂ emissions across the entire product lifecycle (Kao Group in Japan)



* "CO₂ emissions across the product lifecycle" is defined as the combined total for the amount of lifecycle emissions of individual products, excluding emissions during manufacturing and distribution, multiplied by their annual sales quantity and the amount of emissions from the group's manufacturing and distribution processes. However, this amount does not include emissions related to the use and disposal of Chemical products.
 * Assurance provided for CO₂ emissions figures and per unit (of sales) reduction rates

* Calculated on a per unit of sales basis, based on Japanese GAAP for 2005, and on International Financial Reporting Standards (IFRS) for other years.

Contribution to emissions reduction

The amount of emission reductions in Kao's business operations as a whole totaled 4,022 thousand tons. Contribution to emissions reduction represents the amount of CO₂ emissions reductions realized by society as a whole through Kao products.

Amortization of carbon credits

The total amount of carbon credits amortized by Kao came to 27 thousand tons.

Reviews of performance

CO₂ emissions across the entire product lifecycle decreased by 10 thousand tons over the previous year, representing a fall of 4% compared to 2017. The per unit (of sales) reduction rate fell by 7 percentage points to 11% (2005 baseline) compared to the previous year. CO₂ emissions across the entire product lifecycle in Japan were reduced by 16 thousand tons over the previous year, but the per unit (of sales) reduction rate fell by 2 percentage points to 18% (2005 baseline) over the previous year, and as result we failed to achieve our target for 2020 of reducing emissions by 35%. The key factors here were the fall in sales due to the spread of the COVID-19 pandemic, counterbalanced by the increase in sales of products with relatively high CO₂ emissions per unit of sales, such as hand soap and laundry detergents.

The energy consumption per unit of sales reduction rate at all Kao Group sites was lower than in the previous year, at 27%, and we did not achieve the reduction target of 35%. Greenhouse gas emissions fell by 15% compared to 2017, but on a per unit of sales basis the reduction rate fell to 36%. Nevertheless, the 2020 target of 35% was achieved. Renewable energy accounted for 28% of all electricity used by the Kao Group as a whole, and 38% of all electricity purchased by the Kao Group as a whole (53% for the Kao Group in Japan).

We offer a wide selection of household products such as water-saving products that reduce CO₂ emissions during the use stage, and also provide various industrial-use products that do the same. We will further expand our range of products that reduce water / hot water and power consumption in the use stage, which contributes a large portion of total lifecycle emissions, and take steps such as reducing the amount of raw materials used and switching raw materials to those made from renewable sources.



Scope 1 CO₂ emissions (Thousand tons-CO₂e)

	2018	2019	2020
Japan	263	259	242
Asia	291	291	278
Americas	49	46	45
Europe	49	48	51
Total	652	644	616

Scope 2 CO₂ emissions (Thousand tons-CO₂e)

	2018	2019	2020
Japan	157	98	68
Asia	207	214	208
Americas	14	6	6
Europe	13	2	2
Total	390	320	283

* Emissions by scope conform to the Greenhouse Gas Protocol initiative

Scope 1: GHG emissions emitted directly by the company / organization

Scope 2: Indirect GHG emissions from purchased electricity, heat, etc.

* Emission factors

Scope 1: In principle, uses factors defined in the Act on Promotion of Global Warming Countermeasures

Scope 2: In principle, uses the specific factors of the country's laws or regulations. When the specific factor cannot be obtained, the country-based factor released by the International Energy Agency (IEA) is used.

Purchased electricity, steam, etc. (terajoules)

	2018	2019	2020
Electricity	7,663	7,923	7,952
Heat	0	0	0
Steam	140	149	177
Cooling	0	0	0

* Electricity is calculated as the calorific value of the primary energy (at the receiving end in Japan, generating end outside Japan).

Fuel consumption by fuel type (terajoules)

	2018	2019	2020
Natural gas	9,123	8,936	8,579
Diesel oil	1,331	1,405	1,334
Gasoline	135	123	99
Other	145	142	132
Waste vegetable oil (heat recovery)	553	493	347

Scope 3 CO₂ emissions (Thousand tons-CO₂e)

	2018	2019	2020
1. Purchased goods and services	4,430	4,295	4,206
2. Capital goods	269	342	259
3. Fuel- and energy-related activities (not included in scope 1 or scope 2)	27	30	59
4. Upstream transportation and distribution	253	254	249
5. Waste generated in operations	60	56	65
6. Business travel	4	4	4
7. Employee commuting	21	17	18
8. Upstream leased assets	0	0	0
9. Downstream transportation and distribution	106	107	111
10. Processing of sold products	119	111	116
11. Use of sold products	4,570	4,510	4,653
12. End-of-life treatment of sold products	1,452	1,432	1,438
13. Downstream leased assets	0	0	0
14. Franchises	0	0	0
15. Investments	8	7	6
Total	11,319	11,165	11,184

* Kao focuses on the categories of 1, 3, 4, 5, 11 and 12 related to site activities to save energy and reduce waste materials, as well as on the product lifecycle.

CDP* evaluation

Our initiatives for the environment have been highly rated by the CDP. In 2020, Kao became one of the first companies in Japan to obtain an A score for all of Climate Change, Water Security and Forests. Only two companies in Japan, and ten worldwide, were given a "Triple A" score in 2020.

* CDP

CDP is a London-based NGO operated by institutional investors, and it motivates business enterprises to disclose information related to climate change, water and forests.

CDP evaluation

Area	2016	2017	2018	2019	2020
Climate Change	A-	A-	A-	A	A
Forests (Palm Oil / Timber)	A- / A-	A- / A-	A- / A-	A- / A-	A / A-
Water Security	A	A-	A	A	A
Supplier Engagement	B	A	A	A	A



→ CDP results

CDP 2020 Climate Change
www.kao.com/content/dam/sites/kao/www-kao-com/global/en/sustainability/pdf/cdp2020-001.pdf

CDP 2020 Forests
www.kao.com/content/dam/sites/kao/www-kao-com/global/en/sustainability/pdf/cdp2020-003.pdf

CDO 2020 Water Security
www.kao.com/content/dam/sites/kao/www-kao-com/global/en/sustainability/pdf/cdp2020-002.pdf



Our initiatives

Efforts in raw materials procurement

Mitigation

Vendor Summit

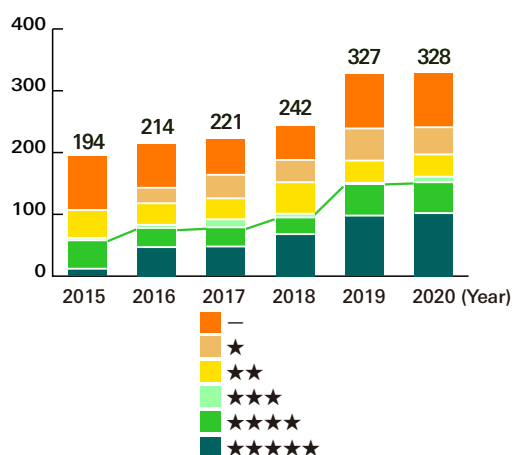
We hold the Kao Vendor Summit, which important suppliers are invited to attend, where we give presentations on our ESG-related initiatives, including decarbonization, and request suppliers' collaboration. The Kao Vendor Summit was not held in 2020 due to the COVID-19 pandemic.

CDP Supply Chain Program (Climate Change)

In 2009, we became the first Japanese company to participate in the CDP Supply Chain Program. From 2017, in expectation that our suppliers will become more active toward promoting CO₂ reduction activities, we have been evaluating CO₂ reduction activities and have been working to provide the results of these evaluations back to our suppliers.

The 2020 survey results showed that the number of suppliers obtaining an evaluation of at least "four stars" had increased by three compared to the previous year, indicating that the overall supplier activity level had risen. At the same time, in regard to the roughly 30% of suppliers who failed to respond to the survey, we are working on engagement to encourage these suppliers to respond.

Supplier activity level (Climate Change)



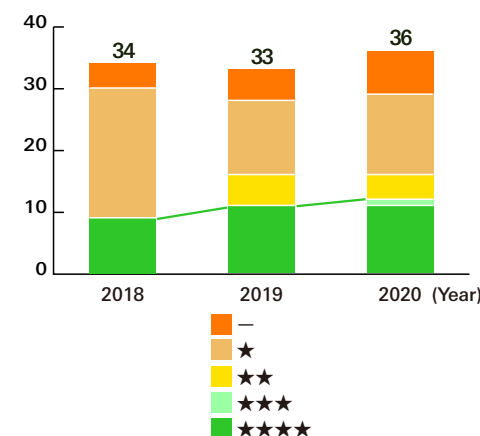
CDP Supply Chain Program (Forests)

We have participated in the CDP "Forest" Supply Chain Program since 2018. We expect suppliers providing palm oil, paper or paper pulp to begin sustainable and responsible procurement, which includes procurement preventing deforestation. We assess forest activity status and provide suppliers with feedback on the results of this assessment.

The 2020 survey results showed that the number of suppliers obtaining an evaluation of at least "three stars" had increased by one compared to the previous

year, indicating that the overall supplier activity level had risen. At the same time, in regard to the roughly 15% of suppliers who failed to respond to the survey, we are working on engagement to encourage these suppliers to respond.

Supplier activity level (Forests)





Low-carbon raw materials procurement

In collaboration with suppliers, we are working actively to adopt raw materials with lower CO₂ emissions by using plant-based and recycled plastics and thinner cardboard. This can make a substantial contribution to reducing CO₂ emissions not only in the manufacturing process but also at the time of disposal and recycling.

Furthermore, by optimizing the volume and frequency of raw materials deliveries, we are reducing CO₂ emissions in the transport of raw materials.

More precise calculation of the environmental burden of raw materials for calculating product lifecycle CO₂ emissions (LC-CO₂)

With the cooperation of those suppliers from which we purchase raw materials that have particularly high CO₂ emissions, we are collecting data on CO₂ emissions produced in the procurement and processing of raw materials. This measure only improves the accuracy of our CO₂ emission calculations during the raw material procurement process, but also allows us to evaluate the CO₂ emissions reduction initiatives adopted by suppliers, which can then be reflected in lifecycle CO₂ emissions reductions of Kao products.

Kao received the Industrial Science and Technology Policy and Environment Bureau Director-General's Award (Ministry of Economy, Trade and Industry), the highest award, at the Life Cycle Assessment Society of Japan (LCA) Awards, in recognition of Kao's continued initiatives in relation to suppliers.



→ p. 79 Making thoughtful choices for society >
Responsibly sourced raw materials



Kao received an award from the JLCA.

Adaptation

CDP Supply Chain Program (Water)

Due to climate change, extreme weather is occurring in different places. For instance, there is an increase in short-term, localized torrential heavy rain.

Reflecting our focus on strengthening suppliers' awareness of the need to put water risk systems in place in relation to flooding of rivers and sewage systems caused by heavy rain, and on getting them to take appropriate action, we have been participating in the CDP "Water" Supply Chain Program since 2015.



→ p. 122 Making the world healthier & cleaner >
Water conservation



Developmental efforts

Mitigation

When deciding to launch new and improved products, we verify that the products satisfy the environmental standards outlined by the Design for Environment Guidelines. We also evaluate CO₂ emissions over the entire product lifecycle using the same standards. The results of these evaluations are not only used to determine product launches, but are also incorporated in future product development.

In particular, with regard to products that make use of water during the usage process, we recognize that both the water purification plants that provide drinking water for household use and the wastewater treatment plants that process households' waste water use a great deal of energy and generated CO₂ emissions, and so we are working actively to develop water-saving products. Furthermore, products such as shampoo that require the use of hot water during the usage process also involve the generation of CO₂ emissions in relation to the heating of the water, so making products that use hot water into water-saving products can be very beneficial.

In addition, Kao aims to achieve "Maximum with Minimum," or in other words achieving the highest possible quality with the minimum possible raw materials. Based on this approach, we developed the Bio IOS surfactant. This surfactant is used in our *Attack ZERO* laundry detergent product.

Kao has also been working on the development of manufacturing technology for a new type of photovoltaic cell which is expected to be highly efficient, in collaboration with the Research Center for Advanced Science and Technology, The University of Tokyo, and with Kyushu Institute of Technology.

We are also undertaking technology development aimed at using CO₂ as a raw material for Kao products.



→ p. 122 Making the world healthier & cleaner >
Water conservation



→ Kao is developing a new type of photovoltaic cell that is expected to provide high energy conversion efficiency, through collaborative research with The University of Tokyo and Kyushu Institute of Technology
www.kao.com/jp/corporate/news/rd/2019/20190111-001/ (Japanese)

Adaptation

As global warming progresses, it is apparent that there is a tendency toward higher temperatures and an increased number of sunny days. Demand for UV care products as well as anti-perspirants, etc. is expected to increase during summer. In 2020, we launched *Humming Ryokan Technology* fabric softener, which features a breathability mechanism for expelling hot air. Additionally, as the probability of droughts occurring increases, the demand for water-saving products is also expected to increase. We are working actively to develop products for which there is high demand in summer and water-saving products.

Given that there are expected to be significant restrictions on resource use in future, in order to meet the goals set in the Paris Agreement, there will be high demand for biomass materials that do not compete with food. We have developed Bio IOS surfactant, which uses a type of biomass that does not compete with food and which has not previously been used. Bio IOS surfactant is already in use in our *Attack ZERO* laundry detergent product.

Our total investment in environmentally friendly R&D, including climate change response measures, in 2020 was 2,976 million yen, while the total cost of this R&D work was 6,192 million yen.

Efforts in manufacturing (plants, offices, logistics centers)

Mitigation

1. Efforts to reduce energy consumption

• Introduction of high-efficiency equipment and efficient operation of equipment

Continuing from the previous year, equipment such as chillers, air conditioners and compressors were replaced with Best Practice Technologies (BPT) equipment in 2020. Through optimized control using multiple units of air conditioners and compressors, we are operating equipment more efficiently corresponding to fluctuating demand.

In addition, we are switching lights to LED around the world. Our plants, offices and logistics centers in Japan have accomplished plans announced in 2015, reducing CO₂ emissions by approximately 4.65 thousand tons annually. Affiliated companies outside Japan are also proactively switching to LED lights.

• Eliminating wasted energy

As in the previous year, in 2020 we continued to take steps to find areas with wasted energy, reduce energy use to the minimum required and use unused energy in other processes.

Aiming to improve the efficiency of steam use, we are continuing to strengthen our steam trap maintenance and increase the amount of steam we recover. We are also actively implementing improvement activities at worksites to optimize the amount of required energy, including lowering the set temperature of heat-insulated tanks and shortening operating times.

Striving to eliminate energy wastage at our offices. Some of the steps we are taking include turning off unnecessary lights, using presence



sensors to automatically turn lights on and off, optimizing air conditioner temperature settings and encouraging people to take the stairs to reduce unnecessary elevator use.

We undertook 124 energy-saving activities at Japanese plants and offices in 2020, resulting in approximately 5,984 tons of CO₂ reduction and 200 million yen in cost reduction for the year.

2. Efforts to use cleaner energy

• Clean-burning fuel

Gas fuel, especially natural gas, is the cleanest fossil fuel. We use natural gas at all plants outfitted with the necessary infrastructure. Our plants do not use any coal.

• Use of renewable energy

We are promoting the introduction of solar photovoltaic power generation systems for on-site power generation at Kao-owned facilities. In 2020, the systems installed at the Sumida Office in Tokyo, Pilipinas Kao Incorporated, Kao Austria and Kao (Taiwan) Corporation started generating electricity (the system installed at Kao (Taiwan) Corporation is used exclusively for generating electricity for sale to the grid). The total power generating capacity of these systems was 4,978 MWh in 2020. The generating capacity of individual facilities is shown on the right.

We are also promoting the purchasing of electric power that is generated using renewable energy. Kao Chemicals GmbH, Kao Manufacturing Germany GmbH, Kao Corporation SA's three plants in Spain, Kao Chimigraf, Molton Brown, Kao USA, Kao Corporation's Kawasaki Plant, Kao Sanitary Products Ehime and four plants in China (Kao Corporation Shanghai, Kao Chemical Corporation Shanghai, Kao

(Hefei) Co., Ltd. and Kao Huludao Casting Materials Co., Ltd.)* have all converted to purchasing only electric power that has been generated from renewable sources.

In addition, Kao Corporation's Tochigi Plant, Kashima Plant, Odawara Plant, Toyohashi Plant and Kao Paper Manufacturing Fuji are all purchasing electric power generated from renewable sources.

* Commenced purchasing of electric power generated using renewable energy in 2020



Photovoltaic (solar) power generating facilities at Tochigi Plant

Total generating capacity of solar power equipment (2020)

Company / Plant	Total generation (MWh)
Tochigi Plant, Kao Corporation	1,656
Toyohashi Plant, Kao Corporation	405
Kao Sanitary Products Ehime	415
Atsugi Logistics Center, Kao Logistics	268
Sumida Kita Logistics Center, Kao Logistics	210
Wakayama Office, Kao Corporation	66
Sumida Office, Kao Corporation	5
Kao Industrial (Thailand)	781
Kao Corporation Shanghai	336
Kao (Taiwan)	303
Pilipinas Kao	291
Kao Penang Group (Malaysia)	191
Kao USA	47
Kao Australia	6

Use of this renewable power reduced CO₂ emissions by 131 thousand tons.

3. Reducing the volume of leaked refrigerants and other greenhouse gases

Air conditioners and chillers used in manufacturing are charged with fluorocarbon that has extremely high global warming potential. To reduce the volume of fluorocarbon leaks from equipment, we have been strengthening our regular equipment inspections.

4. Initiative to secure ZEB Ready certification for office buildings

In August 2020, a newly-built office building forming part of our Sumida Office (in Sumida Ward, Tokyo) was awarded ZEB (Net Zero Emission Building) Ready certification. Through the installation of highly efficient, energy-saving equipment such as highly-insulating external walls and water-based radiant air-conditioning, the new building realizes a reduction in energy consumption of 58% compared to a building with standard specifications. The new building also has solar panels on its roof, along with an emergency generator unit, ensuring that the building is ready to cope with natural disasters.



Employees' voice

An office building that is environmentally friendly and also employee friendly

Sumida ZEB Ready project team



The Sumida Office (in Sumida Ward, Tokyo) is Kao's oldest worksite, and has many old buildings which are currently being renovated. The first step in this process has been the construction of a new building based around the following keywords: Eco, Healthy Office and BCP.

On the environmental side, the building features radiant air conditioning and a desiccant-type external air processing system, as well as a micro co-generation system^{*1}, rainwater recycling, solar panels, etc., and has been awarded ZEB^{*2} Ready certification.

In addition, having learned the lessons of the Great East Japan Earthquake of 2011, and taking into account the fact that the building is located roughly at sea level, a base isolation system has been adopted for the building, which is also equipped with a backup power supply, etc., so that the building will be able to function as a business continuity planning (BCP) backup site in the event of a natural disaster.

Going forward, we aim to expand the area of green space at the office, making it a verdant, environmentally friendly and employee friendly office.

*1 Micro co-generation

Micro co-generation systems generate electricity using a gas engine generator powered by clean energy such as natural gas or bio-gas that has a low environmental footprint. The heat generated during electricity generation is used efficiently for the supply of hot water or for heating, thereby reducing energy loss.

*2 ZEB (Net Zero Energy Building)

A ZEB building is one that has energy consumption at least 50% lower than that of a building with standard specifications.

Adaptation

With rising summer temperatures, heat stroke prevention is essential in Japan. Especially for our outdoor workers, we have taken measures such as to share the day's heat index, shorten continuous working hours and prepare drinking water.

Additionally, as new water risks, including more powerful typhoons and localized torrential rains, etc., are likely to emerge as a result of climate change, annual water risk surveys are conducted at our plants.



→ p. 122 Making the world healthier & cleaner > Water conservation

Efforts in distribution

Mitigation

CO₂ emissions during distribution in Japan were 101 thousand tons-CO₂ in 2020, a 22% reduction (per unit of sales, 2005 baseline). However, because sales fell due to the impact of the COVID-19 pandemic, on a per unit of sales basis there was a deterioration.

1. Increase shipment volumes per shipment

We are proactively making adjustments including improving loading efficiency, changing product sizes and using larger vehicles.

2. Shorten shipping distances

We are continuing to look at ways to revise shipping routes, optimize manufacturing plants and shift which logistics center is used.

3. Use cleaner shipping methods

We are pursuing steps such as switching from truck to shipping methods such as rail and ship, which have lower CO₂ emissions (modal shift).

4. Improve loading ratios

Having trucks return from their shipping destination with a load, instead of returning empty after unloading, i.e., improving the loading ratio, contributes to improving energy efficiency and CO₂ emissions in shipping.

Kao is participating in the Cross-ministerial Strategic Innovation Promotion Program promoted by Japan's Cabinet Office. We have partnered with Lion Corporation to launch a smart logistics initiative, with

scheduled deliveries having started in October 2020.

The aim is to enhance the productivity of truck transport and reduce CO₂ emissions by implementing two-way transport that integrates deliveries between Kao's Kawasaki Plant (in Kanagawa Prefecture) and the Sakaide Logistics Center (in Kagawa Prefecture), as well as from the Sakaide Plant (in Kagawa Prefecture) of Lion Chemical (a Lion Corporation affiliate) and the logistics centers at Kazo (in Saitama Prefecture), Kashiwa (in Chiba Prefecture) and Sagami-hara (in Kanagawa Prefecture).

This new initiative will reduce the distances that trucks are travelling without loads, by comparison with conventional transportation methods, and is expected to result in a 45% reduction in CO₂ emissions and a 23% reduction in transport costs for both companies combined.



Collaborative delivery with Lion Corporation

5. To enhance visualization of distribution-related energy usage and CO₂ emissions

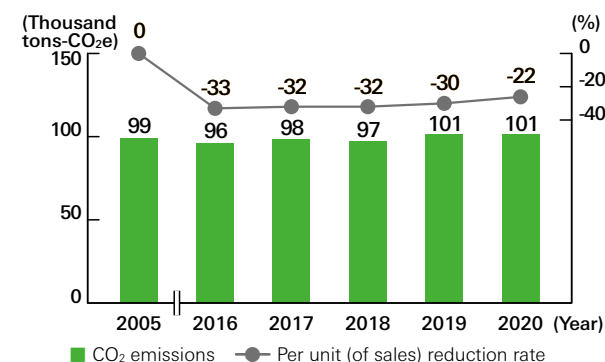
We had been making preparations to begin calculating distribution-related energy usage and CO₂ emissions outside Japan starting from 2020.

However, the calculation and reporting of distribution-related CO₂ emissions outside Japan for 2020 has been based on estimates. We are proceeding with preparations to begin reporting of emissions based on actual distribution performance as soon as possible.

Adaptation

With the worsening trend toward short-term, localized torrential rain, there is an increased risk of the supply chain from Kao's factories to our customers being disrupted, with Kao being unable to deliver products on schedule, and a possible need to use roundabout routes over an extended period, leading to an increased environmental burden. When risks appear, in order to take appropriate measures in a short amount of time, subsidiaries are charged with managing product transport to our main market in Japan.

CO₂ emission during distribution (Japan)



* Boundary: Kao Corporation and Kanebo Cosmetics Inc.
 * Assurance provided for CO₂ emissions
 * Per unit of sales is calculated based on Japanese GAAP in FY2015, and on International Financial Reporting Standard (IFRS) from FY2016 onwards.

Efforts during use

Mitigation

We offer a wide selection of products that contribute to the reduction of CO₂ emissions during the use stage.

Important examples include ultra-concentrated laundry detergents that only require one rinse cycle, and shampoo, body wash and dishwashing detergent that reduce the amount of hot water required for rinsing.

In the laundry detergent segment, in 2009 we launched *Attack Neo*, which reduces the lifecycle CO₂ emissions per wash by approximately 22%. In 2019, we introduced *Attack ZERO*, a concentrated liquid clothing detergent that has redefined the whole concept of clothes washing, which uses Bio IOS, our most advanced ever detergent base, as its main ingredient, and which was followed by *Attack 3X* in 2020. Within Japan, the way in which consumers do their washing has begun to be transformed, with washing machines that come equipped with a button allowing the user to select a single rinse cycle as a standard feature becoming the norm. Laundry detergents that require only one rinse cycle are offered in Japan and Taiwan.

Additionally, we offer shampoos and other products that prevent hair from tangling, making it easier for heated air from hair dryers to penetrate hair and shorten drying time, reducing their energy consumption.

To help ensure that when consumers use these products, which are capable of effectively reducing CO₂ emissions, they use them properly, we participate in environmental events hosted by local governments and distribution companies, and we have compiled and distributed our “Let’s eco together” brochure, which communicates our initiatives to consumers.

We also offer a wide selection of products for industry that allow customers to reduce their CO₂

emissions during the use stage. These include a toner with low-temperature fixing, which reduces the photocopier’s power consumption, washing and rinsing agents that can wash and rinse steel plates at low temperature to reduce CO₂ emissions from fuel consumption, a semiconductor wafer cleanser that contributes toward CO₂ emissions reduction by reducing the amount of ultra-pure water and chemical agents used during the cleaning process, an additive for coating material that helps improve fuel economy by reducing the coating weight of wire harnesses for automobiles, and an additive essential to improving dispersion of a required material for fuel-efficient tires to demonstrate their performance.



Attack ZERO concentrated liquid clothing detergent, which has won the Ten Greatest Products Award (organized by Nikkan Kogyo Shimbun, Ltd.)



Essential Smart Blow-Dry
Prevents hair from getting tangled and reduces the time needed for drying by 20% by making the direction of dryer air more precise

Adaptation

As global warming progresses, the period of time for which there is high demand for anti-perspirants etc. in the summer is lengthening, and demand is expected to rise. We are therefore working to strengthen our development of these types of products. Additionally, as the probability of droughts occurring increases, the demand for water-saving products is also expected to increase.

Our sonaeru website provides information about household products that will be useful in the unfortunate event of a natural disaster occurring, with a particular focus on products that can help people to maintain good hygiene while living in an evacuation facility.



→ Kao sonaeru website
www.kao.co.jp/hisaiji/ (Japanese)



Efforts in disposal and recycling

Mitigation

CO₂ emissions in the disposal and recycling stage consist of the following two types. One type is the CO₂ emitted as materials and ingredients degrade when packaging, diapers and other materials disposed of by consumers after use are incinerated, or when wastewater containing cleansing and other agents made from petroleum is treated. The other type is CO₂ emitted from using energy required to operate incinerating and recycling equipment and wastewater treatment facilities. In order to simultaneously address these two types of emissions, the most important thing is to reduce the volume of material subject to disposal and recycling. For this reason, as far as possible we recycle waste that is subject to disposal and recycling. In the case of waste that cannot be recycled and can only be disposed of as waste, we adopt a carbon neutral approach.

In line with this philosophy, we refer to initiatives that reduce the amount of waste that needs to be dealt with as Innovation in Reduction. We are applying Innovation in Reduction to the raw materials used in manufacturing packaging and diapers, and to the cleaning agents used in cleaning products. We refer to initiatives in the area of recycling as Innovation in Recycling. We are applying Innovation in Recycling to packaging and to used diapers.

Used diapers are carbonized using carbonization equipment, and the resulting material is then utilized for environmental purification and plant cultivation. We are also undertaking R&D aimed at conversion to new types of carbon material.

In addition, we are proceeding with the utilization of carbon neutral (i.e., biomass) plastic and other raw materials.

To further strengthen our focus on recycling activities, in 2020 we established the Recycling Science Research Center within our R&D Division.



→ For details about diaper recycling, achieving zero waste and replacement initiatives, see p. 105 Making the world healthier & cleaner > Zero waste

Adaptation

In the future, as the human population continues to increase, it is anticipated that increasingly strict restrictions will be placed on the extraction of fossil fuels, in order to meet the goals of the Paris Agreement, and as a result restrictions can be expected to be placed on the use of various types of resources. We believe that, in order to realize a decarbonized society, it is vital to reduce the amount of raw materials used, recycle used products whenever possible, and only dispose of those products of biomass origin when there is no alternative to disposal.



→ p. 105 Making the world healthier & cleaner > Zero waste

Examples of major collaboration projects with stakeholders

- Participation in the Race to ZERO program promoted by the United Nations Framework Convention on Climate Change. As a member of the international community, we are collaborating on efforts to realize net zero emissions.
- Participation in the Business Ambition for 1.5°C program promoted by the SBTi. We are taking part in related activities together with many leading global companies.
- Participation in the Green Value Chain Platform and 2°C Target Network Corporate Edition administered by Japan's Ministry of the Environment, offering Kao's scope 3 efforts as an example and contributing to the calculation of scope 3 emissions by corporations
- Cool Choice awareness, promoted by the Ministry of the Environment, and the contribution to lifestyle change for consumers toward decarbonization
- Participation in the Japan Climate Initiative and the spread of information and opinion exchange on climate change measures promoted by various constituents besides the national government
- Participation as a member of the LCA Working Group organized by the Japan Chemical Industry Association. We have disclosed case studies of our carbon lifecycle analysis efforts, and disseminated information to society about the contribution that chemical products can make toward reducing CO₂ emissions.
- Participation in the Supply Chain Program run by the CDP for 12 consecutive years. We are contributing toward the enhancement of suppliers' awareness, and toward promoting a transformation of the types of action taken by suppliers.
- As a member of the steering committee of the TCFD Consortium of Japan, we are contributing toward the disclosure of climate change-related information, and toward the promotion of dialogue. In 2020, we were involved with four lectures, interviews etc. relating to decarbonization. Our decarbonization initiatives have contributed toward enhancing awareness in society.

RACE TO ZERO



Scenario analysis

In 2020, besides evaluating the impact of the COVID-19 pandemic, we also implemented more detailed analysis of the following items, based on the issues for which scenario analysis was conducted in 2019.

Evaluation of the impact of the COVID-19 pandemic

The COVID-19 pandemic has brought about a rise in hygiene awareness throughout society, and has also led to significant social changes, including lockdown restrictions, people spending more time at home, etc. While these changes have boosted demand for hygiene-related products, there has been a fall in demand for hair salon products and for make-up and cosmetics products.

In the area of decarbonization, the increased demand for hygiene-related products and for dish-washing products has led to a rise in CO₂ emissions associated with product use, and as a result we have failed to meet our CO₂ emissions reduction target, resulting in increased reputation risk.

Ethical consumption forecast

We believe that, in order to deliver a Kirei Lifestyle in which consumers make choices that embody consideration for others and for the environment, it is vitally important to build the market for ethical products. Survey results have shown that there are significant disparities between generations and between regions in relation to attitudes to ethical consumption.

In terms of generational attitudes, the survey results re-confirmed that, regardless of region, Millennials and members of Generation Z attach more importance to ethical consumption. As regards regional differences, the survey results showed that, in Europe and the Americas, there are already large numbers of products on the market that claim to be ethical products, and that interest in

ethical consumption is growing in certain specific areas. In Japan and in the Asia region as a whole, the survey results indicated that, while consumers do have some degree of interest in ethical products, these products are still very much in the early stages of adoption.

Besides keeping pace with trends in Europe and the Americas, Kao will also be building a stronger system for applying the know-how and experience that we have acquired in Europe and the Americas in Japan and Asia.

Evaluation of the impact of rainfall levels on Kao worksites

We evaluated the potential harm that low rainfall, torrential rain and high tides could cause to Kao's main worksites (such as our head office, all factories, important logistics centers, etc.), by collating information from the hazard maps and water-related databases published by local governments, and by performing detailed assessment of rainfall forecasts that take climate change into account.

With regard to low rainfall, the results confirmed that, as "low rainfall" represents a level of rain roughly equivalent to what is being experienced at the moment, it is important to continue with current drought preparedness measures. Several factories may face an increase in the incidence of torrential rains, and the survey results also confirmed that there may be a rise in the frequency of unusually high tides at factories located on the south coast of Japan and on the Sea of Japan coast. We will be using this information to strengthen disaster preparedness for our main worksites.

Survey of the impact of climate change on oil palm cultivation

In order to evaluate the impact of climate change on the cultivation of oil palm trees in Malaysia and Indonesia, from where Kao procures palm oil, we examined the documents available in the public domain and reviewed our existing forecasts. The results of this evaluation showed that the more the temperature rises, the smaller the area suitable for oil

palm cultivation will become. It was confirmed that there is a strong likelihood that rising temperatures will be accompanied by a fall in palm oil harvests. For example, in Malaysia, a 1°C rise in the average temperature would lead to an approximately 10% fall in the size of the palm oil harvest.

We are implementing various strategies in response to this situation. Besides helping to boost harvests through the provision of support for small oil palm plantation operators, we are also developing surfactants that use CO₂ from the atmosphere as a raw material.

Forecasting future plastic usage

In the area of resource recycling, we recognize the importance of reducing plastic usage and promoting the adoption of recycled plastic, in line with climate change. In the 2°C scenario, demand for recycled plastic will rise, and there may be regulations mandating its use, in which case, depending on how quickly the supply of recycled plastic rises, there is a possibility that the price may actually fall. In the 4°C scenario, it is anticipated that the price of virgin plastic derived from petrochemical sources will rise, due to strong continuing demand for plastic.

As Kao is undertaking technology development with the reduction of plastic usage as our first priority, we believe that we can minimize the negative impact on our operations regardless of which scenario turns out to be the case.

Our strategy going forward

Based on the results outlined above, we did not see any major risks that would prevent the realization of our K25 and K30 plans. Going forward, we will:

- Strengthen the integration of climate change scenario analysis results with our business operations
- Implement scenario analysis in other areas besides climate change

In this way, we will be able to strengthen the resilience of our corporate activities.



Stakeholder engagement

Kao Corporation is a leader in corporate sustainability



Dexter Galvin

Global Director of Corporations & Supply Chains at CDP

In 2020, Kao Corporation achieved the most prestigious “triple A” score from CDP for its leadership on climate change, deforestation and water security. Out of thousands of global companies scored, only ten companies achieved this status in 2020, and a mere handful have achieved it in previous years. This makes Kao one of the global leaders in environmental transparency and action, not only in Japan but in the world.

Kao has been a long-time discloser through CDP and has been an active CDP supply chain member since CDP launched its supply chain program for climate change in 2009. Kao has been using the program effectively and has since established valued supplier engagements in climate change, forests and water. Kao has been requesting its suppliers to disclose their environmental impacts through CDP and engaging with them to improve their performance to meet its ESG and sustainability goals.

It is very encouraging to see Kao engaging with a wide range of stakeholders from across its value chain to drive environmental action, from small suppliers and consumers to fellow companies and investors.

CDP works on forests through the lens of the commodities that drive the most deforestation, such as palm oil, timber, cattle and soy. Kao has been collaborating with other companies to support smallholders producing palm oil in Indonesia, to build their capacity for more sustainable production. Through these activities, Kao achieved an A score for sustainable sourcing of palm oil, while also achieving a high score (A-) for timber products, thanks to increasing use of FSC-certified paper for packaging and products.

It is essential that major businesses act in line with climate science. Kao Corporation has a Science-Based Target (SBT) to reduce its absolute scope 1, 2, and 3 GHG emissions by 22% by 2030 from a 2017 base year—which is in line with a 2°C pathway. The consumer goods and chemicals company is also transitioning to renewable power globally and has used internal carbon pricing to promote energy-saving investment.

Kao’s approach of taking action across the value chain as well as in its own operations is apparent in the field of water security too. In addition to driving water efficiency improvements in its factories, Kao is also designing household products to save water when used by consumers.

In the future, we hope and expect to see Kao progress

even further on its sustainability journey. The next step should be to upgrade its SBT to align with a 1.5°C pathway and join the Business Ambition for 1.5°C*, which we are encouraging all ambitious companies to do in order to lead the net zero transition. We would also suggest that Kao can build on its success in renewable power procurement by joining the RE100 initiative and advocating for the transition to 100% renewables. Pioneering companies such as Kao have the power to drive the net zero carbon transition to a sustainable economy. I look forward to watching Kao continue its fantastic work and make further progress on value chain transformation.

2021 is a crucial year in the transition, as we have only until 2030 to halve global GHG emissions, stop deforestation and achieve the Sustainable Development Goals including water security for all. This is the decade of action and there is no time to wait.

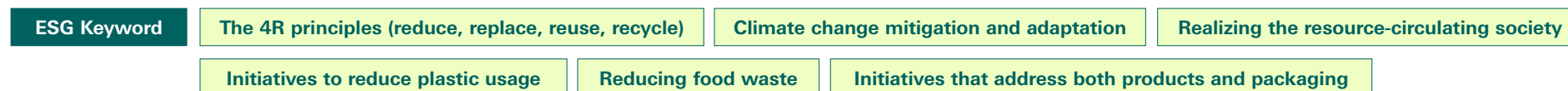
* Business Ambition for 1.5°C

This is an initiative in which business enterprises commit themselves to working to help keep global warming down to within 1.5°C, rather than 2°C. The U.N. Global Compact, Science Based Targets initiative (SBTi) and the We Mean Business coalition announced the initiative in 2019, calling on business enterprises to sign up to it.

Zero waste 102-15, 103-1 ,306-1 (Waste 2020)



Besides reducing the usage of raw materials and plastic as far as is possible while ensuring that product users can use the products properly, we are also promoting the reuse and recycling of used packaging and unused materials and products, and working actively to promote a resource-circulating society.



Kao's creating value to address social issues

Social issues we are aware of

Considering that the world's resources are limited, standards of living are rising, and the resources needed are steadily increasing as the global population continuously grows, the one-way economic models of the past will no longer support prosperous lifestyles and culture into the future. Consequently, efforts to achieve high levels of economic growth and create resource-circulating societies, in other words, to develop circular economies that seek compatibility with high resource productivity, are gaining momentum around the world.

In regions where social infrastructure (i.e., waste treatment systems) is not sufficiently developed for the increases in the amount of waste generated including household waste, there are numerous instances of environmental pollution due to waste being dumped or insufficiently treated at disposal facilities. In addition, improper conduct by consumers after use results in waste dumped on land entering the oceans. Plastic in particular does not decompose naturally, and the volume of marine plastic waste continues to increase. Estimates are that by 2050,

there will be more plastic in the ocean environment by weight than the weight of all the fish in the oceans. This marine plastic is starting to have detrimental impacts on marine ecosystems.

To keep the temperature rise due to climate change under 1.5°C, consumption of fossil fuels must be drastically reduced. Consequently, production of plastics, which are made from fossil fuels, may fall dramatically compared to current levels. It is clear that existing plastic containers made with large amounts of fossil fuel derived plastic are not sustainable.

Although fossil fuel usage fell in 2020 due to the impact of the COVID-19 pandemic, it will be necessary to keep fossil fuel use under control and address the rising demand for plastics in order to strike an appropriate balance between fostering economic recovery and the transition to a decarbonized society. In light of this situation, we recognize the growing importance of reducing plastic usage and of recycling.

Currently, because there is a stable supply of plastic products and packaging, and because they are reasonably priced, lightweight, multi-functional and

corrosion-resistant, they play an indispensable role in realizing consumers' Kirei Lifestyle. However, because plastic products and containers are mostly made from fossil fuels, if they are not disposed of properly after use they can cause environmental problems.

An additional issue is that, currently, around one-third of all food produced in the world is thrown away as waste. Given that around 8% of annual GHG emissions derive from food waste, there is a clear need to reduce the amount of food that is wasted.

Zero waste 102-12, 102-15, 103-1, 103-2, 306-1, 306-2 (Waste 2020)



Kao's creating value

We are continuously implementing 3R activities to reduce, reuse and recycle waste generated at plants, distribution sites and offices and with regard to products and packaging.

In the area of plastic packaging in particular, we are undertaking ongoing development and use of film packaging that use about one-sixth of the plastic, and products in refillable film packaging are becoming popular in Japan. We are rolling out these technologies to overseas group companies, making it possible to reduce the amount of plastic used in packaging. It goes without saying that if other companies also use these products, the effects will be even more substantial.

Furthermore, efforts to recover waste that has already been released into the environment greatly contribute to the protection of marine and land ecosystems.

Risks related to realization of What Kao Aims to Be by 2030

Items	Contents
Policies, laws and regulations	Stricter regulations on the processing of waste generated at worksites, increased regulation on consumption of plastic packaging (mandatory use of recycled plastic, taxation), mandatory labeling of information on plastic use, etc.
Technology	Increased volumes of waste generated from worksites in conjunction with the manufacture of new products and unsuccessful attempts to develop technology for reducing plastic consumption or using recycled plastic
Markets	Higher disposal costs as a result of increases in the volume of waste generated in excess of disposal capacity throughout society, changes in consumer preferences, rising costs for virgin plastic or recycled plastic, increased consumption of hygiene-related product packaging due to enhanced consumer hygiene awareness resulting from the COVID-19 pandemic, etc.
Reputation	Criticism of the industry or of individual companies, stronger concerns among stakeholders, changes in consumer preferences, etc.

Opportunities related to realization of What Kao Aims to Be by 2030

Items	Contents
Resource efficiency	Lower disposal costs as a result of decreases in the volume of waste generated from worksites and lower costs for packaging, better transportation efficiency, etc. as a result of reducing plastic consumption
Products, services	Reduction in the volume of waste generated through the development of resource-saving products, higher sales due to expanded use of packaging using less plastic and development of innovative packaging, higher income due to licensing of development technology
Markets	Higher sales due to improved access to new markets, use of public incentives for developing innovative technologies, etc.
Resilience	Improved resilience through actively continuing to promote 3R activities for plastic packaging, and by providing even more environmentally friendly plastic packaging, rather than merely returning to the situation that existed before the COVID-19 pandemic

Contributions to the SDGs



Policies

We believe that, in all processes from new product development through to disposal of used products, we should make an ongoing effort, as far as possible, to reduce the quantity of product that is subject to being disposed of and recycled, and that with respect to product that does require disposal or recycling, we should try to recycle as much as possible, and ensure that the product which cannot be recycled is disposed of appropriately.

In accordance with our Basic Principle and Basic Policies on Environment and Safety, we are working to develop technologies that take into consideration

resource conservation, energy conservation, waste and byproducts reduction and other issues in the product design stage. In production, we are taking measures to efficiently use resources and energy and to reduce, reuse and recycle waste and byproducts. Furthermore, the Kao Responsible Care Policy contains the following declaration: "We shall reduce, reuse and recycle waste and strive to continuously reduce environmental impact."

Our Environmental Statement embodies our commitment to ensuring that "Kao products utilize original Kao-developed technologies to minimize the impact they have on the environment, not just in the manufacturing process, but in the daily life of the customers who use them. From materials procurement and manufacturing, to distribution, sales, use and final disposal, we want to engage in 'eco together' with stakeholders and consumers worldwide."

With the aim of realizing these policies in concrete terms, in October 2018 we announced Our Philosophy & Action on Plastic Packaging, which clearly enunciates that our action on plastic packaging is driven by our 4R (reduce, replace, reuse, recycle) programme based on continuous improvement and bold innovation.

In September 2019 we announced that, as part of our efforts to realize ESG-driven *Yoki-Monozukuri*, we would be taking responsibility for our products not only until they are sold, but until they are disposed of, and that we would be focusing heavily on Innovation in Reduction and Innovation in Recycling aimed at building the plastic resource circulating society. In May 2020, we established the Recycling Science Research Center in our R&D Division to drive business development with a plastic resource circulating model. To realize our vision,



we are collaborating with other business enterprises, local governments and universities as we seek to realize a resource-circulating society.

A further point is that food waste connected to our businesses is of relevance to Kao's beverage business. In regard to food waste, we are working to reduce the amount of waste generated as much as possible, and striving to ensure that when the generation of waste is unavoidable, this waste is recycled.



→ p. 117 RecyCreation activities



→ Our Philosophy & Action on Plastic Packaging
www.kao.com/content/dam/sites/kao/www-kao-com/global/en/sustainability/pdf/plastic-packaging-001.pdf

→ Kao's New Challenges for the Future
www.kao.com/global/en/news/business-finance/2019/20190926-001/

→ Basic Principle and Basic Policies on Environment and Safety
www.kao.com/content/dam/sites/kao/www-kao-com/global/en/sustainability/pdf/environment-safety-principle-policies.pdf

→ Kao Responsible Care Policy
www.kao.com/content/dam/sites/kao/www-kao-com/global/en/sustainability/pdf/responsible-care-policy.pdf

→ Kao Environmental Statement
www.kao.com/content/dam/sites/kao/www-kao-com/global/en/sustainability/pdf/environmental-statement.pdf

Efforts in raw materials procurement

To reduce waste generated at our plants, we continuously work with external suppliers to adjust the volume and frequency of raw materials deliveries. This contributes to reducing the amount of packaging materials our suppliers procure as well as reducing CO₂ emissions from the transport of raw materials.

Measures taken in relation to our products

We offer products such as disposable diapers and cleaning sheets that become waste after consumer use. While ensuring product performance, we are developing technologies to reduce the amount of materials used in products and contribute to reducing waste in order to reduce the amount of waste generated after product use. This also reduces costs and CO₂ emissions in conjunction with waste processing.

We also use recycled plastic for some of our products. As a result, we are able to reduce the amount of virgin plastic used, which leads to a reduction in the use of fossil fuels, the raw material for plastic. We are aware that these measures are important for solving the problem of plastic and creating a decarbonized society.

In addition, we are making a switch concerning the eye-catching plastic stickers used on products to attract consumers' attention to certified paper when they absolutely must be used and eliminating all other use by the end of 2021.

Initiatives targeting packaging

Kao undertakes measures in compliance with the ISO 18600 series standards for packaging and the

environment. Specifically, we are reducing the amount of materials used in packaging, and in particular we are reducing the use of plastic packaging, which has become a serious issue for society, by adopting a 4R (reduce, replace, reuse, recycle) approach from an Innovation in Reduction and Innovation in Recycling perspective.

Innovation in Reduction

This involves initiatives to reduce the amount of fossil fuel derived virgin plastic used.

• Reduce

We are continuing to take steps to make containers and packaging thinner, as a means of reducing the amount of plastic used in individual products.

• Reuse

We are promoting the adoption of refill and replacement products. The use of plastic film packaging enables us to slash the use of plastic to just one-sixth compared to plastic bottles. To expand the use of film packaging, we have continued to make improvements to these refill products according to bottle size, the viscosity of the contents and so on to make refilling easier for consumers, and we encourage the internal and external use of innovative film packaging. We are exploring the possibility of in-store refilling whereby consumers bring packaging to the store and purchase only the products they are filled with. In addition, we have adopted a "take-back" system for some products, whereby we take back used containers from customers and then clean them and re-use them.



- Replace

We are working to replace fossil fuel derived plastics with alternative materials such as paper and glass as well as recycled plastic and plant-derived plastic. We have been using recycled paper for the carton boxes and instructional inserts for many products, including powdered laundry detergent, since the 1960s, and we plan to expand their use.

Innovation in Recycling

This involves initiatives to recover used packaging and recycle it to create recycled plastic.

- Recycle

Recycling includes initiatives to develop packaging that is easy to recycle. Based on the fundamental technology that we have accumulated until now, we are focused on creating innovative recycling technologies for used plastic, developing and using high-quality, low-cost recycled plastics, encouraging activities that generate value from used plastic, and using plastic waste for industrial applications. We are also undertaking initiatives to replace refill packaging made from multiple layers of different plastic materials with a single material.

We are establishing a framework to recover used packaging and recycle it.

Efforts in development, manufacturing and sales

We are reducing the amount of waste generated at our plants and offices, and we are reusing and recycling waste and other materials inside and outside the company. We have set reduction targets for how much waste we generate and are working

company-wide to achieve them.

At plants, we are reducing loss of raw materials and products. For example, for liquid products, wastewater sludge is produced as a result of cleaning the mixing and storage tanks at the production facility when the product produced is switched. For sheet-type products, a portion of the sheet material is left unused when the material is switched out. We are studying loss reduction countermeasures on an ongoing basis according to the type of loss that occurs. We then implement improvements to reduce waste.

Because products that are returned from stores are ultimately disposed of as waste, considerable expense and environmental burdens arise including the waste of resources and GHG emissions during the disposal process as well as considerable disposal-related expense. Going forward, we will work with stores to review product shipping and stock replenishment methods in an effort to minimize waste.

In addition, sales promotion materials are discarded after use, so we are making a transition to disseminating information using digital means.

Enhancing waste recycling

It would be difficult to reduce generated waste to zero with currently available technology. Accordingly, we ensure that generated waste is thoroughly sorted, and we select the most appropriate recycling methods in cooperation with contracted waste treatment providers. We monitor the amount of waste recycled and sent for final disposal along with the amount of waste generated to improve how waste is treated overall.

Preventing illegal dumping of waste

When contracting waste treatment service providers to dispose of waste generated at our plants and offices, there is a risk of illegal dumping. To reduce this risk, we regularly visit the service providers to verify that the contracted waste is being disposed of appropriately. The Kao Group in Japan has created a database containing information including contracts with waste treatment service providers and the results obtained from surveys of appropriate waste treatment to prevent illegal dumping. This system is also connected to the Electronic Manifest System, which also ensures prevention of illegal dumping.

Proper storage and treatment of PCB waste

Polychlorinated biphenyls (PCBs) were formerly used in insulating oil, such as in transformers and ballasts, but they have low degradability and therefore pose a risk to human health and can create hazards in living environments. We appropriately store and treat PCB-containing waste in accordance with the law until its disposal is contracted to a service provider.

Reducing food waste

We are working with the business partners of our Beverage business to review the rules governing product returns for products that are nearing their expiry date. Some returned products can be utilized effectively in methane fermentation and composting. Through activities such as these, we are taking steps to reduce food waste.



Education and promotion

Many of our products become waste after use. We are facing this fact earnestly and recognize the importance of giving our employees the chance to learn about the generation of waste from our business activities and used products through various programs and to actively engage in waste reduction measures of their own accord. To this end, we have created many opportunities for employee education.

If, in addition to plants' waste reduction activities and technology development that is oriented toward using fewer resources in manufacturing, there is also a strengthening of employees' waste awareness, then this will help to enhance Kao's activities in this area. A further point is that employees are also consumers, and in their role as consumers it is important that they choose products more carefully and take steps to deal with waste properly.

With regard to packaging, our research laboratories, Procurement, SCM, Business divisions, the ESG Division, etc. engage in a periodic exchange of views regarding Kao's strategy in this area, the issues faced, and how to address them.

Collaboration and engagement with stakeholders

We recognize that, in order to help consumers realize the Kirei Lifestyle, it is vital for us to deepen mutual understanding with a wide range of stakeholders and collaborate with them, by developing mutual communication.

As the waste generated by our production activities impacts on local communities, having good communication with local communities is also vitally important. Many of our plants compile an annual environmental report, and communicate with local residents.

Methods of processing waste generated from our business activities as well as waste generated by consumers and customers after using our products are regulated by government agencies. In order that more waste can be recycled, and to make the processing of waste easier, lobbying undertaken in collaboration with industry organizations is very important.

It is also vitally important to share ideas with suppliers and undertake collaborative R&D with them, in order to reduce the amount of plastic used in packaging and enhance its recyclability.

To realize a Kirei Lifestyle for consumers, a change in consumers' behavior is needed. We provide opportunities to think about the Kirei Lifestyle through visits to museums and plants that take Kao products as the theme. This visit program includes displays that enable participants to get a real feel for the amount of waste generated from products manufactured using limited amounts of resources.

Framework

Management of waste generated from business activities is carried out by the Internal Control Committee and management of waste generated from used products as well as packaging is conducted by the ESG Committee under the supervision of the Board of Directors. These committees are headed by the President and Chief Executive Officer.

The officer responsible for the Corporate Strategy Department serves as chair of the Responsible Care Promotion Committee, and the Corporate Strategy Department of the Responsible Care Division serves as the Secretariat for the committee. The committee meets twice annually to report on and discuss the state of compliance with laws and regulations at all worksites throughout the world, the amount of waste generated, the status of recycling and other matters, and sets targets for the following year. The Responsible Care Promotion Committee conducts monthly checks on compliance with laws and regulations, monitors waste amounts and the status of recycling, mainly at plants which have a large impact, and reports on these and other matters to the head of the committee, committee members, members of the Internal Control Committee, auditors and others.

Activities related to waste issues are reported at the Japan RC Meeting and Global RC Meeting under the supervision of the Responsible Care Promotion Committee. The SCM Division, which manages our plants that account for the majority of waste generated by our plants and offices, holds the

Zero waste 102-20, 103-2, 306-2 (Waste 2020)

Environment Working Group Meeting with environmental staff at all plants, manages progress relating to activity targets regarding recycling and reducing waste at plants, and internally develops Best Practices.

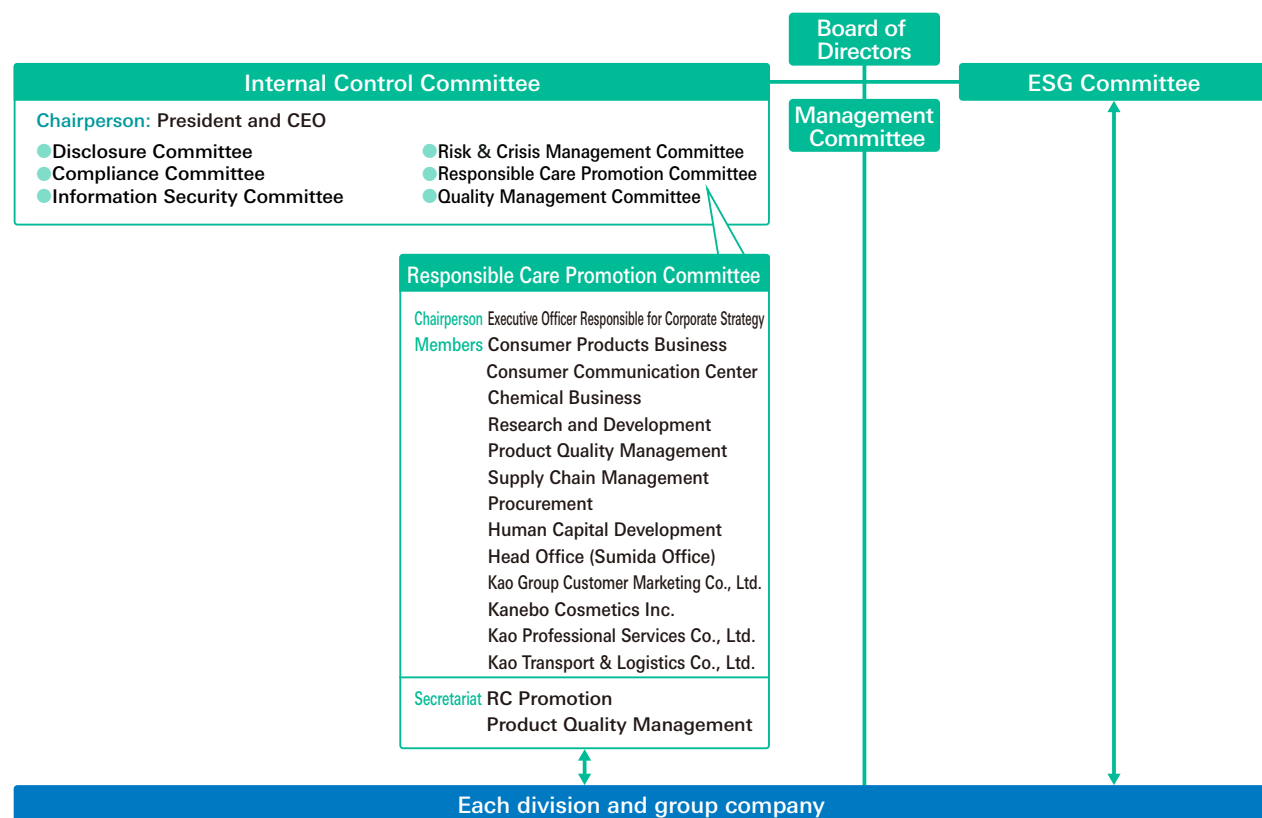
The Internal Control Committee meets one or more times each year, receiving activity reports from the Responsible Care Promotion Committee and other subordinate committees that it oversees and auditing the activities of those committees.

Management of waste generated from used products is handled by the ESG Committee, which meets four times a year. Committee members are the persons in charge of the business, Sales, R&D, SCM and other divisions, an arrangement which connects divisions horizontally. The Internal Control Committee and the ESG Committee under it supervise and discuss environmental issues including waste derived from packaging as well as social and governance issues.

Site inspections of waste treatment service providers are conducted systematically in cooperation with the SCM Division, Procurement Division, Logistics Division, Enterprise Information Solutions Division, Sales Division and related companies.

Data reliability is ensured by using a database that centrally manages environmental data for all Kao group sites throughout the world, and by standardizing tasks and making them more efficient, we are able to conduct activities properly.

Waste, Container and Packaging Management Systems



* As of December 2020



→ p. 18 ESG promotion structure





Mid- to long-term targets and performance

2020 and 2021 targets

Index	Scope	2020 targets	2021 targets
Generated waste and other unwanted materials*1	All Kao Group sites	33% reduction	
Final disposal ratio*2	Kao Group in Japan	0.1% or lower	0.1% or lower
% of products which have abolished plastic-made eye-catch stickers	Consumer products of the Kao Group	—	100% (When stickers are absolutely necessary, certified paper will be used)

*1 Per unit of sales (2005 baseline)

*2 Ratio destined for final landfill disposal to the amount of generated waste

2025 mid-term targets

Index	Scope	Targets for 2025
Practical use of innovative film-based packaging made from collected pouches	Kao Group	Products launch

- Develop film packaging made from a single material
- Shift to 100% recyclable, reusable packaging
- Consumption of recycled plastics: x5
- Consumption of bio-based plastics: x3
- Recycled PET used for all household product PET bottles (in Japan)

2030 long-term targets

Index	Scope	Targets for 2030
Quantity of innovative film packaging penetration	Kao Group and other companies	300 million products*1
Amount of waste*2	All Kao Group sites	Zero

*1 Annual penetration amount

*2 Amount of waste not recycled from business sites

The following targets were scheduled to be disclosed in 2022:

- Use of PCR (recycled plastic) for PET containers
- Reduction from discarded products and discarded sales promotion materials

Anticipated benefits from achieving mid- to long-term targets

Business impacts

It will be necessary to raise productivity in order to curtail the amount of waste and the like generated from business activities. If productivity is raised, manufacturing costs can be reduced. In addition, promoting recycling can also be expected to reduce waste processing costs.

By using innovative film packaging both internally and externally and meeting our targets for reducing plastic consumption, we can boost sales in new markets and earn revenue from licensing our patents.

By increasing consumption of recycled and recyclable plastics, we can also avoid new taxes on the use of virgin plastic.

Social impacts

By curtailing waste and the like generated from business activities, promoting recycling to achieve zero waste, and developing a society where innovative film packaging that can drastically reduce the amount of plastic used are widespread both inside and outside Kao Group will contribute to enhancing resource productivity throughout society as a whole. Doing this will contribute to realizing a resource-circulating society and make it possible to offer consumers clean products in a future society with limited resource availability. These are important approaches for carrying out the Kirei Lifestyle and achieving One Planet Living vision.



Performance in 2020

Performance

Amount of generated waste and other unwanted materials

In 2020, our activities were aimed at realizing a target of reducing the amount of waste generated by 33% compared to 2005. As a result of reduction efforts at our worksites, the amount of generated waste and other unwanted materials came to 210 thousand tons, representing a decrease of 15 thousand tons compared to the previous year. Due to a fall in sales, the reduction rate (per unit of sales) was 26%, which was 1 percentage point worse than in the previous year. We will continue to strengthen our activities to reduce generated waste and other unwanted materials.

Of the generated waste, 39 thousand tons were hazardous waste. No hazardous waste was transported internationally under the Basel Convention.

Recycling

Waste reused or recycled* came to 192 thousand tons ☒, a recycling rate of 92%.

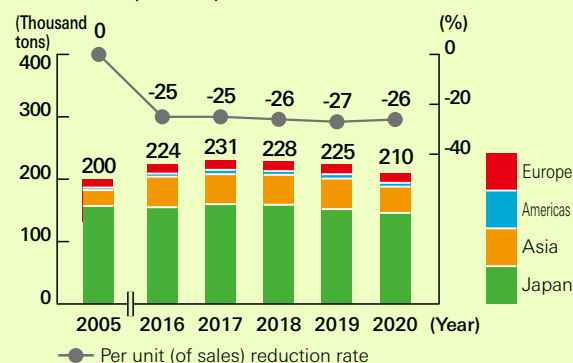
We maintained our target of a 0.1% or lower final disposal ratio for waste. We have achieved our target of zero emissions for the 16th consecutive year since the target was set (final disposal ratio to generated waste for all Kao Group worksites in Japan).

Starting from 2021, as a new zero waste indicator, we have begun to calculate a combined landfill disposal (direct disposal by landfill without special processing) and incineration rate, and we are aiming to reduce this rate to under 1% by 2025.

* Includes thermal recycling (heat recovery)

Assurance provided for amount of generated waste since 2015

Amount of generated waste and other unwanted materials ☒ (all sites)



* Boundary: For 2005, all Kao Group production sites, and all non-production sites in Japan. From 2015, some non-production sites outside Japan are also included.

* Assurance provided for amount of generated waste and other unwanted materials.

* Per unit of sales was calculated based on Japanese GAAP in FY2005, and based on International Financial Reporting Standards (IFRS) from FY2016 onwards.

Food waste

Since 2018, we have been implementing activities to reduce food waste. In 2020, the amount of food waste disposed of by the Kao Group as a whole totaled 592 tons, of which 27 tons were utilized effectively for methane fermentation or composting. We have also been working together with our customers to revise the rules relating to the return of products that are approaching their expiry date.

Changes in Amount of Food Waste (in tons)*1

Item	2017	2018	2019	2020
Amount of food waste generated	4,031	1,081	251	592
Amount effectively utilized (methane fermentation or composting)*2	664	54	20	27
In-house disposal	3,366	1,027	230	565

*1 Scope of total given: Kao's food businesses

*2 Processing contracted out

Inspection of waste treatment facilities

In 2020, due to the impact of the COVID-19 pandemic, the number of waste treatment facilities at which on-site inspection could be performed was lower than in previous years. However, by using documentary review, etc. we still managed to evaluate a total of 86 facilities (in Japan), thanks to collaboration from 70 waste treatment companies. The evaluation results showed that there were no waste treatment companies that did not meet Kao's evaluation criteria.

Eye-catching stickers

The use of eye-catching plastic stickers was reduced by 73%.

Develop film packaging made from a single material

Development of film packaging made from a single material is underway in collaboration with film makers and converters.

Shift to 100% recyclable, reusable packaging

Plastic packaging used for household products in Japan is required by the Act on the Promotion of Sorted Collection and Recycling of Containers and Packaging to have a framework in place for recycling. Kao's plastic packaging is thus already 100% recyclable.

Outside Japan, definitions of what constitutes recyclable packaging vary depending on the country or region, and recyclability also depends on the recycling systems that exist in each country or region. We are therefore working to confirm not only packaging specifications but also the sales areas for each type of packaging.



Amount of recycled plastic used

Recycled plastic made from used plastic is utilized for shampoo, conditioner and body wash products by Kao (Taiwan) Corporation, and it is also used by the salon-oriented *Kerasilk* brand in Europe and by the *Oribe* brand in the U.S., etc. The total amount of recycled plastic used in 2020 was 427 tons (1.3 times as much as in 2019).

Amount of bio-based plastics used

Bio-based plastics are used for *Merit* shampoo and conditioner, *Segreta* shampoo and conditioner, *CuCute* 1,380ml containers, *Raku-raku Eco Pack Refill*, and and shampoo and treatment, and other products, and the total amount used has reached 519 tons (1.1 times the amount in 2019).

Quantity of innovative film packaging penetration

In 2020, the total number of products manufactured using innovative film packaging, calculated as a combined total for *Raku-raku Switch*, *Air-in Film Bottle* and *Tube-Like-Pouch*, was approximately 1 million items.

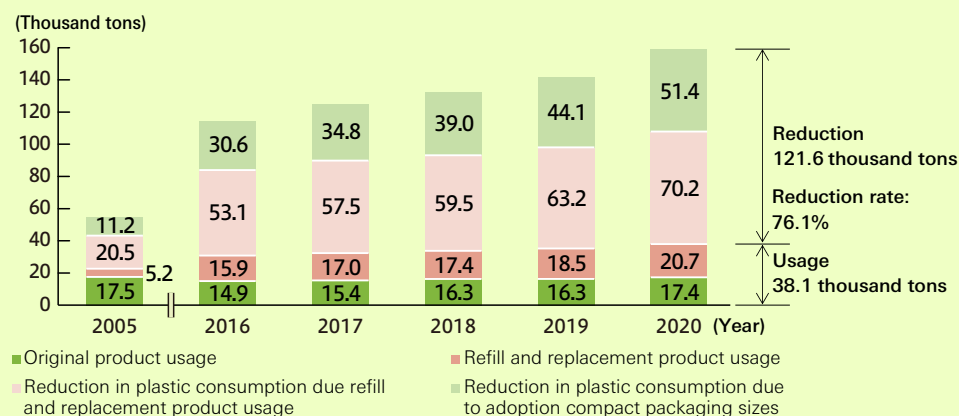
Amount of packaging used

Kao Corporation now offers 370 refill and replacement product (as of December 2020), with a penetration rate of 83% and slightly more than 80% recently. The refill ratio for fabric bleach in particular now stands at more than 90% (unit basis).

Plastic consumption has been reduced by 70.2 thousand tons through the use of refill and replacement products. If the impact of making products more concentrated is also factored in, then the overall amount of reduction was 121.6 thousand tons, and the

reduction rate (compared to if the products had been packaged in the original plastic packaging) was 76.1%.

Usage and reduction volume of plastic in refill and replacement categories



* Scope: Kao Corporation

* Body wash, hand soap, shampoo & rinse, liquid laundry detergent, fabric softener, kitchen cleaner, household cleaner, bleach, mold remover

* The data originally given for 2019 contained errors, which have been corrected.

Amount of plastic packaging used per product

The amount of plastic packaging used per product varies by region, at 0.36g in Japan, 0.84g in the Asia region, and 0.78g in Europe and the Americas. These figures are for comparable products in the household-use shampoo and rinse category.

We are aiming to reduce the amount of plastic packaging used per product through the widespread adoption of innovative film packaging and of refill and replacement products.



Our initiatives

Measures taken in relation to our products

Reducing the amount of product materials used

We continue to reduce the materials used in making products that become waste after product use by consumers. For example, we reduced the product weight of medium-sized *Merries* disposable taped diapers by 37% while improving product function compared to its 1990 version.

Paper hot water pipes

Paper hot water pipes handled by Chemical Business combine molding technologies with high-temperature material technologies and are made from waste paper. Compared to general ceramic hot water pipes, the amount of raw materials used is reduced to one-tenth and post-use waste to one-sixteenth.

Products that use recycled materials

We use recycled materials for some of our products. We have been using recycled paper in the carton boxes and instructional inserts of many products since the 1960s, including powder-type clothing detergents. We use recycled polypropylene (PP) in the measuring spoon for *Attack* powder type laundry detergent, which was first put on the market in 1987, and recycled polyethylene terephthalate (PET) in the fibers of *Quickle Wiper* floor dry cleaning sheets, which first appeared on the market in 1994.

Using waste PET to make *NEWTLAC 5000* asphalt modifier

Chemical Business has used Kao's proprietary modification and compounding techniques on discarded PET materials (waste PET) to develop *NEWTLAC 5000*, a new type of asphalt modifier, through upcycling. The full-scale commercial launch of the new product took place in late 2020.

Besides improving the durability of road surfaces in the same way as conventional asphalt modifiers, because *NEWTLAC 5000* uses waste PET, the disposal of which has become a problem for society, it makes it possible to create asphalt road surfaces that are not only durable but also environmentally friendly. (Approximately 1,430 PET bottles are used in surfacing an area of road of 100m²)

Recycling of used disposable diapers

Field testing of technology to convert used disposable diapers into carbon material began in January 2021, in collaboration with Saijo City, Ehime Prefecture, where Kao Sanitary Products Ehime is located. We have developed carbonization technology that reduces the amount of CO₂ emitted during recycling, while also sterilizing and eliminating odor, and reducing the volume occupied by the recycled material. We are proceeding with activities to develop applications for the carbon material obtained through recycling, including industrial uses, air and aquatic environment purification, and plant cultivation.

The recycling system development was undertaken through joint research with Kyoto University Open Innovation Institute.

Initiatives targeting packaging

Initiatives to reduce

Smart Holder and *Raku-raku Eco Pack Refill*

In 2017, we proposed *Raku-raku Eco Pack Refill*, which can be used with our *Smart Holder*, improving usability and allowing the product to be completely consumed, thus reducing environmental impact. This eliminates the need for an original plastic bottle.

Until now, these were sold only on our online site, but we implemented a full-scale rollout to stores in April 2020. We believe this will make them accessible to more consumers and will encourage use.



Smart Holder and Raku-raku Eco Pack Refill

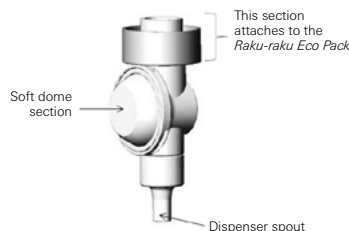


Launch of the *Raku-raku Switch* for dispensing a fixed amount from film packaging with one light push

Bioré u The Body—Body Lotion for Wet Skin, which was launched in September 2020, uses a *Raku-raku Switch* that, when attached to a *Raku-raku Eco Pack*, makes it possible to extract a fixed amount of liquid with just a light touch. Compared to bottles with pumps, *Raku-raku Switch*-equipped products reduce the amount of plastic used by around 50%. From a universal design perspective, these products have the outstanding feature of being easy to use even for people who do not have much strength.



Raku-raku Switch



→ The following pages have more information about the *Raku-raku Switch*:
p. 56 Making my everyday more beautiful > Universal product design > How the *Raku-raku Switch* and hanging-type pack are used
p. 64 Making thoughtful choices for society > Sustainable lifestyle promotion > Launch of products using *Raku-raku Switch*

***Air-in Film Bottle* technology adopted for use in *MyKirei by KAO* products sold in the U.S.A.**

In April 2020, Kao-developed *Air-in Film Bottle* film packaging began to be used for the first time for *MyKirei by KAO* products sold in the U.S.A. The film is the same kind of soft material used in refill packaging. The bottles gain their rigidity through an air fill, allowing them to stand upright, and compared to conventional pump bottles, they use approximately 50% less plastic. Additionally, compared to conventional bottles there is less liquid left in the bottles when they are disposed of.



MyKirei by KAO



→ For more information about *MyKirei by Kao*, see p. 72 Making thoughtful choices for society > Purpose driven brands > *MyKirei by KAO* (by KAO USA in the U.S.)

***Tube-Like-Pouch (TLP)* film packaging adopted for *John Frieda* products sold in the U.S.A.**

Starting from July 2020, we began using the Kao-developed *Tube-Like-Pouch* film container for some *John Frieda* hair care products for both in-store and online sales (via Walmart.com) at the U.S. retailer Walmart on a limited-edition basis. *Tube-Like-Pouch* uses material that has previously mainly been used in film packaging for refill packs as the original product container. As a result, the amount of plastic used is reduced by 50% compared to conventional bottles, and nearly all the liquid can be dispensed from the container.



Tube-Like-Pouch

Total elimination of eye-catching plastic stickers

Eye-catching plastic stickers attached to products provide consumers with information on product advantages and correct usage at the time of purchase, but they increase the amount of plastic used, and the increase in plastic waste and CO₂ emissions at the time of disposal is an issue.

As a result, we are working to completely eliminate the use of eye-catching plastic stickers. In 2020, besides products sold in Japan, we also

Zero waste 301-2, 301-3, 306-2 (Waste 2020)

proceeded with extending implementation of this program to include products sold overseas, including body wash produced in Vietnam, foam-type facial cleanser produced and sold in China, and makeup remover produced and sold in Indonesia, etc.



Body wash produced in Vietnam



Foam-type facial cleanser produced and sold in China



Makeup remover produced and sold in Indonesia

Initiatives to replace Use of recycled plastic

We are increasing the use of recycled plastic for packaging around the world.

In 2020, new containers made using recycled plastic were launched for the *Kerasilk* brand, which is oriented toward the salon market in Europe, and for the *Oribe* brand in the U.S.



Kao Shampoo, Kao Body Wash, Bioré Prime Body, and Men's Bioré Shampoo in Taiwan:

Adopted packaging using 100% recycled plastics since 2016



Kerasilk brand, oriented toward the salon market in Europe: Starting from 2020, plastic containing 50% recycled polyethylene terephthalate (PET) has been used for hand wash and hand lotion containers.



The Foundations and *The Amplifiers*, Oribe brand salon products in the U.S.: Starting from 2020, plastic comprising 100% recycled polyethylene terephthalate (PET) that was recycled in the U.S. has been utilized for in-store bottle use, allowing bottles to be continuously recycled.



Quickle Wiper Wet Sheets (in Japan): Packaged in bags that are made from 80% recycled plastic

Use of bio-based plastics

We are actively developing technologies for using bio-based plastics for bottles and refills. Since we began this initiative in 2012, our consumption of bio-based plastics and the range of products for which they are used have continued to expand.

For example, *Raku-raku Eco Pack Refills* are made from 15% bio-based plastic on a weight basis.



Products using packaging made from bio-polyethylene





Initiatives to Reuse (promoting the adoption of refill and replacement products)

We continue to provide refill and replacement products and expand sales of *Smart Holder*.

Refillable in stores

At *Molton Brown*, following on from the packaging reduction initiative implemented in 2019 (specifically, in-store refill for Eau de Toilette and Eau de Parfum), starting from 2020, reusable glass bottles and *Fine Liquid Hand Wash Refills* have been on sale both in-store and online in Europe and in the Americas. The amount of plastic used in making a refill pouch is 80% less than the amount used in 2 conventional 300ml bottles, so it is anticipated that this initiative will help to reduce single-use plastic usage and reduce the volume of waste.



Reusable glass bottle and *Fine Liquid Hand Wash Refill*

Printer head refurbishment

In 2012, Kao Collins launched a refurbishment program for some inkjet printer heads that are no longer usable. This initiative has reduced the number of printer heads that are discarded, and has led to a reduction in the environmental impact.

Take back system creation

Chemical Business is conducting a program to reuse sold product packaging (take back system) to reduce their environmental impact. In 2020, a total of 17,455 1-ton containers (IBC containers) used for corporate customers were collected for reuse.

Assessing the environmental impact of initiatives to promote the adoption of refill and replacement products

In 2019, working in collaboration with Professor Norihiro Itsubo of the Faculty of Environmental Studies, Tokyo City University, we used the LIME3 method to conduct an environmental assessment of the use of refill packaging, which is widely used in Japanese society. Results of the assessment indicated that societies that use refill packaging have a lower environmental impact than societies that recycle original plastic packaging.

Initiatives to recycle RecyCreation activities

We have been engaged in research toward creating a new resource recycling system for packaging. We have proposed the RecyCreation approach, which generates new value by adding technology and the knowledge and ideas of various people to used items. To date, we have continuously conducted verification in five areas with members of the community.

In a trial, we collected used refill packs for laundry detergent, shampoo and other products from members of the community and recycled them to create a block of recycled plastic that symbolizes "creation" of various objects and values that will be useful for community development and lifestyle

development. In September 2020, we made the decision to collaborate with Lion Corporation on RecyCreation, and began field testing at the Ito-Yokado Hikifune store in Sumida-ku, Tokyo of a program to implement in-store collection and recycling of used refill packaging. Going forward, we will be aiming to realize horizontal material recycling that makes it possible for film packaging to be recycled for use in the production of film packaging.



→ RecyCreation on Facebook
www.facebook.com/RecyCreation.jp/ (Japanese)

The RecyCreation Concept



Collection box for used refill packs in Ito-Yokado's Hikifune Store (Outlined in red)



Commencement of the verification process for a resource-circulating model project involving horizontal material recycling*¹ of single-use plastics

In September 2020, Kao was selected by Tokyo Metropolitan Government to be one of the business enterprises involved in the New Business Model for Sustainable Use of Plastics initiative Working together with other participating enterprises and organizations, we will be implementing a resource-circulating model project for horizontal material recycling of single-use plastics.

In the future, by proactively making our voice heard and giving a call to action within CLOMA*², we will be working to secure the understanding and collaboration of a wide range of stakeholders, and will be proceeding with initiatives that embrace the whole of society.

*1 Recycling of materials into products with the same application

*2 Clean Ocean Material Alliance

Initiatives adopted at our business sites

Reducing the amount of waste produced

We handle a large number of liquid products, and reducing the sludge produced from treating concentrated wastewater generated in the process of cleaning tanks and switching products is a major issue.

Kao Industrial (Thailand) treats wastewater using separate wastewater treatment facilities according to the COD concentration of the wastewater, which has

successfully reduced the amount of sludge produced and contributes to reducing waste. Fatty Chemical (Malaysia) has also reduced waste through the adoption of sludge dewatering equipment.

Also, to contribute to reducing the amount of generated waste at retailers, we are working with the understanding and cooperation of retailers to reduce the number of boxes used in the delivery of products.

Employees' voice

Waste reduction activities at Kao Industrial (Thailand)

Dararat Insuwan

Manager of Compliance, Safety and Environment department
Kao Industrial (Thailand)



Around 65% of waste in Thailand is disposed of by landfill. It is the preferred method because it is cheaper than other methods, but landfill disposal has a lot of negative effects on the environment, such as water and groundwater pollution, air pollution, exacerbating climate change, and the risk of spreading infection during a pandemic. So, our goal is to reduce the amount of waste disposed of through landfill by achieving Zero Landfill.

Our efforts to reduce landfill waste have been ongoing, and finally we found that the key to success is "sorting." If we can classify the waste type from the source, then waste management becomes more efficient. The hardest aspect of sorting is how to make everyone understand and cooperate. Just training or one-way communication is not enough. So, we also need to understand the behavior of employees by

observing their behavior in the workplace, analyze the root causes and find the solution by discussion and sharing with related parties, while also implementing frequent follow-up.

After sorting, we found that waste from a particular source can be useful to another process. So, Zero Landfill is achieved by sorting out the non-hazardous waste which has heating value to be used as alternative fuel (RDF) or alternative raw material in the Cement Kiln plant process, and sorting out the "concrete waste" incombustible waste from laboratory testing to be used as material for garden decoration by donation to the local municipality. None of the above activities can be successful without the cooperation of all employees and without effective teamwork.

Although we have been successful in realizing Zero Landfill, we are committed to continuing to improve efficiency in waste management by focusing on reducing waste generation at source, following the Zero Waste Management Concept to achieve the Kirei Lifestyle Plan's Zero Waste goal by 2030.

Zero waste 301-3 ,306-2 (Waste 2020), 404-2

Enhancing waste recycling

Waste recycling in manufacturing

One example of this is recycling the waste generated by the manufacture of diaper and feminine products to be turned into plastic pallets. We began test operation of this system at our plants in 2016, with cooperation from research laboratories and related divisions using the strengths of our matrix management.

By 2020, we were able to recycle 772 tons of waste into approximately 49,620 plastic pallets.

Spreading internal awareness of zero waste

Global RC Meeting

As a part of our Responsible Care (RC) measures, RC managers in Japan, and RC managers of overseas subsidiaries with manufacturing plants, hold an annual meeting. The aims are to invigorate RC activities and raise their level including reducing waste produced by subsidiaries.

Unfortunately, in 2020 this activity had to be held through the exchange of documents, because of the COVID-19 pandemic.

RC Environment Committee of the SCM Division

The RC Environment Committee of the SCM Division meets twice annually to gain an understanding of conditions at each plant and share information on best practices with the objectives of curtailing the production of waste from plants in Japan and promoting recycling.

A packaging review meeting

To promote activities and understanding internally, Packaging Technology Research holds packaging review meetings when new and improved products are launched. Members from the relevant divisions, including business units, the SCM Division and the Consumer Communication Center, evaluate the environmental performance of the packaging.

In 2020, a total of 54 meetings were held in Japan, and 4 elsewhere in Asia. All of these meetings were held online.





Collaboration with stakeholders based on “eco together”

“eco together” with consumers/customers

Awareness-raising activities at the Kao Eco-Lab Museum

To encourage more consumers to choose refill and replacement products that greatly reduce plastic consumption, overviews of Kao’s packaging initiatives have been presented at the Kao Eco-Lab Museum and at the EcoPro exhibition.



Display enabling visitors to get a real feel for how much plastic is used in packaging

Ways to look after and wash eco-friendly reusable shopping bags to keep them clean

With the rise in awareness and concern for the environment, as well as the fact that consumers are increasingly having to pay for plastic shopping bags, 88% of people reported taking an eco-friendly reusable shopping bag with them when they go shopping (according to a survey conducted by Kao in December 2019).

In relation to new legislation in Japan that came

into effect in July 2020, requiring consumers to pay for plastic shopping bags in shops, the Kao Consumer Research Center has posted hints on ways to look after eco-friendly reusable shopping bags, which are now being used more frequently, and to keep them clean, on the life information website (Japanese).

“eco together” with business partners

Recognizing that it is essential to collaborate with manufacturers producing materials, recycled plastics and packaging when developing and launching new packaging, we work together with a wide range of business partners.

“eco together” with society

Clean Ocean Material Alliance

We are participating in the Clean Ocean Material Alliance, which was established to encourage global initiatives for solving the ocean plastic pollution problem. The Kao Corporation Director and Chair is chairman of the alliance, and Kao is taking a leading role among Japanese businesses.



→ Clean Ocean Material Alliance
cloma.net/english/

Package collection measures

Together with outside organizations, we are involved in recovering packaging, etc. discharged into the natural environment.

In September 2020, we concluded a cooperation agreement with Wakayama City. To protect the ocean from pollution, including marine plastic waste, arising from land-based activities, marine plastic waste collected in Wakayama City are processed into recycled plastic and various uses for the recycled plastic are examined. Kao is also engaging in unique clean-up activities for river and ocean waste and in the community.

Introducing cases at seminars on waste

In Japan, it has been reported that many incidents occur at waste treatment companies, which are caused by not providing sufficient information on the chemical substances to the contractor when contracting the waste treatment.

Therefore, we present cases at various seminars regarding waste with the aims of spreading our knowledge about past successful cases of improving communication with waste treatment companies, and identifying points of improvement in how we communicate information.

Thanks to these activities, there were again no incidents involving waste contracted for disposal from us in 2020.



Stakeholder engagement

Hopes and suggestions regarding Kao's plan to collect 10 thousand tons of used refill packaging a year in Japan in collaboration with other companies in the industry and with retailers



Masanobu Ishikawa

Professor Emeritus, Kobe University
Specially Appointed Professor, Eikei University of Hiroshima
President, NPO Gomi-Japan

Message from a Kao employee with responsibilities in this area

In 2020, the hope was expressed that Kao would collaborate with a diverse range of organizations in tackling the challenge of material recycling of composite films.

In this regard, in September 2020 we began cross-company collaboration with Lion Corporation on issues relating to film packaging recycling technology, and in November 2020, two companies began to implement a program at the Ito-Yokado Hikifune store in Sumida-ku, Tokyo for in-store collection of used refill packs for recycling.

Going forward, we plan to expand the number of local governments, enterprises and stores with which we collaborate on collection, and we will be proceeding with social implementation of film packaging recycling.

Key aspects of Kao's activities aiming at zero waste

1. High-level commitment
2. Collaboration with other companies in the industry
3. Tackling the challenges of material recycling of composite films
4. Activities in collaboration with citizens, government agencies, retailers, NPOs, etc.

Hopes and suggestions regarding a further deepening and expansion of Kao's activities

1. A further expansion of collaboration
 - 1.1. Expansion of both horizontal and vertical collaboration
 - 1.2. Adoption of collection methods that can be scaled up
2. Value creation
 - 2.1. Thinking about what kind of value you are aiming to create, and for who
 - 2.2. Striving for value creation beyond basic resource value
3. Product design and technology development
 - 3.1. Standardization of refill pouch design on an industry-wide basis
 - 3.2. Setting a mid- to long-term goal of having packaging made from single materials, on an industry-wide basis

Kao made progress in several areas in its activities in 2020. Having set itself ambitious targets, Kao has revised its existing activities so as to achieve these targets, and after putting in place the necessary systems, both internally and externally, the company has achieved steady progress.

The single most important development is Kao's declaration that, as part of RecyCreation activities, it will be working to collect 10 thousand tons of refill packaging per year by 2025, equivalent to around 20% of all refill packaging consumed in Japan. Kao also announced that it would be collaborating on this goal with Lion Corporation, a company with which Kao is in competition. As an example of business enterprises focusing on creating value for society, this initiative has attracted a great deal of attention, and both companies deserve praise for their bold decision.

In addition, an in-store collection field testing project has been launched, in collaboration with the Seven & i Group, at the Ito-Yokado Hikifune store in Sumida-ku, Tokyo, a district with which both Kao and Lion have links in terms of the location of the head office or other worksites. This kind of horizontal and vertical collaboration in the supply chain can be a key factor in the realization of the circular economy. Other companies have talked about doing this kind of thing before, but Kao and Lion are actually putting it into practice, which is very impressive. I hope that, going forward, not only will the two companies, and the Seven & i Group, work to further deepen their collaboration, they will also expand

the scope of the collaboration, both vertically and horizontally.

In the RecyCreation activities that had been undertaken up until 2019, collection was implemented using a variety of different collection methods at the local level. With this kind of approach, it would be difficult to collect 10 thousand tons of material annually. The next step must be to develop a collection method that is scalable, and having collection handled in-store by retail stores is an effective way of doing this.

As I see it, there are 3 main obstacles to realizing the sustainable collection of 10 thousand tons of used packaging per year. The first challenge is securing consumers' collaboration. Given the relatively small amount of material involved (compared to the overall volume of household waste), the likelihood of getting government agencies to incorporate this type of collection into regular separated collection of household garbage is low, so it will be necessary to get consumers to bring the packaging material to the collection point. A second obstacle is that, taking consumers' convenience into account, it is not realistic to expect consumers to carry packaging material for long distances, so the collection points need to be distributed in many different locations. If the collected waste then needs to be transported from multiple different collection points, how can this "secondary distribution" be made as efficient as possible? The third challenge relates to what the collected material will be used for.

In order to secure consumers' collaboration, it will be necessary to provide value to the consumers who bring the used packaging to the collection points. It would be wonderful if, as far as possible, the value was provided not just to individual consumers, but to, for example, the community as a whole. The drop-off type waste collection and recycling model that AMITA Corporation has rolled out in Minamisanriku-cho and in Ikoma City has proved that this can be done.

Regarding the second, logistics-related issue, there are ways to solve this problem through inter-company collaboration and innovative approaches to the utilization of digital transformation to effectively utilize delivery vehicles that would otherwise have been empty.

With regard to the third obstacle, relating to how the recycled material is actually used, over the medium to long term the range of applications can be expanded by having refill packaging made from a single material adopted as standard throughout the industry. Taking into account the question of consumer communication and the need for stable demand, it would seem desirable for recycled refill packaging to be used to create raw material for refill packaging.

Water conservation 102-12, 102-15, 103-1, 303-1 (Water and effluents 2018)



Reduce water use across all of our business by adopting water-efficient formulations and production methods.

ESG Keyword	Reducing water risks	Proper wastewater treatment	Reducing water consumption throughout the product lifecycle	"eco together"
	Understanding water withdrawal amount by source and wastewater discharge by destination	CDP evaluation	3R	

Kao's creating value to address social issues

Social issues we are aware of

Water is necessary to life for all plants and animals on the Planet. All humans also need access to sustainable sources of sanitary water in order to maintain the whole-hearted satisfaction and enrichment. In Japan, water used for washing apparently accounts for the largest share of total household water usage*¹. Furthermore, given that water used by Japanese households when using Kao products accounts for around 15% of all household water usage in Japan*², we recognize that we have a big responsibility to society.

Currently, problems including localized torrential rains and floods, chronic drought and related long-term dry conditions, are arising in many regions and are predicted to grow in severity due to future population growth and climate change.

In addition, water is a local resource, and consequently, for example, even when the same amount of water is taken from a river, there is a significant difference from the perspective in impact on water resources between water taken in a water resource-rich basin and water taken in a water-stressed watershed. For this reason, when we undertake sustainable operation, we are aware that we need to take action both to reduce the company's

water risk and to give consideration to the local environment and local residents.

*1 Water Resources Department, Water and Disaster Management Bureau, Ministry of Land, Infrastructure, Transport and Tourism

*2 Based on a survey conducted by Kao Corporation

Kao's creating value

We aim to substantially improve water usage efficiency in all stages of the product lifecycles. At our plants, we set targets and continue to aim for water use reduction. We believe that this contributes toward safeguarding the river basins (rivers and their sources) that are used to supply water to the plants.

We are also developing water-saving products, which we are rolling out globally, to reduce water consumption during product use. As we see it, in this way, even if restrictions are placed on water usage, consumers can continue to enjoy lives of cleanliness.

Contributions to the SDGs





Risks and opportunities related to realization of What Kao Aims to Be by 2030

Due to the impact of climate change, the impact of drought and localized torrential rains is already being seen all over the world. Governments and business enterprises are implementing various measures to reduce GHG emissions, but further rises in temperature are inevitable, and the resulting impacts are sure to become even more serious.

At the same time, the number of people living in the world's major cities continues to increase. If urban water infrastructure is unable to keep pace with urban residents' continually increasing demand for water, then residents may not have enough water to use, and it may be impossible to implement wastewater treatment properly. In this case, citizens' cleanliness and sanitation may be under threat. Furthermore, if the cost of municipal water supply rises, then factory operation costs will rise too, with a risk that this may lead to reduced profits. Factories need to act with consideration for the environment and residents of watersheds, and we believe that failure to do so will give rise to reputation risks among local residents and others.

On the other hand, because the rise in awareness of the need to save water and the need for cleanliness and hygiene, which has emerged in relation to climate change, is closely linked to Kao's business areas, current developments also represent a significant opportunity for us. Furthermore, continuous implementation of measures to reduce factory water usage in response to the situations outlined above should lead to both cost reductions and increased profits.

In 2020, the COVID-19 pandemic resulted in new risks and opportunities. The increased awareness of sanitation has boosted demand for cleaning products that use water and created opportunities to increase

sales. On the other hand, water consumption has increased throughout the product lifecycle, particularly during use. As a result, there is a growing possibility that we may not be able to achieve our water reduction targets. Failure to achieve these targets could incur risk of damage to the company's reputation. Even though people's awareness of sanitation has been heightened, if drought occurs, there is a risk that they will not be able to perform cleaning activities adequately, and so will not be able to maintain the Kirei Lifestyle.

Policies

The product use stage accounts for around 90% of total lifecycle water usage for Kao products, with the raw materials procurement stage accounting for only around 10%. As one of Japan's leading manufacturers of consumer products, we are demonstrating leadership by actively rolling out new, water-saving products and striving to realize effective engagement with government bodies and suppliers.

We continue to implement activities aimed at minimizing the negative impact on water conservation at every stage, from product development through to disposal.

In our Basic Principle and Basic Policies on Environment and Safety, we undertake to "assess environment and safety aspects throughout the entire lifecycle of the products, from manufacture through disposal, when developing products and technologies" and to "offer products with a lower environmental burden." Furthermore, the Kao Responsible Care Policy contains the following declarations: "We shall strive to develop technologies and bring to market products that reduce our impact on the environment, thereby contributing to the peace of mind of our business

customers and consumers," and "We shall strive to continue to reduce the environmental impact of our business operations by promoting reduction of uses of resources such as water."

Our Environmental Statement embodies our commitment to ensuring that "Kao products utilize original Kao-developed technologies to minimize the impact they have on the environment, not just in the manufacturing process, but in the daily life of the customers who use them. From materials procurement and manufacturing, to distribution, sales, use and final disposal, we want to engage in 'eco together' with stakeholders and consumers worldwide."



- Basic Principle and Basic Policies on Environment and Safety
www.kao.com/content/dam/sites/kao/www-kao-com/global/en/sustainability/pdf/environment-safety-principle-policies.pdf
- Kao Responsible Care Policy
www.kao.com/content/dam/sites/kao/www-kao-com/global/en/sustainability/pdf/responsible-care-policy.pdf
- Kao Environmental Statement
www.kao.com/content/dam/sites/kao/www-kao-com/global/en/sustainability/pdf/environmental-statement.pdf

Education and promotion

As the product use stage accounts for around 90% of total product lifecycle water use, it is important to design products that contribute to saving water. For this reason, we provide employees with numerous opportunities to learn about this.

By giving our employees opportunities to learn about water through various programs, we can

Water conservation 102-20, 102-43, 103-2



ensure that they will actively engage in water preservation activities of their own accord when engaging in water conservation at plants or conducting R&D on water-saving products. This will raise the overall level of Kao's water saving activities.

Not only are our employees in a position to develop and supply products, when they are not at work, they are consumers, and as such are among the people who select those products. Therefore, it is important that employees also undertake measures to conserve water in the role as consumers.

Collaboration and engagement with stakeholders

We recognize that, in order to help consumers realize the Kirei Lifestyle, it is vital for us to deepen mutual understanding with a wide range of stakeholders and collaborate with them, by developing two-way communication.

As the water consumed in our production activities impacts local communities, having good communication with local communities is vitally important. Many of our plants compile an annual environmental report, and communicate with local residents.

In order to solve water issues faced by countries and regions, we actively participate in programs organized by central government, local government authorities, NPOs and others. We are implementing a water conservation campaign in China and are participating in the Water Project conducted by the Ministry of the Environment of Japan.

It is essential that suppliers in high water risk

sectors understand the need to improve their water management standards and to take appropriate actions. Through the CDP Supply Chain Program, we request that suppliers respond each year.

Consumer behavior needs to change in order for consumers to attain a Kirei Lifestyle. We provide opportunities to think about the Kirei Lifestyle through visits to museums and plants that adopt as a theme the water that all consumers use daily. For example, the Kao Eco-Lab Museum has displays that vividly indicate the amount of household water usage.

Framework

Risk management is carried out by the Internal Control Committee and opportunity management is carried out by the ESG Committee, under the supervision of the Board of Directors. These committees are headed by the President and Chief Executive Officer.

The Responsible Care Promotion Committee, which manages policy / regulatory regime and technology risks, and the Risk and Crisis Management Committee, which manages market, reputational and acute risks, are under the Internal Control Committee. These committees are headed by the executive officer in charge of the Corporate Strategy.

The Crisis Management RC Department of the Corporate Strategy Division acts as the secretariats for the Responsible Care Promotion Committee and the Risk and Crisis Management Committee.

The Responsible Care Promotion Committee meets twice a year to report on and discuss compliance with laws and regulations, status of water use reduction and other matters. It also sets targets

for the following year. The Responsible Care Promotion Committee conducts monthly checks on compliance with laws and regulations, and monitors water use, mainly at plants which have a large impact on water issues, reporting on these and other matters to the head of the committee, committee members, members of the Internal Control Committee, auditors and others. The Risk and Crisis Management Committee which manages natural disaster including caused by climate change and reputational risks, meets four times a year.

The Internal Control Committee meets one or more times a year, receiving activity reports from the Responsible Care Promotion Committee and the Risk and Crisis Management Committee which it oversees and auditing the activities of the two committees.

Opportunity management relating to water issues is handled by the ESG Committee, which meets four times a year. Committee members are the persons in charge of the Business, Sales, R&D, SCM and other divisions, an arrangement which connects divisions horizontally. The Internal Control Committee, and the ESG Committee which it supervises, discuss water and environmental issues as well as social and governance issues. The committee reports on its activities to the Board of Directors one or more times a year and is audited by the Board of Directors.

The risk and opportunity management system for water resources is the same as the management system for climate change.



→ p. 18 ESG promotion structure



Mid- to long-term targets and performance

Targets for 2020

We set the 2020 reduction targets for water consumption for all Kao Group sites in 2013 and have aimed to achieve a 1% reduction each year.

We set the 2020 reduction targets for water consumption during the product use stage for the Kao Group in Japan in 2009. (2005 baseline)

Item	Scope	2020 targets
Water consumption (per unit of sales)	All Kao Group sites	40% reduction
	During consumer product use for the Kao Group in Japan	30% reduction

2030 long-term targets

Item	Scope	2030 targets
Water consumption (per unit of sales)	All Kao Group sites	45% reduction (2005 baseline)
	Overall Kao Group product lifecycles	10% reduction (2017 baseline)
	Overall Kao Group product lifecycles in drought areas	40% reduction (2017 baseline)

Anticipated benefits from achieving mid- to long-term targets

Business impacts

Achieving water consumption targets for all Kao Group sites will contribute to lowering operational costs and to improving earnings. Achieving targets for water consumption during product used and during the product lifecycle will require increased sales of water-saving products, and as a result, increased sales by achieving these targets can be expected.

If no action is taken to reduce usage, the overall municipal water usage of the Kao Group as a whole in 2030 will be 1.66 times higher than in 2017. Assuming that water charges rise by 20%*, then it can be anticipated that our costs will rise by 771 million yen. We have set ourselves the goal of reducing water usage by 45% by 2030 compared to 2005, which is expected to keep the increase in costs down to 51 million yen.

* Source: Development Bank of Japan, The Water Supply Sector: Future Forecasts and Management Reform, 2017.

Social impacts

Achieving water consumption targets for all Kao Group sites will contribute to sustainable availability or supply of fresh water in the river basin where water sources used by plants are located, and will have a positive effect on conserving ecosystems. Moreover, achieving targets for water consumption during product used and during the product lifecycle will reduce the burdens of waterworks infrastructure

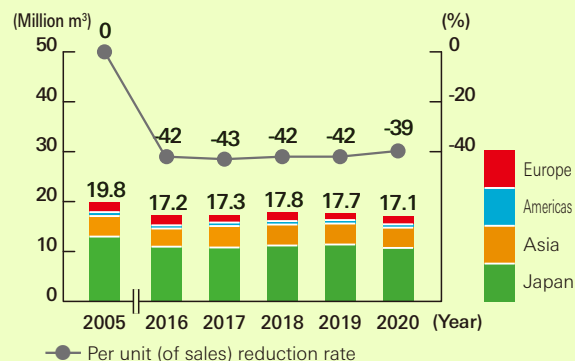
maintenance, and reduce water usage by consumers will lead to lower fees consumers pay for water and sewer service.



Performance in 2020

Performance*

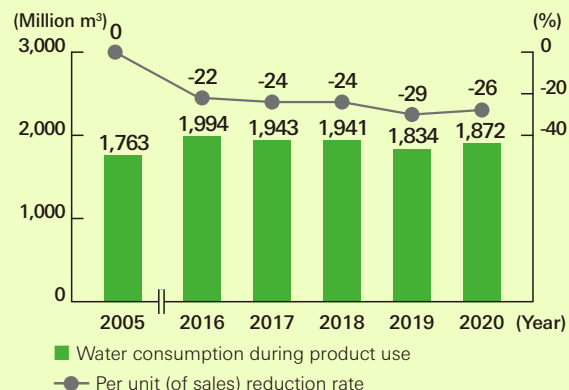
Water consumption (withdrawal) (all sites)



* Boundary: For 2005, all Kao Group production sites and nonproduction sites in Japan. From 2016 all non-production sites are included.

* Assurance provided for water consumption (withdrawal)

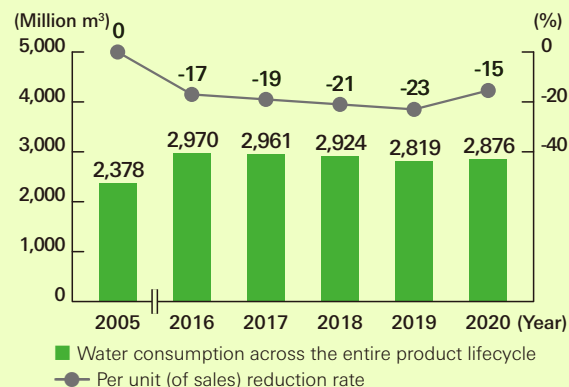
Water consumption during product use (Kao Group in Japan)



* Water consumption during product use is calculated by multiplying the water consumption per unit of a product, mainly for consumer products in Japan, by the annual sales quantity of the product, and then adding all the results for these products together.

* Assurance provided for water consumption and per unit (of sales) reduction rates

Water consumption across the entire product lifecycle (Kao Group)



* "Water consumption across the entire product lifecycle" is calculated as the combined total of the amount of lifecycle water consumption of individual products sold within and outside Japan (excluding use during manufacturing and distribution) multiplied by their annual sales quantity and the amount from the group's manufacturing and distribution processes. This amount includes water used for procurement in regard to Chemical products but does not include water used in the use and disposal of such products.

* Assurance provided for water consumption and per unit (of sales) reduction rates

* Per unit of sales is calculated based on Japanese standards up to FY2005, and on International Financial Reporting Standards (IFRS) in FY2016 thereafter.

Water withdrawal amount by source (Million m³)*

	2018	2019	2020
Surface water	0	0	0
Brackish water / seawater	0	0	0
Rainwater	0	0	0
Groundwater (renewable)	5.3	5.1	5.1
Groundwater (not renewable)	0	0	0
Oil-contaminated water / process water	0	0	0
City water	12.5	12.5	11.8
Wastewater from other organizations	0.02	0.07	0.1

* Boundary: All Kao Group sites

Wastewater discharge by destination (Million m³)*

	2018	2019	2020
Rivers / lakes	2.4	2.5	2.7
Brackish water / seawater	6.4	6.3	5.7
Groundwater	0.0	0.0	0.0
Sewage system	2.9	2.8	2.8
Wastewater to other organizations	0.0	0.0	0.0
Total	11.7	11.7	11.2

* Boundary: All Kao Group sites



→ For the CDP evaluation, see p. 94 Making the world healthier & cleaner > Decarbonization / Performance in 2020: CDP evaluation

Reviews of performance

Our water consumption (all sites) came to 17.1 million m³, slightly less than the previous year, but sales decreased, and as a result the per unit (of sales) reduction rate declined to 39%, and we did not achieve our target of 40% for 2020. Water consumption at production sites with water intake risks came to 3.1 million m³.

Our water consumption across the entire product lifecycle (Kao Group) and water consumption during product use (Kao Group in Japan) increased by 57 million m³ and 38 million m³, respectively, resulting in respective deterioration of 8 percentage points in the per unit (of sales) reduction rate to a 15% reduction (5% increase compared with 2017), and deterioration of 3 percentage points over the previous year to a 26% reduction. The key factors were the fall in sales due to the COVID-19 pandemic counterbalanced by the increase in sales of products with relatively high water consumption per unit of sales, such as hand soap and laundry detergents.

The challenge is to reduce water consumption during the use stage. We are working to further expand our water-saving products.



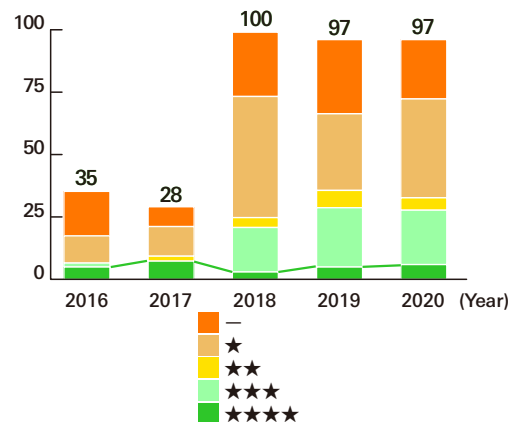
Our initiatives

Efforts in raw materials procurement

We began participating in the CDP Supply Chain Program in 2015 and we encourage suppliers in high water risk sectors to work on improving their water management standards. More specifically, we ask suppliers to fill out the CDP questionnaire survey. We use our unique methods to evaluate suppliers' water management status, and we provide feedback on the evaluation results.

The 2020 survey results showed that the number of suppliers obtaining an evaluation of at least "three stars" had increased by one compared to the previous year, indicating that the overall supplier activity level had risen. At the same time, in regard to the roughly 30% of suppliers who failed to respond to the survey, we are working on engagement to encourage these suppliers to respond.

Supplier activity level (Water)



Efforts in development, manufacturing and sales

Initiatives to reduce water consumption

We use water as a product ingredient as well as to clean and cool equipment at our plants. We set targets to reduce water consumption at each plant and are working to reduce consumption and increase recycling based on the 3Rs (reduce, reuse and recycling).

Reduce

Multiple plants including Kao Chemicals GmbH in Germany conduct efforts to increase the number of

times that water is reused for boilers and for cooling to reduce their water consumption.

Reuse

Rainwater is collected and used to water green spaces at the Sumida Office, Kao Chemical Corporation Shanghai and Fatty Chemical (Malaysia).

Recycle

Active recycling efforts, such as recovering steam and treating and reusing water that has been used in production processes, are being carried out at many plants.

Examples of 3R activities

Company name	Description of activity
Kao Chemical Corporation Shanghai	Reduces its water consumption for the manufacturing of some products by reusing water from reaction processes of other products
Kao Vietnam	Introduced a spray technique for washing and sanitizing tanks, resulting in reducing its use of water and steam
Kao Industrial (Thailand)	Returns cooling water overflow to a cooling water pool to help eliminate unnecessary water consumption
Quimi-Kao, S.A. de C.V. (Mexico)	Concluded an agreement with the local community to receive treated water from the community's wastewater treatment plant. Reverse osmosis is employed to use sewerage effectively, and Quimi-Kao further purifies the treated water it has purchased and releases water left over from production into a river through the community's facility, thus contributing to local water recycling



Climate change scenario analysis

It is reported that changes in the amount of rainfall and the rise in sea level caused by climate change are not the same around the world, and are different between regions. According to the RCP 8.5 scenario, future average annual rainfall will increase in high latitude and Pacific Ocean equatorial regions, and will decrease in arid mid-latitude and subtropical regions during the period from 2080 to 2100. According to that scenario, global average sea level rise will be 0.71m during that period, with a range from 0.51m to 0.92m, a substantial difference.

Accordingly, we assessed water risks caused by climate change at worksites, plants and distribution sites.

For the initial screening, we determined site conditions (primarily confirming nearby rivers, coastlines, elevations and so on from the perspective of flooding and storm surges), performed checks using existing tools (Aqueducts, hazard maps, etc.), and confirmed past examples (whether there had been past water damage and other natural disasters). Next, we used climate models to compare heavy rain, light rain and storm surge risks with the current climate (1951–2011) at sites identified in the initial screening.

The results indicated that light rain will occur at all sites at about the same frequency as under the current climate, and that heavy rain and storm surges will occur more frequently at some sites, and flooding damage will be at about the same levels that we assumed until now.

We will conduct more detailed analysis in the future and take necessary measures.

Efforts during use

As water consumption in the product use stage accounts for around 90% of water consumption across the entire lifecycle, we are providing water-saving products and implementing consumer communication in regard to how to use these products properly.

In 2009, we launched *Attack Neo* laundry detergent, which requires only one rinse cycle, in Japan. 2019 saw the launch of *Attack ZERO*, which combines superb washing power and odor removal capability with zero detergent residues. We also offer a lineup of products for front-load washers, which use less water. Laundry detergents that require only one rinse cycle are now offered in Japan and Taiwan. We aim to make one rinse cycle the norm for clothes washing.

Through our Essential Research focused on foam, we have also succeeded in reducing the amount of water used when rinsing with other product categories too. In 2010 we launched *Merit Shampoo*, which uses 20% less water for rinsing than conventional products, followed in 2014 by *CuCute* dishwashing detergent, which also reduces the amount of water needed for rinsing by 20%, and in 2015 by *Bath Magiclean* bathroom cleaning liquid, which uses 10% less water for rinsing. We plan to continue rolling out new water-saving products based on our Essential Research.

We also communicate ways to save water to consumers using a variety of approaches. For example, we have developed eco shampoo techniques to use less water when shampooing hair, and we communicate these to consumers. Communicating ways to conserve water while offering water-saving products truly embodies “eco together,” the slogan of the Kao Environmental Statement.

Implementing education and activities based on “eco together”

Employees

- In regard to employee education based on Responsible Care activities, we implement relevant education for all employees.
- We implement relevant education for all employees working at applicable worksites at plants and research institutes that have secured ISO 14001 certification.
- We hold guided tours of the Kao Eco-Lab Museum for our employees.

(In 2020, we conducted online tours for employees to prevent the spread of COVID-19.)

Customers

- We exhibit on water conservation at the Kao Eco-Lab Museum. (In 2020, we suspended tours for the general public to prevent the spread of COVID-19. We explained the role of water in our lives to elementary school students by conducting online tours.)

Business partners

- We hold the Kao Vender Summit for important suppliers (suspended in 2020 due to effects of COVID-19).
- We asked suppliers to complete the CDP questionnaire survey.

Water conservation 102-12, 102-43



Local communities

- Many plants prepare annual environmental reports and communicate with local residents.

National and local governments

- We conduct a water conservation campaign in China.
- We participated in the Water Project conducted by the Ministry of the Environment of Japan.

Participation in China's Nationwide Cleanliness and Water-saving Initiatives—a water conservation campaign—for nine consecutive years

Kao (China) has conducted the Nationwide Cleanliness and Water-saving Initiatives jointly with the Center for Environmental Education and Communications of Ministry of Ecology and Environment, since 2012. In 2020, these activities were conducted from September to December.

Until now, we focused on water conservation as an activity to draw the attention of university students and the general public in China to water conservation, but starting this year, we expanded to include a wider range of environmental protection perspectives such as biodiversity, plastic reduction, low carbon and waste recycling.

Although there were effects from COVID-19, undertaking activities with a focus on university students in different areas, we received over 100 proposals from 67 universities in 21 provinces and cities throughout China during the approximately four-month period. From these, we selected 19 projects, which we helped implement.

The closing ceremony was held at a hall of the

Center for Environmental Education and Communications in Beijing in December 2020. Students' representatives from each region attended to ceremony remotely and accepted awards recognizing their efforts to conserve the environment by putting into practice activities of their own design and developed different activities to improve the environmental awareness of people in the community.



Closing ceremony held in Beijing

Employees' voice

Continuity is a strength

Wang Dan

Responsible for CSR,
Kao China



Kao has conducted activities in collaboration with the Center for Environmental Education and Communications for nine years continuously since 2012. Initially, activities focused on water conservation, energy saving and environmental preservation targeting the general public, but in 2015 activities geared toward university students nationwide were started. This has raised the awareness of university students regarding environmental preservation, and the students were able to demonstrate their knowledge of the environment, make a wide range of proposals in environmental fields, and carry out those proposals.

As a person in charge, I felt the passion of the young students through activities intended to spread Kao's environmental preservation philosophy among university students, and I realized that I was growing alongside them.

As a result of these ongoing activities, many university students have become Kao fans.



Stakeholder engagement

Expectations toward Kao to solve global water issues from a lifecycle perspective



Norihiro Itsubo

Dean, Graduate School of Environmental and Information Studies,
Professor of the Faculty of Environmental Studies,
Tokyo City University

As water issues become more serious around the world including in major cities, the role of Kao, which is deeply involved in the use of water in day-to-day life, is extremely important.

Chennai, the fourth largest city in India, has a population of ten million, has suffered major damage from both flooding and drought. In 2015, torrential rains dropped 494mm of water on the city in one day, causing flooding up to the second story of new office buildings and resulting in 1.8 million displaced persons. Four years later, in 2019, a major drought caused the depletion of water stores. Every day, trucks brought 10,000m³ of household water into the city, and people formed long lines to receive water. There were even instances of water theft. Water and sewage system have not been able to keep up with the drastic increase in water demand due to the sudden expansion of the city, and the areas of lakes and other water sources are

just one-fourth those of ten years earlier, making pollution even worse. Climate change will make this situation even worse.

The rapid deterioration of the urban water environment is not limited to Chennai. Major cities around the world including Sao Paulo, Beijing, Cairo and Jakarta are facing severe water shortages. According to the United Nations, 2.2 billion people do not have access to clean drinking water, and 4.2 billion people lack adequate sanitary facilities including toilets. Also, 3.0 billion people are unable to wash their hands at home, making it difficult to take even basic action to prevent COVID-19. Achieving the 2030 SDGs is at risk.

Water consumption relating to products sold by the Kao Group in one year is 2.8 billion m³ throughout their entire life cycle, which is equal to about 20% of the total annual water consumption of 15.0 billion m³ in Japan. The bulk of the water is used during the product use stage, that is, water used in the bath or shower, toilet, kitchen and so on, but it is noteworthy that over 15 years, Kao has reduced water consumption per unit of sales by about 30%. This is the result of boldly switching its main products such as detergents and shampoos to water-saving types and conducting consumer awareness programs.

Kao has set a target of reducing its water footprint in drought-affected areas by 40% by 2030 compared to 2017. If it is able to achieve this, many people in large cities around the world such as Chennai will benefit.

Just as climate change measures have shifted from low-carbon to decarbonization, it may be necessary for urban water measures in drought-affected areas to shift from “water conservation” to “no water.” It is projected by in 2050, some 5.0 billion people around the world will be affected by water shortages. I hope that Kao will

overturn this forecast through its innovative technologies.

Air & water pollution prevention 102-12, 102-15, 103-1



Protect human health and the natural environment by preventing pollution of water and air through the manufacture or use of our products.

ESG Keyword

Disclosing and reducing VOC and COD emissions

Reducing emissions of chemical substances subject to the PRTR system

Compliance with environmental legislation

Environmentally friendly products

Surveys of groundwater and soil contamination

Kao's creating value to address social issues

Social issues we are aware of

It goes without saying that air pollution, water pollution and soil pollution can have a significant negative impact on human health, on agricultural crops and other plants, and on ecosystems.

Atmospheric pollutants such as nitrogen oxides (NOx), sulfur oxides (SOx), particulate matter (PM) and volatile organic compounds (VOCs) are known to increase the prevalence of pulmonary diseases such as asthma. Most atmospheric pollutants derive from burning of fossil fuels or usage of organic solvents. Worldwide, around 8.8 million people die prematurely each year because of atmospheric pollution. In Europe alone, the figure is believed to be over 790,000 (according to a study by the University of Mainz in Germany). At the same time, in recent years there has been a trend for indoor spaces to be made as airtight as possible in an effort to make homes more energy-efficient. As a result, chemical substances in indoor spaces remain in those spaces for long periods, and their concentration levels rise. A report (by Yokohama National University in Japan) suggests that this can have a negative impact on human health.

The vast majority of living organisms, including human beings, cannot live without water. Humans

also need access to sanitary water in order to maintain Kirei Lifestyles. The main cause of water pollution is various substances contained in wastewater from factories and household sewage.

Negative impacts on human health resulting from soil pollution include the effects of both direct contacts with polluted soil by touching it or eating it and indirect contacts by using groundwater that has been polluted with harmful substances that have leached out from polluted soil. Significant characteristics of soil pollution include the fact that, once soil pollution starts to occur, harmful substances can accumulate in the soil over a long period, and the fact that people are less likely to be aware of soil pollution than they are of air pollution and water pollution.

We need to speed up the initiatives we are taking, and expand their scope in order to realize the SDGs by 2030. At the United Nations in January 2020, we will start the Decade of Action in relation to the achievement of the SDGs.

Kao's creating value

We are working to prevent air pollution and water pollution in the areas near Kao production plants by reducing emissions of atmospheric pollutants such as

NOx, SOx and VOCs from our plants and reducing organic matter and other substances in wastewater discharged from our plants, by complying faithfully with the relevant laws and regulations in each country and region in which we operate, and by setting reference values that are even more rigorous than those required by law to strictly manage pollutants.

We propose various products for air pollution in Chemical, paying attention to maintain the health of people working around the world.

In order to ensure the groundwater used by locals is not polluted, we periodically survey the soil conditions at each plant for water pollution.

Additionally, we propose various products to help prevent water pollution in all our business units for household, commercial-use and chemical products.

Contributions to the SDGs





Risks and opportunities related to realization of What Kao Aims to Be by 2030

Items		Content
Risks	Transitional risk	Policies, laws and regulations Various policies and legal restrictions on air and water will be enacted, management costs may increase to comply with them. Investing in better facilities and developing of new technologies to comply with policies and regulations will mean higher equipment and operating costs, which could negatively impact our profitability. Additionally, the delayed production schedule could negatively impact sales, if national and local governments are urged to pass restrictions on operations due to the state of air pollution in areas where our plants are located and the state of water pollution from plant wastewater discharged in public water. Examples of possible policy or regulatory restrictions • Air pollutant regulations • Regulations on substances depleting the ozone layer • Plant wastewater regulation • Regulation of use of chemical substances in products • Product labeling programs for environmental performance or chemical substance
		Technology Increasing R&D expenses to address the risks posed to the air and water will mean higher operating costs, which could negatively impact our profitability. Risk of failing to increase sales if technologies developed do not work out
		Markets When regulations on air pollutants are tightened at a national or regional level, demand for chemical products that contain few or no substances causing air pollution (like organic solvents) increases, whereas sales for conventional chemical products are at risk of decline. When regulations on water pollutants are tightened at a national or regional level, demand for commercial-use products that contain few or no substances causing water pollution (like alkali) increases, whereas sales for conventional commercial-use products are at risk of decline. Sales could be negatively impacted if technological capabilities for products in development are not on a par with market demands.
		Reputation Our brand owner's reputation is at risk of decline due to so-called fragrance pollution from scents in fabric softeners and others.
	Physical risk	Acute Our plants may suspend operations and be unable to continue manufacturing products due to air pollution from forest fires or water pollution from oil tanker accidents. Similar conditions at suppliers' plants could make it impossible for us to procure raw materials, with the risk that we could not continue manufacturing products. There is also the risk that supply chains, from suppliers to our plants, and from our plants to our customers, could be interrupted. These risks, meaning that we could no longer supply our products to the market, would negatively impact sales, and if such risks actually materialized, would require special measures at additional cost, thus reducing our profits. In addition, if restrictions for large-scale air and water pollution significantly impact on the lives of consumers, consumption might fall, which would negatively impact on sales.
		Chronic There's a risk that production may be unable to increase at the rate required for future growth due to our plants or supplier's plants being located in areas where air and water pollution are likely to become more severe.
Opportunities	Resource efficiency	Optimizing logistics and reducing the distances that trucks are travelling without loads will curtail emissions of air pollutants and lower transportation costs, which means improved profits.
	Products, services	PM, an air pollutant, has health consequences and in terms of beauty, is one of the causes of dull skin. The coal-fired power generation is expected to decline, decreasing the amount of PM in the atmosphere in the medium to long term with the objective to reduce greenhouse gas emissions. However, PM disappearing from all regions around the world is expected to take some time, which presents an opportunity for products that respond to PM in Beauty care and Fabric and home care. In the industrial sector, there are opportunities for chemical products that reduce organic solvents and dust causing air pollution at worksites. Many of our products are discharged into the water environment after use. Surfactants powerful enough to reduce the usage of surfactants, highly biodegradable polymers and alkali-free professional-use detergents offer an environmental value that improves water environments.
	Markets	The manifestation of air pollution caused by PM presents increased sales opportunities by attracting attention to consumer products that respond to PM. Strengthened regulations on worksite organic solvents and dust present an opportunity to expand demand for chemical products that comply with such restrictions.
	Resilience	Ongoing measures for air pollution and water discharge pollution at plants help increase our resilience to issues with air and water quality in terms of product manufacturing. In addition, the resilience of our businesses needs to be improved with activities suggesting new products by predicting consumer trends based on consumer feedback from the last 60 years or more and a database built for more than 40 years.

Policies

We utilize a wide range of chemical substances in our products, from home-use products to industrial products, and we continue to implement activities to minimize negative impacts of chemical substances at every stage from development to post-use disposal.

In our Basic Principle and Basic Policies on Environment and Safety, we undertake to “assess environment and safety aspects throughout the entire lifecycle of the products, from manufacture through disposal, when developing products and technologies” and to “offer products with a lower environmental burden.” Furthermore, the Kao Responsible Care Policy contains the following declarations: “We shall ... strive to develop technologies and bring to market products that reduce our impact on the environment, thereby contributing to the peace of mind of our business customers and consumers” and “We shall strive to continue to reduce the environmental impact of our business operations by ... disposing of wastewater and waste gas appropriately.”

Our Environmental Statement embodies our commitment to ensuring that “Kao products utilize original Kao-developed technologies to minimize the impact they have on the environment, not just in the manufacturing process, but in the daily life of the customers who use them. From materials procurement and manufacturing, to distribution, sales, use and final disposal, we want to engage in ‘eco together’ with stakeholders and consumers worldwide.”



- Basic Principle and Basic Policies on Environment and Safety
www.kao.com/content/dam/sites/kao/www-kao-com/global/en/sustainability/pdf/environment-safety-principle-policies.pdf
- Kao Responsible Care Policy
www.kao.com/content/dam/sites/kao/www-kao-com/global/en/sustainability/pdf/responsible-care-policy.pdf
- Kao Environmental Statement
www.kao.com/content/dam/sites/kao/www-kao-com/global/en/sustainability/pdf/environmental-statement.pdf

Education and promotion

We recognize the importance of giving our employees who handle chemical substances a variety of opportunities to obtain knowledge about the relationship between our business activities and products and air and water pollution, and to actively engage in pollution prevention activities of their own accord. We have created many opportunities for employee education accordingly.

Our employees take responsibility for air and water pollution prevention activities at plants and R&D on low VOC products and highly biodegradable products. Strengthening employees' air and water quality awareness helps to enhance the overall level of Kao's activities in this area. A further point is that employees are also consumers, and in their role as consumers it is important that they take steps to prevent air and water pollution.

Specifically, we conduct environmental education including on air and water pollution prevention for all employees as part of our Responsible Care activities.

We also provide education encompassing the importance of legal compliance pertaining to air and water pollution to all employees working at plants and research institutes that have obtained ISO 14001 or RC 14001 certification.

Collaboration and engagement with stakeholders

We recognize that, in order to help consumers realize the Kirei Lifestyle, it is vital for us to deepen mutual understanding with a wide range of stakeholders and collaborate with them, by developing two-way communication.

As the substances generated by our production activities that lead to air and water pollution have an impact on local communities, having good communication with local communities is also vitally important. Many of our plants compile an annual environmental report, and communicate with local residents.

Emissions of substances linked to air pollution and water pollution, which are from business activities, are regulated by government agencies. We have established our own voluntary management criteria which are even more rigorous than the statutory requirements, and we comply with these to monitor pollutants. Additionally, we continue to conduct water quality surveys not as a single company but as an industry group.

Distribution initiatives are required to help make improvements to air pollution. We are taking part in programs established by the Cabinet Office in collaboration with other companies in this industry.

Consumer behavior needs to change in order for

consumers to attain the Kirei Lifestyle. We provide opportunities to think about the Kirei Lifestyle through visits to museums and plants that take as its theme the water that all consumers use daily. For example, the Eco-Lab Museum has displays on household sewage and wastewater treatment.

Smart Distribution in partnership with Lion Corporation

We are participating in the Cross-ministerial Strategic Innovation Promotion Program (SIP) promoted by Cabinet Office. We started regular shuttle deliveries between Kao and Lion Corporation in October 2020. This new initiative will reduce the distances that trucks are travelling without loads, by comparison with conventional transportation methods, and is expected to result in a 45% reduction in air pollutants emissions for both companies combined.

Framework

Emissions of pollutants into the air or into bodies of water in relation to our business activities, and the current state of progress in addressing this issue, are managed under our Responsible Care promotion system.



- Responsible care activities / Framework
www.kao.com/content/dam/sites/kao/www-kao-com/global/en/sustainability/pdf/sus-db-2021-e-all.pdf#page=28



- p. 18 ESG promotion structure

Air & water pollution prevention 103-2, 103-3

Mid- to long-term targets and performance

2025 mid-term targets

Index	Scope	2025 targets
% of plants which disclose VOC and COD emissions	All Kao Group sites	100% disclosure

Anticipated benefits from achieving mid- to long-term targets

Business impacts

Disclosing VOC and COD emissions pertaining to our business activities will improve the transparency of occupational safety measures and pollution measures. Maintaining employees' health and mitigating risks posed by pollution will contribute to lowering operational costs and improving profitability.

Social impacts

We anticipate that disclosing VOC and COD emissions pertaining to our business activities and engaging in an ongoing dialogue about this will improve communication with the residents around our plants and lead to reduced reputational risks concerning these emissions throughout society.

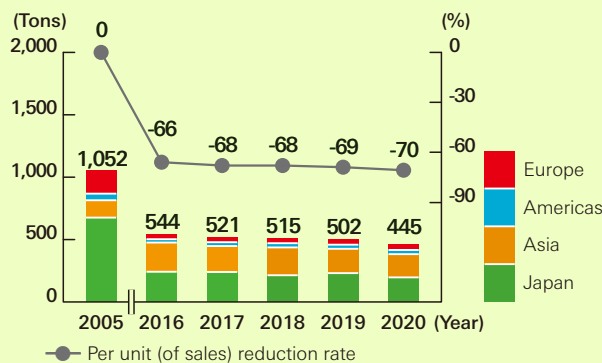


Performance in 2020

Performance*

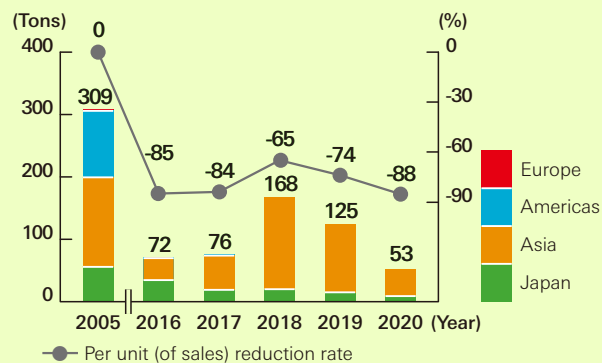
* Per unit of sales is calculated based on Japanese GAAP in FY2005, and on International Financial Reporting Standards from FY2016 onwards.

NOx emissions (all production sites)



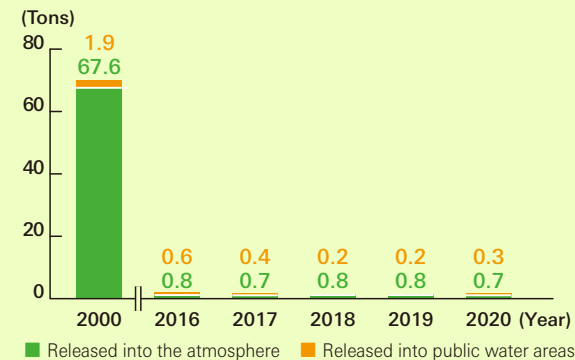
* Boundary: All Kao Group production sites
* Assurance provided for NOx emission figures

SOx emissions (all production sites)



* Boundary: All Kao Group production sites

Total emissions of chemical substances subject to the PRTR system



* Boundary: All Kao Group production sites in Japan

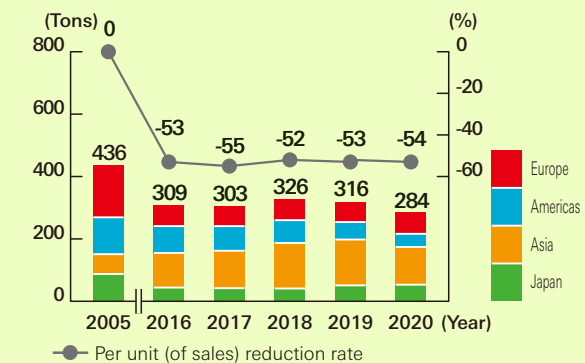
Emissions of VOCs

Although we have no facilities subject to the VOC emission regulations provided in the Air Pollution Control Act, we work to voluntarily cut VOC emissions.

For the 100 VOC substances defined in the notice issued by the Director General of the Environmental Management Bureau, Ministry of the Environment, we set voluntary targets on the annual atmospheric emissions from each plant for each substance (5 tons or less in 2005, 3 tons or less in 2009, 1 ton or less in 2010), conducted emission reduction activities and accomplished our targets. We are managing VOC emissions with the current target of maintaining our activities.

The group in Japan handled 33 types of VOCs in quantities over 1 ton in 2020, with total emissions into the atmosphere of 6.2 tons.

COD pollution load (all production sites)



* The amount of COD pollution load for wastewater entering sewer systems takes into account the removal rate from sewer systems.
* Assurance provided for COD pollution load

Compliance with environmental legislation

In 2020, there was an omission of the notification for minor changes to wastewater treatment facilities (sludge dewatering facilities) at the Kawasaki Plant, an omission of the regular inspection of the dust collector at Kao Specialties Americas LLC and insufficient water flow in the scrubber water (fine of 146,000 yen), and a leakage of ammonia water at Quimi-Kao, S.A. de C.V. (fine of 460,000 yen).

Compliance status with environmental laws and regulations

Category	Unit	2018	2019	2020
Number of violations*1	incidents	4	0	4
Of which, number of leaks	incidents	1	0	1
Total fines*2	1,000 yen	644	0	607
Of which, number of leaks	1,000 yen	0	0	460

*1 All incidents detected by authorities during the reporting period

*2 Fines paid during the reporting period

Our initiatives

Initiatives to prevent air pollution

Efforts at plants

Compliance with laws and regulations

The amounts and densities of pollutants emitted into the atmosphere are regulated by government agencies. We have established our own voluntary management criteria which are even more rigorous than the statutory requirements, and we comply with these to monitor pollutants.

Using cleaner fossil fuels

As burning of fossil fuels is accompanied by emission of NO_x, SO_x, PM, etc., we use natural gas—which is a clean fossil fuel—at all plants outfitted with the necessary infrastructure. Our plants do not use any coal.

Reducing emissions of chemical substances subject to the Japanese PRTR system

We began activities in this area by setting a voluntary target for annual emissions of one ton or less for each substance from each plant in FY2000. We achieved this target in FY2002. Since then, we have continued to achieve this voluntary target, excluding leaks of chlorofluorocarbon and similar emissions.

The number of chemical substances subject to the Japanese Pollutant Release and Transfer Register (PRTR) system of which we handled over 1.0 ton in 2020 was 72, and the total discharge of such substances into the atmosphere and public water areas was 1.0 ton. In addition, we are voluntarily monitoring and controlling releases and transfers (in

the same way as would be done for chemical substances subject to PRTR) of chemical substances that the Japan Chemical Industry Association has specified as being subject to voluntary surveys.

Reducing emissions of VOCs

Our production plants outside Japan include some plants where they have not been possible to monitor VOC emissions, or where the emissions are relatively high. We are working to monitor and reduce VOC emissions at these plants.

Initiatives taken in relation to logistics

Smart Distribution in partnership with Lion Corporation

We are participating in the SIP promoted by Cabinet Office. We started regular shuttle deliveries between Kao and Lion Corporation in October 2020. This new initiative will reduce the distances that trucks are travelling without loads, by comparison with conventional transportation methods, and is expected to result in a 45% reduction in atmospheric pollutants emissions for both companies combined.

Initiatives taken in relation to our products

LUNAJET water-based pigment inkjet ink

Using the pigment nano-dispersion technology that we had previously developed, we successfully developed LUNAJET, the world's first water-based pigment inkjet ink, featuring a VOC-free design* which ensures that only very small quantities of VOCs

are emitted during printing operations, thereby helping to prevent air pollution and also making a major contribution toward improving the working environment of printing workers. We also confirmed that this water-based pigment inkjet ink technology can be applied to water-based gravure-printing ink.

* VOC-free design: "VOC-free" is defined as emitting less than 700 ppmC (in carbon conversion terms) of VOC during the printing process.

VOC is a collective term for organic compounds that are volatile and are transformed into gaseous form in the atmosphere. In Japan, VOC emissions are regulated by the revised Air Pollution Control Act.

Visco Top UT thickener for concrete spraying construction

We developed then launched full-scale sales for Visco Top UT thickener which significantly decreases dust generated when spraying concrete for mountain tunnel construction. Visco Top UT is able to substantially reduce the amount of dust generated even when using powder accelerator, which tends to stimulate dust dispersion. With only half as much thickener as would be needed with a conventional dust reducer, the dust concentration level can be reduced to 2mg/m³ or less (as recommended by the new dust guidelines that came into effect in April 2021). This is registered in NETIS*, the new technology provision system (Number: KT-200035-A) and is anticipated to be utilized in the various tunnel construction commissioned by national and local governments.

* NETIS: Database system operated with the objective of the Ministry of Land, Infrastructure, Transport and Tourism sharing and providing information on new technologies

Initiatives to prevent water pollution

Initiatives taken in relation to product development

In product development, we incorporate considerations for impacts on the water environments of discharged water after product use. More specifically, we have investigated the biodegradability of raw materials that may be discharged into the environment and their impacts on common aquatic organisms using river water and activated sludge used at wastewater treatment plants. Through this investigation, we are actively promoting the development and use of raw materials with reduced environmental impact. We also plan to use AI and other technologies to investigate chemical substances with high environmental compatibility.

Efforts at plants

Compliance with wastewater related laws and regulations

The amounts and / or densities of pollutants discharged into rivers, the ocean and sewage systems are regulated by government agencies. We have installed and conduct high-level maintenance and management of wastewater treatment facilities at many plants. After properly treating plant wastewater, it is discharged outside the plant. We have established our own voluntary management criteria which are even more rigorous than the statutory requirements, and we comply with these to monitor pollutants.

Surveys of groundwater and soil contamination

In light of our past history of chemical substance use, every year we voluntarily measure the levels of substances regulated by environmental standards in

the groundwater within plant premises.

Initiatives relating to wastewater after product use

We are focusing on understanding the actual situation in relation to wastewater discharge after product use and we are conducting our own field surveys on an ongoing basis, such as environmental monitoring of river water to get an idea of the ecological risks of chemical substances.

To respond to globalization, we collaborate with experts to verify the effectiveness of mathematical models and develop new models for monitoring environments outside Japan and predictions of chemical substance concentration in rivers, aiming to ensure our business activities are environmentally friendly on the local environment. Recently in Japan, we are analyzing in detail the impact of chemical substances on ecosystems using data gathered from the river environment.

We are also participating in environmental monitoring that has been undertaken by the Japan Soap and Detergent Association since 1998. Currently we assess the environmental risks posed to ecosystems targeting four major surfactants in municipal rivers (measured four times per year at seven sites in four rivers). In the surveys conducted so far, the results show that these surfactants have consistently low risks to aquatic organisms.

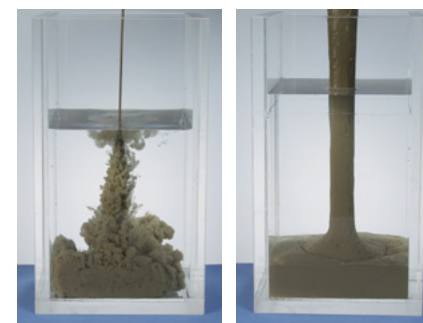
Initiatives taken in relation to our products

Visco Top high-performance specialty thickener

When undertaking civil engineering work near water (for example, on riverbanks or on the coast), it is vitally important that measures are taken to protect

the water from being contaminated. In the case of bridge pier construction for long bridges or suspension bridges that cross ocean straits, because the piers are actually built in the riverwater or seawater, special underwater concrete that has high viscosity and is resistant to washout is used. Furthermore, when construction is undertaken near underground watercourses, care must be taken not to contaminate the groundwater. For work in this kind of water-related environment, the use of additives to increase the viscosity of inorganic materials such as grouting materials and concrete can enhance underwater anti-washout performance.

We have developed *Visco Top*, a high-performance specialty thickener that provides un-precedented viscosity for grouting materials and concrete, and makes it possible to undertake construction work without polluting the riverine or ocean environment. *Visco Top* has been also used in the removal of high concentration contaminated water from trenches at the Fukushima Daiichi Nuclear Power Plant.



Without the addition of
Visco Top

With the addition of
Visco Top

Air & water pollution prevention

Smash alkali-free commercial use detergent

Alkali detergent used for hard-to-remove kitchen stains must adjust (neutralize) its pH when the cleaning liquid is discharged to prevent water pollution, whereas neutral detergent without alkali generally doesn't have sufficient cleaning effects.

Smash, the newly debuted kitchen oil stain detergent, works safely with a neutral formula that has the same cleaning power as an alkali detergent, and contributes to preventing water pollution with its gentle ingredients.



Smash kitchen oil stain detergent

Employees' voice

For the safety and security of all people working with food

Noboru Matsuo

(Photo on the left)

Household Products Research
Division 5
Kao Corporation



When our researchers visited customers' kitchen worksites, they noticed that some inexperienced foreign workers were cleaning with alkaline cleaning agents without knowing the danger (chemical burns). Therefore, we decided to develop a new detergent that cleans safely no matter who does the work, and provides a desirable finish. This strong desire triggered diligent research, which was able to break through several technology barriers to create *Smash*.

Going forward, we will take on the challenge to neutralize alkali in our cleaning and sanitary operations taking into consideration the safety and security of all people working with food.





Stakeholder engagement

Assessments and expectations for Kao's initiatives on prevention of air and water pollution



Kenji Furukawa

Professor Emeritus
Kumamoto University

Kao's sincere activities to prevent air and water pollution based on its corporate philosophy can be found out by reading the Kao Sustainability Data Book. Below I'd like to comment on Kao's initiatives to prevent air and water pollution.

Initiatives to prevent air pollution

Exhaust gas measures are necessary when using fossil fuels during manufacturing. While NOx emissions have steadily been reduced, SOx emissions are increasing or decreasing at production sites in Asia, which is of concern.

VOC emissions have been drastically reduced compared to 2000 by Kao voluntarily setting reduction targets for VOCs. These VOC measures have only been adopted at domestic plants for now, but overseas plants should promptly implement these measures.

Initiatives to prevent water pollution

Plant wastewater is treated by wastewater treatment facilities at or below effluent standards and discharged into public waters. Regulations on the total emissions of COD, nitrogen and phosphorous are in place when plant effluent is discharged into a closed water area. Kao has established its own voluntary management criteria, which are even more stringent than the regulated levels.

As a company handling multiple varieties of chemicals, Kao is required to treat wastewater to a level that can be used as recycled water. Although there's little fear of water resource shortages in Japan, recycling of treated wastewater should be considered as a countermeasure for droughts that may occur with climate change.

Reduction of sludge production by using Tubifex worms

In the activated sludge process commonly employed for the treatment of plant wastewater, half of the influent organic matter is converted into carbon dioxide gas through catabolism with activated sludge microorganisms, and the remaining half is converted into sludge through anabolism. Part of the settled sludge is withdrawn as excess sludge to maintain a level of activated sludge concentration able to separate solids and liquids in the settling tank. At Kao, the dehydrated excess sludge is disposed of by incineration. As the required cost for excess sludge treatment is comparable to the cost for wastewater treatment, various measures are in place to reduce the amount of excess sludge (sludge reduction).

Kao conducted bench-scale treatment tests at the

Wakayama Plant in collaboration with the Industrial Technology Center of Wakayama Prefecture (WINTEC), focusing on methods developed by WINTEC to reduce the weight of excess sludge by using Tubifex worms, which are at the top of the food chain in activated sludge treatment and live inside pile fiber sheets, a local specialty of Wakayama, placed in the activated sludge tank. Because Kao has already confirmed the effectiveness of this method, I anticipate the practical application of this treatment method after verifying its cost-effectiveness.

Finally

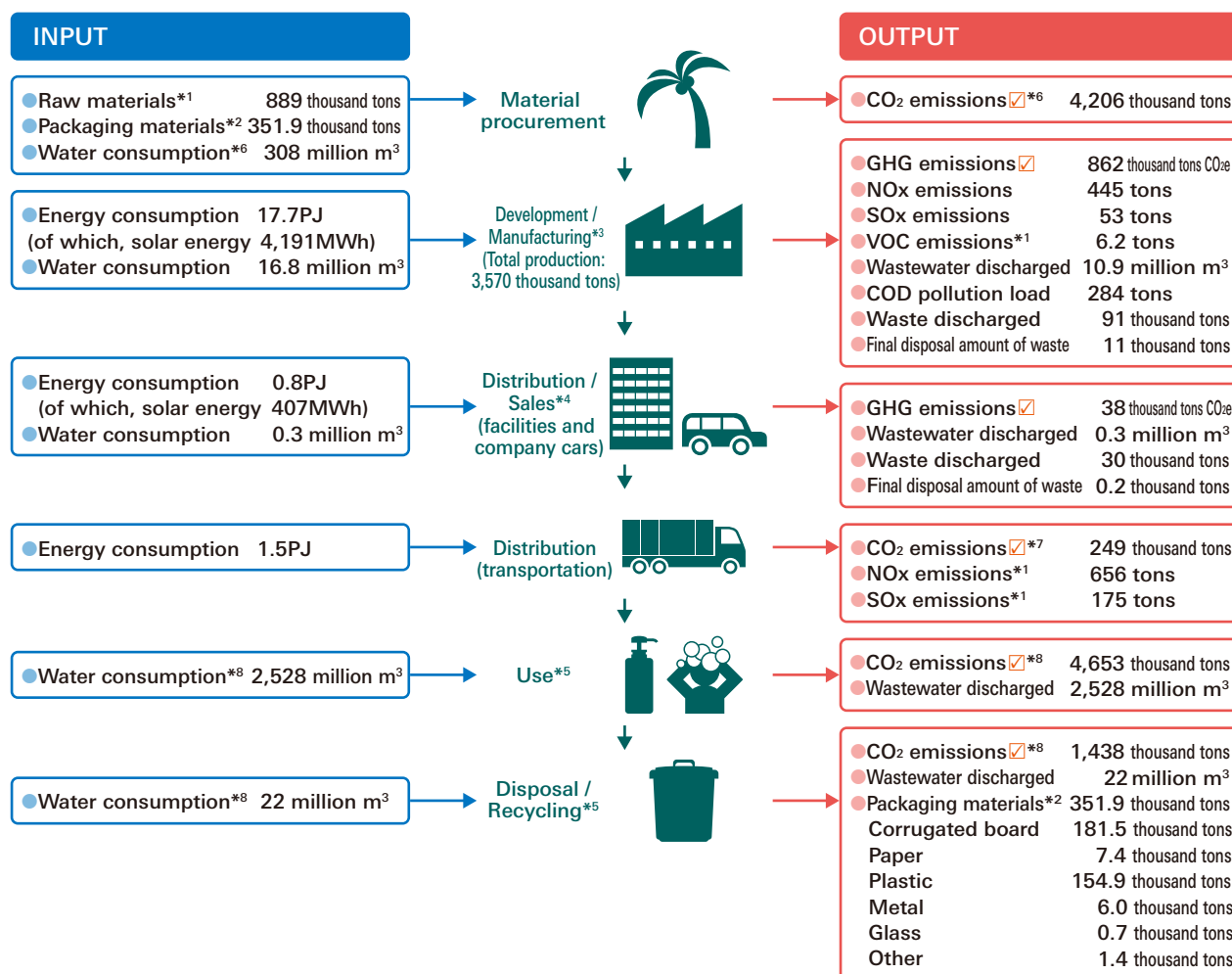
Nowadays, the trend of conscious consumption is on the rise, with Generation Z purchasing products with an ESG perspective even if they are slightly more expensive. I hope that Kao continues developing products with an even lower environmental footprint taking into account this recent trend.

Product lifecycle and environmental impact

301-1, 302-1, 303-3 (Water and effluents 2018), 303-4 (Water and effluents 2018), 303-5 (Water and effluents 2018), 305-1, 305-2, 305-3, 305-7

Kao is pursuing efficient resource utilization across the product lifecycle, as well as technologies to achieve further resource and energy savings.

2020 business operations and environmental impact



INPUT

● Raw materials

The amount of raw materials directly used to manufacture products (excluding packaging materials and fuel)

● Packaging materials

The amount of packaging used for products sold (including corrugated box)

● Energy consumption [product development/manufacturing]

Total amount of energy consumed at manufacturing sites (Boundary for solar photovoltaic power generation is limited to on-site power generation)

● Energy consumption [distribution/sales (facilities and company cars)]

The amount of energy consumed at non-production sites and by vehicles (used for sales activities) (Boundary for solar photovoltaic power generation is limited to on-site power generation)

● Energy consumption [transportation]

The amount of energy consumed during transportation of consumer products (from plants to distribution bases), industrial products, raw materials, etc.

● Water consumption

Industrial water, municipal water, groundwater, rainwater consumed

OUTPUT

● GHG emissions

Total amount of greenhouse gas emissions from sites (seven GHGs defined in the Kyoto Protocol) (in CO₂ equivalent, Scope 1+2)

● CO₂ emissions

The amount of CO₂ emitted from manufacturing raw materials, consuming energy and decomposition of ingredients

● NO_x emissions

Total amount of NO_x emissions from smoke-and-soot-emitting facilities and transportation

● SO_x emissions

Total amount of SO_x emissions from smoke-and-soot-emitting facilities and transportation

● VOC emissions

Total amount of volatile organic compounds (VOCs) emitted into the atmosphere from production sites

● Wastewater discharged

The amount of wastewater discharged at production sites and consumer product use stages

● COD pollution load

The amount of COD pollution load in wastewater

● Waste discharged and final disposal amount of waste

Of the waste generated from sites, the amount that is sold or entrusted as waste or recyclable materials to waste treatment companies, and the amount of waste to landfill

● Packaging materials

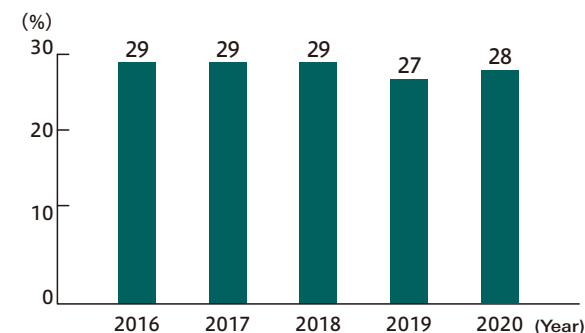
Total amount of packaging materials (including corrugated box) used for products sold

Expansion of the range of products that display the “eco together” logo

Products with lower environmental impact that have passed our rigorous original certification standards display the “eco together” logo.

In 2020, the sales ratio of products (consumer products in Japan) displaying the “eco together” logo was 28%, which represented an increase compared to the previous year.

Percentage of total sales held by products displaying the “eco together” logo (consumer products in Japan)



→ “eco together” logo display standards

→ List of products displaying the “eco together” logo (Japanese)

Environmental accounting

To efficiently and effectively promote its environmental activities, Kao quantifies the costs and results of those activities in numerical terms.

2020 environmental accounting report

- ① The aggregation methods we use to comply with the Japanese Ministry of the Environment's Environmental Accounting Guidelines 2005. We also reference the Environmental Accounting Guidelines for Chemical Companies (November 2003) issued by the Japan Chemical Industry Association.
- ② Boundary: the domestic Kao Group*¹ and major overseas subsidiaries*²
- ③ Concerns the period from January 1, 2020 to December 31, 2020



Please see below for environmental conservation results (numerical results).
→ p. 140 Making the world healthier & cleaner >
Product lifecycle and environmental impact

*1 Kao Corporation, Kao-Quaker Company, Limited., Kao Group Customer Marketing Co., Ltd., Kao Sanitary Products Ehime Co., Ltd., Kanebo Cosmetics Inc., Kanebo Cosmetics Sales Inc., e' quipe, Ltd., Kao Professional Services Co., Ltd., Goldwell Japan Co., Ltd., Molton Brown Japan Ltd., Kao Paper Manufacturing Fuji, Kao Business Associe Co., Ltd., Kao Logistics Co., Ltd., Kao System Logistics Co., Ltd., Kao Field Marketing Co., Ltd., Kao Creative House Corporation, Shohi Seikatsu Kenkyusho Inc., Kao Peony Co., Ltd., Healthcare Committee Inc., and Kao Cosmetic Products Odawara Co., Ltd.

*2 Kao Chemical Corporation Shanghai, Kao (Taiwan) Corporation, Kao Vietnam Co., Ltd., Pilipinas Kao, Incorporated, Kao Industrial (Thailand) Co., Ltd., Kao Soap (Malaysia) Sdn. Bhd., Fatty Chemical (Malaysia) Sdn. Bhd., Kao Plasticizer (Malaysia) Sdn. Bhd., Kao Oleochemical (Malaysia) Sdn. Bhd., PT. Kao Indonesia Chemicals, Kao Specialties Americas LLC, Quimi-Kao, S.A. de C.V., Kao Corporation S.A., Kao (Hefei) Co., Ltd., Kao Chemicals GmbH, PT Kao Indonesia, Kao Manufacturing Germany GmbH, Kao (Shanghai) Chemical Industries Co., Ltd., Kao USA Inc., Molton Brown Limited, Kao Corporation Shanghai, Huludao Jinxing Casting Materials Co., Ltd.

Environmental conservation costs (categories corresponding to business activities)

(Unit: millions of yen)

Categories		Inside Japan		Asia, Americas and Europe	
		Investment	Cost* ¹	Investment	Cost* ¹
(1) Business area costs		991	4,419	1,673	5,267
Breakdown	①Pollution prevention	106	1,913	413	1,657
	②Global environmental conservation	265	399	360	817
	③Resource circulation	620	2,107	900	2,793
(2) Upstream/downstream costs		0	2,375	0	1,232
(3) Administration costs		0	1,305	0	231
(4) R&D costs		2,971	6,076	5	116
(5) Social activity costs		1	111	12	10
(6) Environmental remediation costs		0	0	0	10
Total		3,963	14,286	1,690	6,866

Environmental conservation costs (categories corresponding to areas of environmental conservation measures)

(Unit: millions of yen)

Categories		Inside Japan		Asia, Americas and Europe	
		Investment	Cost* ¹	Investment	Cost* ¹
①Cost related to global warming measures		265	399	129	434
②Cost related to ozone layer protection measures		0	0	231	363
③Cost related to air quality conservation measures		8	522	305	578
④Cost related to noise and vibration measures		0	5	2	66
⑤Cost related to environmental conservation measures for aquatic, ground, and geologic environments		98	1,387	85	1,002
⑥Cost related to waste and recycling measures		620	4,482	900	2,877
⑦Cost related to measures to reduce chemical risks and emissions		2,971	6,076	5	116
⑧Cost related to nature and environmental conservation		1	110	33	94
⑨Other costs		0	1,305	0	1,336
Total		3,963	14,286	1,690	6,866

Economic effect associated with environmental conservation activities*²

(Unit: millions of yen)

Details of benefits		Inside Japan	Asia, Americas and Europe
		Amount	Amount
Revenue	Sales value of valuable resources and fixed assets	423	166
	Reduction in costs through energy conservation	104	162
	Reduction in costs through resource conservation	1,366	1,264
Cost reductions* ³	Reduction in operation costs (maintenance costs, etc. of eco-conscious equipment)	215	423
	Total	2,108	2,015

*1 Cost includes depreciation costs.

*2 For economic effect, only amounts from selling valuable resources and fixed assets and the amount of cost reductions are recorded. Economic effects based on assumption such as risk mitigation, so-called "deemed effects" are not recorded.

*3 The amounts of cost reductions contains only the relevant fiscal year of the annual cost reduction for items generated during that year. Cost reduction amounts generated over multiple years are not included.

2020 Our initiatives

Walking the right path

Effective corporate governance	144
Full transparency	157
Respecting human rights	164
Human capital development	174
Inclusive & diverse workplaces	186
Employee wellbeing & safety	199
Responsible chemicals management	219



Effective corporate governance 102-15, 102-16, 103-1

We will steadily implement our ESG Strategy by examining our corporate governance system whenever necessary, and conducting fair and honest business activities while acting in accordance with laws and ethics and responding to changes in society. All of this will contribute to creating a global presence for Kao.



Please see the following for corporate governance activities related to our management structure.

- ➔ Kao Sustainability Data Book 2021: Corporate governance
- ➔ Integrated Report 2021: Corporate Governance Initiatives
- ➔ Corporate Governance Report

ESG Keyword

Integrity

Compliance risk reduction

Harassment prevention

Internal reporting systems

BCG

Inclusion in the World's Most Ethical Companies®

Kao's creating value to address social issues

Social issues we are aware of

The spread of the COVID-19 pandemic in 2020 led to rapid, dramatic changes in society's needs and in the business environment. In response to this situation, it was vitally important to build a working environment in which every single employee can work enthusiastically while having their own individual personality respected, and to realize the creation of a workplace in which everyone can work as a unified team to respond to the changes that have been taking place.

Given the many reports of data falsification, etc. in the manufacturing sector that have appeared in recent years, *Yoki-Monozukuri* that complies with laws and ethics is becoming increasingly necessary to maintain and improve our competitiveness. In addition, in many cases the improprieties went on for years without being viewed as problematic. We see creation of an open workplace atmosphere, in which improprieties that have been discovered are immediately reported to management and an appropriate response is taken, as a key issue.

At the same time, despite the growing diversity in the workforce, we are also aware of the issue of

management based on out-dated values, and of recent trends in society such as workplace bullying, which may go unnoticed in the new working environment emphasizing remote working that has resulted from COVID-19, and sexual harassment that reflects a lack of concern for others. We believe that preventing this kind of abuse, and creating an employee-friendly, efficient, productive workplace in which all employees are treated equally is very important for the healthy development of society, and we will continue to implement initiatives aimed at the thorough prevention of harassment of all kinds.

Kao's creating value

We see our mission as contributing to society through *Yoki-Monozukuri*, based on contributing to the SDGs in our business activities with our value of Integrity (behaving lawfully and ethically and conducting fair and honest business activities) handed down from our founder. We will continue to implement *Yoki-Monozukuri* that complies with laws and ethical principles.

We are also creating workplaces with an open

atmosphere that allow talented human capital to fully demonstrate their abilities on an equal standing.

Risks related to realization of What Kao Aims to Be by 2030

As competition intensifies globally, there is concern regarding growing temptation to commit impropriety, including factors such as difficulty in achieving product differentiation, meeting product launch schedules and delivery timelines, and increasing profit. The risk of harassment is also increasing due to the generational gap in values and growing employee diversity.

Opportunities related to realization of What Kao Aims to Be by 2030

As a result of conducting our business with Integrity as one of our most important values, we are highly regarded by society in terms of 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 human capital.

Contributions to the SDGs



Policies

We regard our value of Integrity as the starting point of compliance, and promote it as a foundation for earning the respect and trust of all stakeholders.

To ensure greater efficacy of the Kao Business Conduct Guidelines (BCG) that embody Integrity, we are implementing activities focused on reducing serious compliance risks, and activities designed to create an open workplace atmosphere that allows improprieties that have been discovered to be immediately reported to management and an appropriate response to be taken promptly.

Anti-bribery and anti-corruption are clearly defined in the BCG as well, and we have also established the Kao Anti-bribery (anti-corruption) Guidelines, which specify the monetary standards and prior reporting obligations for giving and receiving of entertainment and gifts as well as rules for preventing corruption, including evaluating bribery risks when selecting distributors and renewing distributor contracts.

We are continuing to implement educational and training activities, including the dissemination of messages from senior management, so that every individual employee will recognize their own personal responsibility in relation to compliance, will be aware of the BCG's stipulations regarding how they should act, and will take action based on awareness of the need for compliance risk prevention in their own work, and so that we can realize the creation of an employee-friendly workplace that embodies concern for others.

Education and promotion

The realization of workplaces with an open atmosphere in which every individual employee is fully aware of the need to prevent compliance violations from occurring, and in which compliance violations that have been discovered are reported immediately and prompt action taken to deal with them, and of employee-friendly workplaces that embody concern for others, forms part of What Kao Aims to Be by 2030.

To realize this vision, we expect every single employee to be aware of the harm that compliance violations can cause and of the impact they can have on the trust that people place in Kao. We expect managers to be aware of the types of compliance risk that could emerge in their own workplace, and to take steps to minimize such risks. We also expect

employees to respect the diversity of the people working together with them in the same workplace, and to recognize the importance of showing consideration for others in the way that you speak and act, in order to realize a workplace environment that is easy to work in. With this in mind, we implement education as appropriate based on the training system outlined below. Through this education, we provide opportunities for employees to enhance their awareness, which in turn can help employees to recognize compliance as being 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.

Compliance training system

Region	Theme	Target group	Objective	Frequency
Globally common	New Employee Orientation	New employees	Study our compliance approach and the BCG	On joining
	Manager training	Japan: New managers Outside Japan: Managers	Group work to build managers' awareness for compliance risk reduction	Japan: At time of promotion to manager Outside Japan: Every 3 years
	Trainings 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	Executives / Managers / Non-Manager employees	Revisit the BCG and identify divisions with high compliance risks	Once every 2 years (alternate each year between Japan / outside Japan)
	Compliance Awareness Month	Managers / Non-Manager employees	Periodically revisit and review the importance of compliance	Once a year (in October)
	BCG Casebook	Managers / Non-Manager employees	Study the BCG using specific cases	Revise after revisions to the BCG
	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	SCM Division (1) Basic course (2) Leading staff level summary training	(1) Employees in their third year (2) Leaders	(1) Study compliance and BCG content that should be given particular attention in SCM (2) Division work using specific cases	(1) Third year at the company (2) At time of promotion
	Executive training sessions	Executive officers and above	Learning about legal and compliance risks from a management perspective	Once a year
Outside Japan	Integrity Workshop	New employees	Study the BCG's content using examples related to each topic and in a group discussion format	Once within 3 years from joining the company

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.

In addition, all employees participate in the training organized by the leader of their division and take a BCG refresher test to periodically give them opportunities to review and maintain their awareness for compliance. One month of the year is also designated as Compliance Awareness Month, and the importance of thoughtful words and actions as well as an open organizational culture is communicated among other topics. Education related to laws and ordinances is planned and conducted by designated managing divisions.

Collaboration and engagement with stakeholders

The BCG clearly states the need for gaining understanding and support for the BCG among vendors as well and encouraging conduct based on this.

We believe that there is a serious risk that compliance violations by suppliers 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 contractors engaged in product manufacturing on Kao Group premises.

In particular, because suppliers' 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.

- On an annual basis, we ask suppliers to collaborate with human rights surveys such as Sedex, and the results of such surveys are an important factor that we take into account when choosing suppliers.
- The annual meetings that we hold with suppliers include presentations on the content of our BCG, and also lectures by experts on topics relating to compliance.
- We provide explanations of the Kao Group's policy on human rights, etc., at the Supplier Crisis Management Meetings, which are held every two years.
- We implement on-site auditing of raw materials suppliers, etc. that covers respect for human rights.

Framework

We have set up the following framework to implement the PDCA cycle for compliance, and to respond appropriately to reported incidents. The PDCA cycle framework consists of policies, an annual plan and specific activities to implement these devised by the Compliance Committee, comprising division leaders and other members, and its secretariat, with directives for implementation given to persons responsible for divisions and subsidiaries. The activities are evaluated by the Board of Directors among others, and the evaluations are used to inform improvement activities. The framework for responding to reported incidents involves a shared group hotline, the Compliance Committee, which receives hotline reports, investigation by the Compliance Committee or the person responsible for compliance promotion at subsidiaries, and the necessary corrective measures taken to resolve matters.

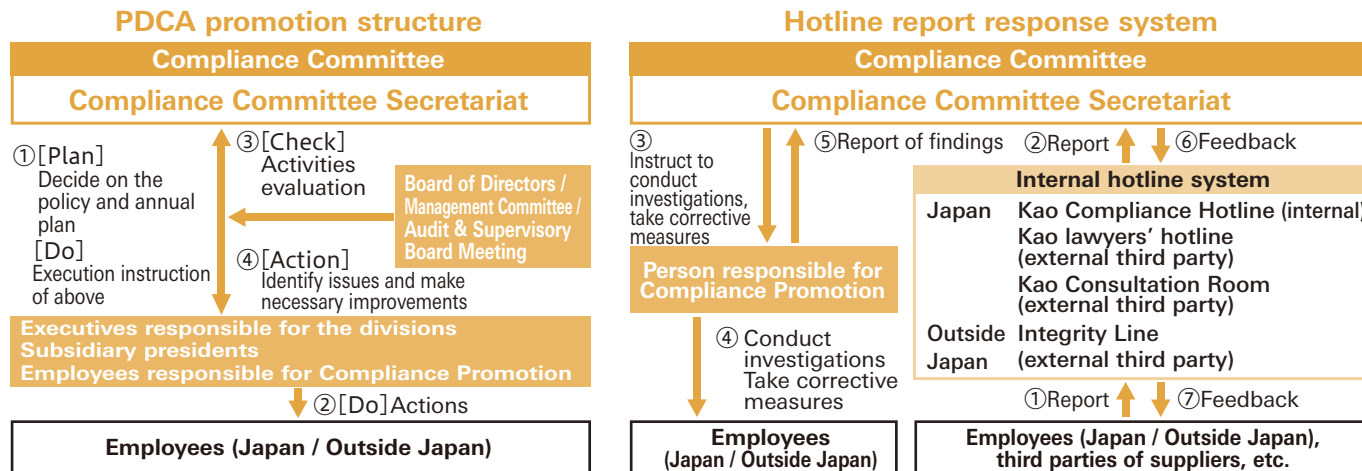
We have also put in place a framework for encouraging individual units at the worksite level to report compliance violations and suspected compliance violations, thereby contributing to early resolution of issues, by clarifying the rules governing initial reporting of compliance violations and suspected compliance violations.



→ p. 18 ESG promotion structure

Effective corporate governance 102-20, 103-2

PDCA promotion structure and response process for compliance hotline reports



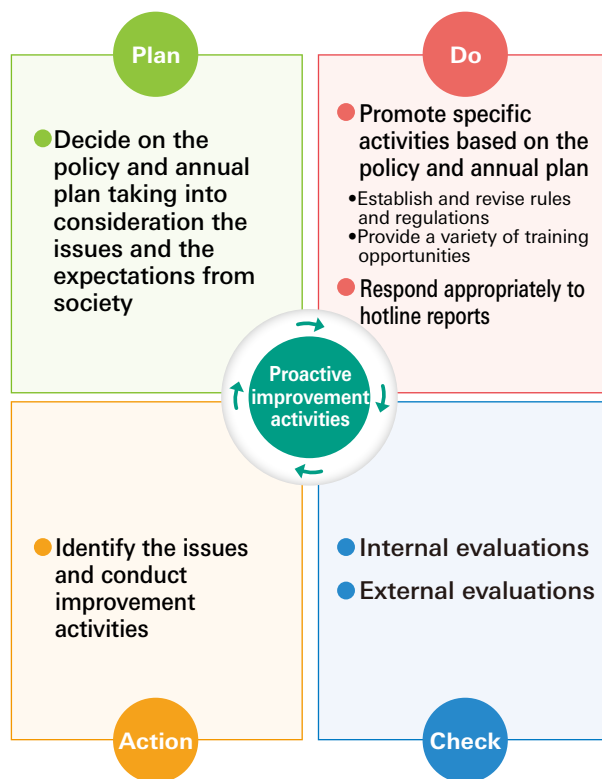
Rules for initial reporting of violations



Effective corporate governance 103-2, 103-3

PDCA cycle to continuously improve compliance

Compliance promotion activities are implemented using the PDCA 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 implemented activities are evaluated, and identified issues and improvements are reported to inform the planning to be drafted from the following year onward.



Plan / Do

We have established the Compliance Committee, chaired by the Representative Director and Senior Managing Executive Officer, and comprised of representatives of relevant divisions and affiliated companies.

This committee meets every six months to review the following activities and devise promotional measures to mitigate serious compliance risks and ensure Integrity.

1. Decide the activities policy to ensure Integrity
2. Finalize the establishment and revision of the BCG and other internal compliance-related rules and regulations
3. Decide on the annual plan for educational and awareness-raising activities to instill and establish Integrity within and outside Japan
4. Confirm the operation and response status of compliance hotlines

We also propose necessary amendments to compliance-related rules and regulations and make an annual activities report to the Board of Directors.

The Compliance Committee has a secretariat led by the Compliance Department. At the secretariat meeting held each month, members of the secretariat confirm and review the appropriateness of responses to all reports made to compliance hotlines both within and outside Japan. They also draft and implement plans for specific activities and promote activities in accordance with decisions by the Compliance Committee.

Check Internal evaluations

• Opinions from the Board of Directors

Summary reports are made quarterly to the Management Committee on compliance incidents including incidents reported to the compliance hotlines, in addition to which the Management Committee summary reports and annual activities reports are also made to the Board of Directors.

The Board of Directors monitors and evaluates these activities, and its evaluation and opinions are used to improve the activities through the PDCA cycle.

• Issues identified from compliance hotlines

Reported incidents are regularly analyzed, and steps are taken based on identified trends, such as making necessary changes to the framework, conducting in-house education and promoting awareness.

• Issues identified from risk surveys

We conduct a risk survey that includes compliance risks every year, and identify risk areas and specific risk scenarios based on the results, after which we take the necessary steps while coordinating with the relevant divisions.

• Activities that involve listening to employees' opinions

The Compliance Committee Secretariat creates opportunities for dialogue with employees of the group companies within and outside Japan when visiting them to conduct training and on other occasions. Comments concerning current compliance activities are received, along with requests and proposals for new activities.

• Employee survey

A survey is conducted every other year on such things as the open atmosphere of various organizations by the Compliance Committee.

• New initiatives aimed at invigorating and reforming the corporate ethos

As part of the objectives and key results (OKR) adopted in 2021 as a new strategy to energize our employees, we clarify what individual employees should be seeking to achieve and become, get employees to set targets for themselves through a repeated process of dialogue with supervisors and colleagues, and encourage them to challenge themselves.

Within the OKR, we also set targets for activities aimed at helping to realize employees' vision of what each organization should be. Through this process of goal-setting and regular dialogue, which has replaced conventional opinion surveys, we are promoting the solving of problems and improvement of the corporate ethos within each organization, and strengthening the links between employees.

External evaluations

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

By answering socially responsible investing (SRI) questionnaire items that incorporate societal expectations and exchanging information with other companies, we incorporate items where we have not yet taken action into the next year's activities as necessary.

Mid- to long-term targets and performance

Mid- to long-term targets

1. Contribute to *Yoki-Monozukuri* through a commitment to Integrity and prevent incidents of damage
2. Minimize damage by creating workplaces with an open atmosphere that allows improprieties to be reported at an early stage and the appropriate response to be taken
3. Maximize utilization of human capital by ensuring that people's language and conduct are considerate of the other person's position and by creating workplaces in which all people are able to work on an equal standing

2030 long-term targets

- Establish and maintain our legal compliance structure within and outside Japan to ensure consistent *Yoki-Monozukuri*
- Conduct activities focused on high-risk areas to efficiently prevent serious compliance violations
- Clarify the reporting rules and make them well-known and followed to promote early reporting and appropriate handling of improprieties
- Establish our policy related to harassment prevention and other necessary internal regulations, and make them well-known and followed, to realize workplaces where people find it easy to work

Anticipated benefits from achieving mid- to long-term targets

Business impacts

- Avoid incidents of loss due to improprieties and reduced trust in Kao products
- Minimize damage by avoiding expanding or prolonging impacts by discovering improprieties at an early stage and taking an appropriate response
- Realize high-quality outcomes more efficiently and retain, hire and fully utilize talented human capital by creating work-friendly workplaces for employees

Social impacts

- By preventing improprieties and realizing higher quality outcomes, provide products and services through improved *Yoki-Monozukuri* including a focus on the environment
- Contribute toward the realization of clean, enriched lifestyles and toward the achievement of the SDGs, including those relating to environmental conservation, etc., through the provision of the products and services outlined above
- Maintain and improve the trust placed in us by stakeholders starting with shareholders and society

Performance in 2020

Performance

1. Activities to reduce compliance risks

Legal compliance structural reorganization

We have clarified the managing division for promoting compliance with approximately 250 laws and ordinances that apply to our worksites in Japan. For 45 laws and ordinances of particular importance, in 2020 we prioritized confirmation of whether the implementation status of the managing division's legal compliance plan was appropriately monitored. We have also put in place a framework for global compliance.

Analysis of the root causes for cases requiring particular attention, and thorough implementation of strategies to prevent reoccurrence

In regard to cases where the same type of compliance violation occurs repeatedly, we have launched initiatives for analyzing the root causes, and for implementing thorough measures to prevent reoccurrence.



→ p. 152 Our initiatives: Activities to reduce compliance risks

2. Activities to foster and establish compliance awareness

Amending the BCG Casebook

The BCG Casebook is intended to facilitate understanding of the BCG, which was revised in April 2019. The content has been revised with the addition of cases that have occurred within the Kao Group over the past few years that relate to the various topics addressed by the BCG. To ensure thorough dissemination of the Casebook throughout the Kao

Group as a whole, the content has been translated into local languages, and made available to employees through posting on the intranets of individual group companies, etc.



→ p.152 Our initiatives: Revision of the BCG Casebook and utilization of compliance-related rules

Compliance education activities

- Implemented harassment prevention training
In line with the coming into effect of laws relating to workplace bullying, harassment prevention training has been implemented for all employees in Japan via e-learning.
- Implemented online compliance lectures by the Compliance Committee Chairperson
- Implemented compliance training as part of new manager training in Japan
- Implemented BCG refresher tests and related opinion surveys outside Japan
- Implemented online compliance training for managers at several worksites in Thailand
- Established October as Compliance Awareness Month as in past years, displayed Compliance Awareness Month posters and communicated other information



→ p. 153 Our initiatives: Compliance education / Compliance Awareness Month

3. Compliance promotion system development

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 compliance incidents are regularly reported to the Compliance Committee, the Management Committee, the Audit & Supervisory Board Members, the Board of Directors and other groups, and the appropriateness of the response evaluated.
- We have commenced implementation of the Rules for Operating Compliance Hotlines, to strengthen trust in the compliance hotlines and enable employees to use them with peace of mind. In line with the amendment of Japan's Whistleblower Protection Act, in order to ensure more thorough protection of whistleblowers' right to confidentiality, we have worked to spread awareness of the fact that trying to find out the identity of whistleblowers, and treating whistleblowers badly, are prohibited.



→ p. 154 Our initiatives: Compliance hotlines

4. Evaluation activities

- Outside Japan, we conducted a compliance awareness survey to measure how well-established compliance activities are, and the atmosphere at workplaces.
- We identified issues and conducted improvement activities through information exchanges with other companies and responses to external evaluation survey.



→ p. 155 Our initiatives: Evaluation activities

5. External evaluations

In 2020, Kao was again recognized as one of the World's Most Ethical Companies®.



→ p. 155 Our initiatives: Fifteen consecutive years on the World's Most Ethical Companies® 2021 list

Reviews of performance

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

1. Contribute to *Yoki-Monozukuri* through a commitment to Integrity and prevent incidents of damage

Besides promoting initiatives to foster legal compliance, so as to reduce the incidence of serious compliance violations, starting from this year we have also been implementing thorough steps to analyze the underlying causes of incidents requiring particular attention that could be associated with serious compliance violations, and to prevent reoccurrence. There have been cases where problems have reoccurred even when activities were implemented that involved getting the relevant units to internalize the need for an effective response by getting them to consider concrete response strategies, and so we will continue to identify key issues that we need to focus on.

2. Minimize damage by creating workplaces with an open atmosphere that allows improprieties to be reported at an early stage and the appropriate response to be taken

Despite giving instructions regarding the need for prompt reporting when a compliance case is identified, there have been cases where reporting has been delayed, and so we have taken even more thorough steps to ensure widespread awareness of and compliance with the rules regarding initial reporting.

3. Maximize utilization of human capital by ensuring that people's language and conduct are considerate of the other person's position and by creating workplaces in which all people are able to work on an equal standing

With regard to workplace bullying, etc., although we have implemented initiatives that focus on preventing reoccurrence, incidents have continued to occur, including some quite serious cases. In response, we have taken thorough steps to formulate and implement measures to analyze the underlying reasons behind cases requiring particular attention, and strategies to prevent reoccurrence, as noted in Item 1 above, and we have revised and strengthened these measures where necessary.

Through measures of this kind, we have worked to enhance awareness of the issues in units where cases had occurred, and to promote the implementation of response measures. We have also worked on prevention by implementing educational and other preventative measures in units where there is a possibility that similar incidents could occur.

Our initiatives

Activities to reduce compliance risks

To reduce serious compliance risks, we continued upgrading our legal compliance structure in 2020 following steps taken in 2019, and took appropriate actions for serious compliance risks not covered by our legal compliance activities.

Reinforcement of our legal compliance structure (Enhanced monitoring of promotion activities)

In 2018, we reorganized our legal compliance structure to place responsibility for legal compliance with executive officers in charge of divisions. Specifically, we decided on the divisions in charge for promoting legal compliance with the some 250 laws and ordinances that apply to worksites in Japan. For 45 laws and ordinances of particular importance among the 250, we drafted an annual compliance promotion plan, required a report on its implementation and monitored compliance promotion activities.

To ensure the function of the legal compliance structure in Japan, in 2020 we confirmed whether the activities by divisions in charge targeting the important laws and ordinances were appropriately monitored by other divisions and organizations. In addition, for compliance with overseas laws and ordinances, we exchanged opinions with local persons responsible for legal affairs on how to build systems to gauge activities in individual countries and regions.

Analysis of the underlying reasons for cases requiring particular attention, and examination of strategies to prevent reoccurrence

As there have been cases where the same type of compliance violation occurs repeatedly, we have identified cases where there is a possibility of the same type of case occurring in other units, as well as cases involving legal violation issues or internal controls issues, classifying these as cases requiring particular attention, and we have undertaken analysis of the underlying reasons why the problem emerged within the unit where it occurred, as well as drawing up strategies to prevent reoccurrence. These matters are discussed from multiple perspectives as meetings of the Compliance Committee Secretariat, and feedback is provided to the unit where the problem occurred regarding the suggestions made, so that reoccurrence prevention can be implemented thoroughly.

Furthermore, where there is a possibility that a similar violation might occur at another unit or another subsidiary, reoccurrence strategies will also be implemented at that other unit or subsidiary.

Revision of the BCG Casebook and utilization of compliance-related rules

The BCG serve as our code of conduct for practicing the Kao Way, our corporate philosophy. The content is regularly revised based on expectations from society, our circumstances and other factors, and was revised

in April 2019.

In 2020, the BCG Casebook, which brings together case studies relating to the revised BCG in question-and-answer format, was compiled in Japanese, English and 17 other language versions, and was shared with all group companies.

The BCG explicitly defines anti-corruption compliance regardless of the identity of the other party and bans facilitation payments, which are payments of small amounts made to individual government officials. Making political donations is also prohibited in the BCG and in the Donation Guidelines. Moreover, the Kao Anti-bribery (anti-corruption) Guidelines, which describe the approval procedures and rules for giving and receiving of entertainment and gifts and notification procedures relating to invitations to government officials, have been adopted, including at the group companies outside Japan.

In addition to the above, the Kao Guidelines for Avoiding Conflicts of Interest have also been adopted at the group companies both within and outside Japan, and require approval or notification in situations of individuals having involvement in competition or transactions with group companies, investments in companies that engage in such competition or transactions, financial loans and so on with group companies, and close relatives engaging in such acts.

Annual confirmation

Once a year, we confirm the submission of reports to the Compliance Committee Secretariat regarding

Effective corporate governance 205-2, 404-2

matters pertinent to the Guidelines for Avoiding Conflicts of Interest and the Anti-bribery (anti-corruption) Guidelines with respect to members of the Board of Directors, the Audit & Supervisory Board Members, officers and employees.

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.

Compliance education

To deepen employees' understanding of the BCG and other compliance-related rules and regulations, we hold classroom-based training for new employees, newly appointed managers, and group company employees (including managers) outside Japan. In addition, a BCG refresher test is given every other year to check knowledge of BCG content.

In 2020, we conducted online educational programs in Japan and Thailand, using group discussions to bring up cases of compliance violations that could potentially arise at participants' worksites, the causes of such violations and countermeasures, to make the compliance content personally relevant to participants.

Implementation of harassment prevention training

We have for many years now positioned workplace harassment as an important compliance risk. With the coming into effect in June 2020 of the revised Act on Comprehensive Promotion of Labor Measures, and Stabilization of Employment of Employees, and Enrichment of Their Working Lives (also known as the Law against Power Harassment), employers are under an obligation to take all necessary measures to prevent

workplace bullying, and starting from late June 2020, we have been using e-learning to provide harassment prevention training for all employees (with around 26,000 employees having received this training).

Lectures by the Compliance Committee Chairperson

Compliance lectures on the topic of "Sharing an Awareness of Risk Based On Front-line Case Studies, and What Professionals Need to Be Doing," by the Compliance Committee Chairperson have been provided online to six divisions and Kao Group companies. Besides aiming to foster an awareness of risk by introducing case studies of recent compliance violations and encourage employees to implement compliance even more thoroughly, the lectures also explained the approach that management needs to take in order to cultivate an open, healthy organizational culture (a total of around 500 people have viewed these lectures).

Compliance training linked with the Kao Way

In coordination with training on the Kao Way which constitutes our management philosophy, online training has been implemented for managers at several worksites in Thailand in which the managers identify compliance risks that have a high risk of emerging at their individual workplaces, and then engage in group discussion to consider the reasons behind these compliance risks, and the countermeasures that can be adopted (total number of participants: approximately 200 people).

New manager training

Training similar to the above has also been implemented as part of new manager training in Japan.

Many participants offered feedback such as, "Through the discussions, I was able to think deeply

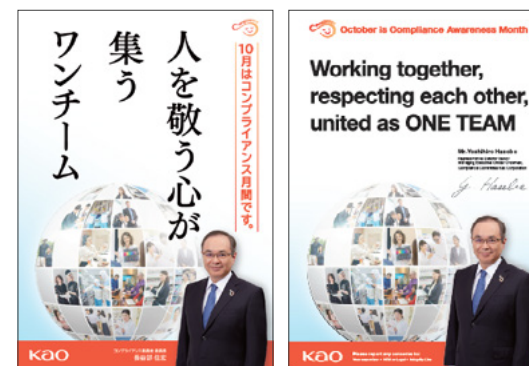
about the compliance risks that could occur in our workplaces and how to prevent them, and I want to put these ideas into practice back in my workplace." (Total number of participants: approximately 330 people)

Implementing the BCG refresher test at overseas subsidiaries

The BCG refresher test and compliance survey are held in Japan and outside Japan in alternate years. This year, the BCG refresher test and compliance survey were administered to overseas subsidiaries. Besides providing an opportunity to reflect on the content of the BCG, this also gave the participants an opportunity to submit their own views on compliance activities in the Kao Group and to reflect on the situation in their own workplace.

Compliance Awareness Month

At Kao, we have designated October as Compliance Awareness Month, with the aim of encouraging employees to view compliance as something that is directly relevant to them, and hold various activities to instill compliance awareness within and outside Japan.



The Compliance Awareness Month poster displayed at worksites in countries and regions

In 2020, the message from the Compliance Committee Chairperson was “Working together, respecting each other, united as ONE TEAM,” and we conducted activities to realize an enthusiastic workplace atmosphere by building awareness for workplace communication that gives consideration to others’ feelings.

The message from the Compliance Committee Chairperson was disseminated via the company intranet and displayed on posters as in past years. Posters with compliance messages were also created by regional leaders and company presidents globally and communicated along with case studies.

Employees’ voice

Working to enhance compliance awareness

Gwendolyn P. Glover

Manager, Human Capital Development (HCD)
Kao Specialties Americas LLC



Both in October, which is Compliance Awareness Month, and throughout the year, it is vitally important to enable employees to gain a real-time understanding of our compliance culture by making compliance training fun and engaging, focused on elevating compliance management at Kao Specialties Americas LLC. Our founder’s reference to “Good fortune” is reflected in the way that we empower our team members with the necessary knowledge and awareness to conduct themselves with Integrity while operating globally as ONE TEAM!

Compliance hotlines

According to the needs of each country and region, group companies have established either both internal and external compliance hotlines or only external hotlines.

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 principle, companies also receive the caller’s consent when an investigation of related parties is conducted. Anonymous inquiries are accepted, but callers are encouraged to identify themselves to facilitate proper investigation.

In 2020, there were 304 reports made to the hotlines (including group companies outside Japan), which also encompassed reports from management lines. Of these, excluding reports which are still being dealt with, or where their details have not been reported, just over 50% of the total were minor in nature and ultimately resolved or closed through responses from the secretariat or in face-to-face meetings with the caller. The remainder, just under 40%, were handled with measures such as warnings to the person in question based on investigations of the matter, including face-to-face meetings with multiple relevant persons.

Further breakdown of the reports received reveals that items related to harassment, including workplace bullying, represented roughly 30% of the total, while items including those related to miscommunication at workplaces, working conditions and employment, represented around 40%. Together, these two categories comprised approximately 70% of reports.

No particular trends were observed in the

organizations, worksites or occupations to which callers belonged.

Response framework in Japan

In Japan, we have established internal compliance hotlines operated by the Compliance Committee Secretariat and external hotlines operated by outside lawyers and clinical psychologists. Internal hotlines and external hotlines operated by lawyers accept reports and consultations not only from our employees but also from related parties including business partners. Not only can employees make reports anonymously, we also operate a hotline where it is possible to leave feedback.

Response framework outside Japan

We set up the Integrity Line, operated by an outside service provider, at the group companies outside Japan. The Integrity Line is able to receive calls 24 hours a day, 365 days a year in the home country language. Most group companies have established internal compliance hotlines in which the company’s HR manager or other representative handles inquiries. In 2020, we publicized the hotlines at group company compliance seminars and during Compliance Awareness Month.

Response to compliance violations, and legal violations in 2020

Under “Walking the right path” in the Kirei Lifestyle Plan announced in April 2019, we set the indicator of zero serious compliance violations.

These serious compliance violations refer to compliance violations that significantly impact management and result in significant loss to our corporate value. They are decided

based on the malicious nature of the violation (importance / seriousness of the legal infraction, intent, continuity, organizational nature), the internal and external impacts of the violation, and deliberation by the Compliance Committee and the Management Committee, and reported to the Board of Directors.

There were no such serious compliance violations to which the above applied.

In addition, through our participation in committees, working groups, etc. of trade associations, we convey opinions that could influence enactment and revision of laws to the government. Apart from membership fees to these trade associations, it was verified that no donations were made regarding political campaigns or organizations, lobbying, trade associations, tax-exempt entities or other groups whose role is to influence political campaigns or public policy and legislation in 2020.

At the same time, as there were some legal violations that did not meet the above-mentioned criteria for public notification, we strove to prevent reoccurrence by having the appropriateness of the reoccurrence prevention strategies formulated by the units where the violations occurred examined at meetings of the Compliance Committee Secretariat, etc.

There were a total of ten cases, including both cases within and outside Japan, that resulted in punitive dismissal or being asked to resign as punishment for misconduct by individual employees such as theft, embezzlement, harassment or violent behavior.

There have also been compliance violations resulting from the change in the working environment caused by the shift to remote working during the COVID-19 pandemic. With this in mind, we have used the company intranet, e-mail messages and online training to spread awareness of the key points to note in order to prevent these types of violations.

Fifteen consecutive years on the World's Most Ethical Companies® 2021 list

In February 2021, Kao was recognized as one of the World's Most Ethical Companies® 2021 by the U.S.-based think tank Ethisphere Institute. We have been named to the list 15 straight years since the award's inception in 2007. We are the only Japanese company, and the only manufacturer of fast-moving consumer goods and chemicals in the world, to be honored for 15 consecutive years.

Selection of companies for the list is based on the evaluation of five factors: (1) Corporate Ethics and Compliance Program; (2) Corporate Citizenship and Responsibility; (3) Culture of Ethics; (4) Corporate Governance; and (5) Leadership, Innovation and Reputation.

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



Evaluation activities

In 2020, we conducted a compliance awareness survey outside Japan to measure how well established compliance activities are and the atmosphere at workplaces (with approximately 7,000 employees being surveyed).

Also in 2020, we exchanged information about compliance activities with three companies and responded to questionnaires on SRI and the like from eight vendors and institutes. Through these responses, we reviewed our identification of issues and future-oriented response, and will incorporate these into our 2021 activities.

Sharing our insights on compliance with outside groups

In 2020, the Executive Officer holding the position of Senior Vice President of the Legal and Compliance gave online lectures on the topic of Kao's Corporate Governance Initiatives: Focusing on the Operation of the Board of Directors for the International Corporate Counsels Association (in April 2020), at a Governance Seminar hosted by ProNed Inc. (in October 2020), and for the Legal / Regulatory Committee of the Japan Soap and Detergent Association (in November 2020).

In addition, in June 2020 he gave a lecture at Doshisha University on the role of corporate legal affairs, including matters relating to compliance and corporate governance.

Stakeholder engagement

Raising awareness within Kao, and related issues, as seen from the Kao Consultation Room



Yoko Nohara

Chairperson,
Japan Industrial Counseling
Center, Ltd.
(Kao Consultation Room
provider)

In our role as the provider of the Kao Consultation Room, Kao's external consultation service, our center has for many years now been listening to the concerns of Kao employees and offering our opinion from an expert external viewpoint. Up until now, when concerns have been expressed, the usual approach has been for Kao's first step to be to listen to a diverse range of views, before making a final decision.

In 2020, although Kao introduced working from home in the final week of February in response to the COVID-19 pandemic, I heard a Kao employee expressing annoyance that Kao had been slightly slower to adopt home working than another major

corporation. This really brought home to the kind of attitude that characterizes a company which is always aiming to be number one. Many Kao employees felt that they were lucky to be working at a company that really put into practice its management philosophy of valuing employees.

In 2019, Kao ranked first in the list of the 100 Best Companies Where Women Actively Take Part published in Nikkei Woman magazine. In December 2019, Kao launched its new next-generation beauty solution, which cares for the skin by applying an ultra-thin artificial membrane to the skin surface. This was good news for people concerned about their skin. Reflecting these achievements, in 2021 Kao was selected as one of the World's Most Ethical Companies® for the 15th consecutive year.

Many of the people who join Kao do so because they are confident that "this company is capable of growth," and these employees will be very proud to see how well Kao is doing now. At the same time, however, the vast majority of Kao employees have come to see the company's success as being only natural, and one can sense that a generation gap has emerged.

This can be seen, for example, in the cases of gender-based harassment that are related to preconceived ideas about the roles that each gender should play. In one case, an employee resigned from the company with the comment that "Although most of Kao's

products are used by women, I got the strong impression that men were dominant in the workplace. It was not pleasant to see external evaluations of Kao that praised the company for promoting women's empowerment." With the coming into effect in June 2020 of the Law against Power Harassment, workplace bullying has come to be seen in a more serious light. Although Kao has put a serious effort into combating workplace bullying, there are still people in the company who do not have sufficient awareness of the seriousness of workplace bullying, take the attitude that they cannot do their work properly if they are worried about running foul of anti-bullying rules, take an overbearing attitude toward their subordinates, and want to carry on doing things their own way. If some employees continue to take the attitude that "Because we are a first-rate company, there are unlikely to be any serious problems," then there will be an increased risk of employees bringing lawsuits against the company.

The current COVID-19 pandemic has made communication difficult. We need to think about whether interpersonal relations at the company are characterized by people being able to express their views freely regardless of what position they hold. I believe that employees will place more trust in a company that doesn't ignore employees' real views than in one that only responds to outside pressure.

Full transparency 102-12, 102-15, 103-1

We believe that enhancing product transparency and communicating accurate information about our products, in ways that are appropriate and easy to understand, is essential to have people make the right choices and lead comfortable lives.

We disclose information in a timely manner through our websites and various opportunities to engage with stakeholders.

ESG Keyword	Information disclosure with a scientific basis	Disclosure of Fragrance Policy and names of fragrance ingredients
	Disclosure of policies relating to ingredients regarded as important by society	Supply chain transparency
		Disclosure of the benefits and safety of chemical substances

Kao's creating value to address social issues

Social issues we are aware of

Living in modern society today, individuals have greater needs and desires to obtain necessary or important information. At the same time, the development of the Internet of Things has made it easy to obtain a wide range of information. Ethical consumption, where products and services created with environmental and social considerations are chosen and consumed, is growing on the part of consumers. Consumers are also seeking information about corporate activities with the desire to purchase not only individual products of high quality, but also products from companies they can trust.

However, information relating to companies and the products and services they offer is still often fragmentary, preventing consumers from making the right choices for themselves. In addition, companies are expected to encourage dialogue with consumers and other stakeholders by properly disclosing accurate information.

At Kao, we are working to bring transparency to the connections between products, services and society, and to enable everyone to participate in building a better society. To this end, we strive to

facilitate mutual, unbiased sharing of information and opinions, as well as dialogue between the companies and stakeholders. We also believe that in addition to acting with integrity, we should continue to provide useful products with a scientific basis to consumers.

Furthermore, stakeholders as well as consumers look to companies to maintain transparency and fulfill their responsibility to disclose relevant information. In addition to complying with all applicable laws and regulations, we undertake to disclose information we deem useful to society with appropriate timing, in an accurate and fair manner. To this end, we strive to facilitate dialogue with shareholders, investors and external rating organizations, and provide them with fully adequate information disclosure content.

We place top priority on delivering information about products that consumers are in frequent, direct contact with and conduct activities accordingly.

Kao's creating value

Obtaining accurate information makes it easier for consumers to choose safe and reliable products and services, and be able to lead comfortable lives. In addition, the individual choices of consumers

contribute to the SDGs without them being aware of it, and we believe in the need for the environmental impact of these activities to stay within the range that our natural world can safely absorb.

The result of this helps create a world in which consumers and the wider society are filled with trust, sustainable growth and innovation are generated, and new markets and employment are created.

Contributions to the SDGs



Policies

Regarding transparency, we conduct activities founded in the Kao Way and the Kao Business Conduct Guidelines so that people can easily get the information they need when they need it for the right choices to be made for individuals, society and the Earth, and based on that accurate information, dialogue with stakeholders can become more developed.

Education and promotion

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

In addition, they practice taking a consumer-driven, global viewpoint as set forth in the Kao Way, and through dialogue with stakeholders, they study which kinds of information are necessary for consumers around the world.

Collaboration and engagement with stakeholders

We strive to understand the needs of society and the market, not only through direct inquiries from, and consultations with, consumers relating to product information, but also through dialogue with distributors, NPOs and NGOs.

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

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

Framework

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

Of particular importance was our decision to accelerate promotion of these activities from a global, cross-divisional perspective, to respond to especially strong demand on the consumers, more in Europe and the Americas than in Japan, for information relating to products they come in frequent contact with.

To this end, in 2019 we established a task force for disclosing product information in the ESG Promotion Meeting, an organization under the ESG Committee, and it has begun conducting activities, focusing first on fragrance ingredient disclosure, for which there is strong global demand. The task force,

whose members are drawn from Kao employees in Japan, Europe and the Americas, operates through five working groups focused on such areas as information gathering, IT and other infrastructure and region-specific activities in Europe and the Americas. In 2020, the entire task force held meetings every two to three months to share updates on progress and issues, and the results were announced at the ESG Promotion Meeting.

The task force began as a pilot project centered on Europe and the Americas, but in 2020, as the project continued, teams were created to prepare for widening its scope to include consumer and cosmetics product brands for disclosure in Japan and Asia, and the task force became a forum for sharing progress and issue updates. Thanks to these efforts, the first step was made to expand the scope of activities from the regional and area level to a company-wide level.

Each preparation team defined priority levels for each brand for disclosure, gathered fragrance ingredients information and considered whether there were issues specific to the business area. In addition, the teams have begun considering IT systems to promote more accurate and timely information disclosure. Since the summer of 2020, the IT infrastructure team has been holding meetings on a near-weekly basis, and is making rapid progress toward at an early system launch.



→ p. 18 ESG promotion structure

Mid- to long-term targets and performance

2030 long-term targets

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

Anticipated benefits from achieving mid- to long-term targets

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

Business impacts

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

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

information disclosure, will become more and more important.

According to survey data*, approximately 40% of Millennials and Generation-Z consumers, who dominate the market now and will continue to do so in the future, are selectively procuring products with a positive influence on the environment and society, and we believe that it is important to meet the demands of these generations.

* Deloitte Global Millennial Survey 2019

Social impacts

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

We also believe that as information regarding issues that arise are shared with the public and become visible, new collaborations will be created among the individuals, companies and organizations possessing the means to address those issues who enter the market.

Performance in 2020

We disclosed our Fragrance Policy on our Japanese and global websites. In addition, a total of 11 brands in Japan and the U.S. disclosed their fragrance ingredients. We also disclosed information regarding five product ingredients (preservatives, parabens, plastic microbeads, silicones and UV absorbents) about which there is a high level of concern in society on our Japanese and global websites.

Reviews of performance

We were able to initiate information disclosure relating to fragrance ingredients thanks to the understanding and cooperation of our suppliers, who sympathized with the goal of enhancing product transparency. Nevertheless, in 2020 we were only able to disclose information relating to a small portion of our brands, and going forward, we feel it will be important for us to collaborate closely with a larger number of fragrance ingredient suppliers.

Through our activities in 2020, we ascertained the amount of work required, and issues relating to supplier negotiations and contracts, information gathering and compiling, and a framework for responding to inquiries following information disclosure. We also confirmed that in order to expand the number of brands disclosing information and convey information in a timelier manner going forward, it will be essential to link our internal databases and systems. We have already begun augmenting and automating certain system functions, and plan to launch them before the end of 2021.

In addition, there has been a recent increase in demands for information, not only relating to fragrance ingredients, but also for other ingredients as

well as environmental impact and the overall transparency of our supply chain, and this information must be conveyed to a wide range of stakeholders in addition to consumers. To this end, we will promote further strengthening of internal structures, database enhancement, system linkage and collaboration with internal and external partners, and plan to move up our 2030 deadline for achievement of 100% transparent brands.

Our initiatives

Considerations in the product catalog website and individual product websites

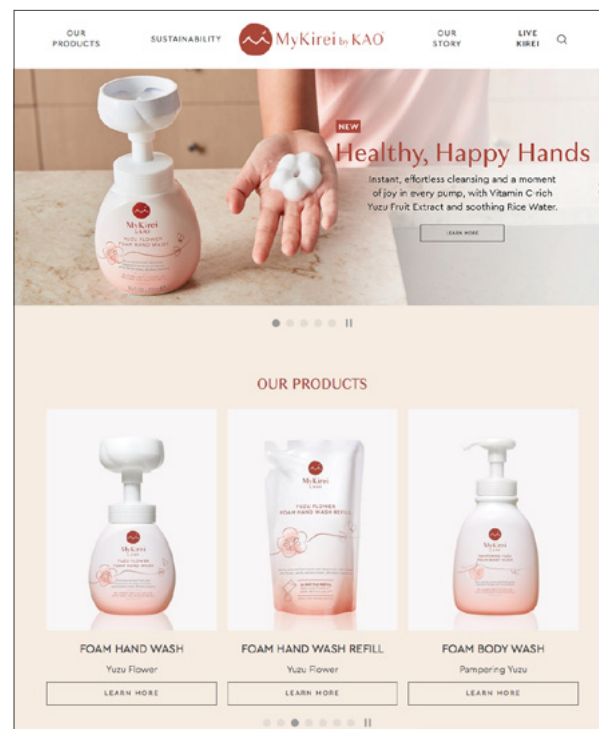
We disclose information needed to make decisions about whether products that customers are planning to purchase and products that customers already have purchased can be purchased and used with peace of mind.

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

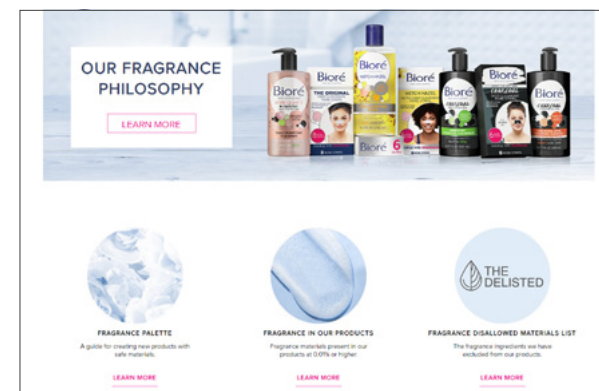
In 2020, we began disclosing information relating to fragrance ingredients for the *MyKirei by Kao* and *Bioré* brands in the U.S., and for certain fabric and home care products in Japan, to consumers with strong awareness for ethical consumption.



→ Product catalog website
www.kao.com/jp/en/products/



→ MyKirei by Kao brand website
www.mykirei.com/en-us/



→ Bioré U.S. website
www.biore.com/en-us/fragrance/

Full transparency ⁴¹⁷⁻¹

Disclosure of Fragrance Policy and names of fragrance ingredients

Kao's Fragrance Policy, issued in May 2020, included information on our commitment to *Yoki-Monozukuri* and the value we seek to offer through fragrances, and examples of fragrance-related research. In addition, the policy notes our intention to disclose levels of fragrance ingredients whose weight is 0.01% or greater of the product weight.

Based on this basic policy, and in line with the trend in the industry, we began disclosing the names of fragrance ingredients in a total of 11 brands in the U.S. and Japan.

Disclosure of policies relating to ingredients regarded as important by society

In December 2020, we disclosed information relating to five product ingredients (preservatives, parabens, plastic microbeads, silicones and UV absorbents), about which there is a high level of concern in society. The information includes the policy for, and our approach, to the use of these ingredients based on scientific evidence.



→ p. 57 Making my everyday more beautiful >
Safer healthier products

Supply chain transparency

We are also promoting activities to enhance the transparency of our supply chain. We strive to source our raw materials in a way that protects natural resources, the environment and human rights through supply chain traceability and collaboration with suppliers.

In 2020, we published a list of mills from which we source palm oil.



→ FY2020 mill list
www.kao.com/content/dam/sites/kao/www-kao-com/global/en/sustainability/pdf/progress-2020-001.pdf



→ p. 79 Making thoughtful choices for society >
Responsibly sourced raw materials

Disclosure of the benefits and safety of chemical substances

In addition to the easily understood information disclosure for consumers and society that we have so far carried out with respect to chemical substances safety under our SAICM Promotion Policy and in line with responsible chemicals management, we began efforts to disseminate information relating to the benefits of chemical substances.



→ p. 219 Walking the right path >
Responsible chemicals management

Employees' voice

Kao promotes disclosure of fragrance ingredients worldwide

Atsuto Mori

Director, Technology Law Center,
Kao Corporation



In line with our ESG Strategy, we are promoting a project to disclose fragrance ingredients on a global basis. Fragrances are necessary to enhance consumer product attractiveness. To convey their delicate nuances effectively, fragrance chemicals are compounded from a wide range of raw materials. However, ingredient-related information is seldom disclosed, preventing consumers from obtaining assurance in that respect.

Interest in fragrance ingredients varies widely by region and individual, and it is not easy to promote uniform disclosure on a global basis. Team members in Europe and the Americas are currently working actively to address the issues. We believe that by disclosing ingredients actively and in easily understood ways, we can enhance peace of mind for all consumers and contribute to happier everyday lives.

Ingredient disclosure is key to correct consumer selection

Chrysann Wallace

Senior Manager, Mass ESG, Americas
Human Capital Development



As a part of Kao's commitment to full transparency in the Kirei Lifestyle Plan, knowing more information about product ingredients will help consumers know which products may be the best for them. Providing more transparency about fragrances is one additional way we continue the trusted relationship and communication between Kao and the people around the world who love our products.

In this age of information, it is crucial we provide people with verifiable data in a way that is meaningful to them. We are proud that consumers can use our products with the peace of mind to know their safety is being prioritized at every step during the product development process.

Selection of, and disclosure relating to, raw materials with no influence on the human body or the environment

Dr. Frank Golinski

Director, Hair Beauty Care,
Kao Europe Research Laboratories



Our customers want to know how our products are formulated, what the origin of their components are, how they are manufactured and about the impact on human health and environment.

Our mission in R&D is to carefully select the raw materials for our products with a maximum of performance, no negative impact on human health and a minimum impact on environment and last but not least to make all these efforts as transparent as possible.

Respecting human rights 102-15, 103-1

We support and respect international rules relating to human rights, and have developed the Kao Human Rights Policy, which is based on the United Nations (UN) Guiding Principles on Business and Human Rights. We are implementing initiatives aimed at realizing zero human rights violations in every aspect of our corporate activities. The Kao Human Rights Policy was approved by the company's Management Committee and disclosed in 2015.

ESG Keyword

Human rights risk prevention and mitigation

Compliance with modern slavery acts in various countries and regions

Respect for human rights in the supply chain

Human rights due diligence

BCG

Respect for human rights in advertising

Kao's creating value to address social issues

Social issues we are aware of

Human rights are the most basic of all rights, and in a world of diverse values, it is important to build a society in which people respect one another's human rights, and where no one has to suffer from prejudice or discrimination.

Corporate activities are closely bound up with the human rights of a wide range of people, including employees, business partners, customers, etc. Under these circumstances, the risk of human rights violations occurring cannot be said to be zero. For example, it has been pointed out that, given the ongoing globalization of corporate activities, there is a risk of forced labor occurring at suppliers in developing nations. Within the workplace, there is a need for a serious effort to put in place the framework required to support the work styles of diverse employees, and to ensure that discrimination does not occur. If representations in advertising are linked to human rights violations, or if consumers re-post advertisements, etc. containing content that is linked to human rights violations on social media, then one cannot rule out the possibility that this may indirectly lead to a worsening of human rights violations. Furthermore, with the impact of the COVID-19 pandemic, there is a possibility of new human rights risks emerging, for example in relation to inadequate communication and long working hours resulting from the increase in working at home, or the disparity in the situation

of those employees who are still required to go into work on a regular basis.

More and more attention is being paid to the initiatives taken by business enterprises to address human rights issues. For example, the UN Guiding Principles on Business and Human Rights stipulate that business enterprises have a responsibility to respect human rights, while the U.K.'s Modern Slavery Act 2015 requires enterprises to take steps to prevent forced labor and human trafficking, and to disclose what steps they have taken. Enterprises need to identify human rights risk, implement corrective action when human rights violations have emerged, and continue making an effort to prevent human rights violations from occurring.

Through our company activities, we aim to reduce human rights violations to zero, and to resolve the issues speedily if human rights violations do emerge unintentionally. We recognize that human rights risks in the supply chain, including risks relating to palm oil suppliers, and risks relating to Kao employees, are particularly high, and we have therefore been focusing heavily on initiatives in this area. We review these risks on a regular basis.

Recognizing the need to speed up the initiatives we are taking and expand their scope in order to achieve the SDGs by 2030, in January 2020 we launched a Decade of Action in relation to the achievement of the SDGs.

Kao's creating value

In the Kao Human Rights Policy, we enunciate our commitment to human rights in all of our business activities. The Kao Business Conduct Guidelines (BCG), which represent the Kao Group's code of conduct, emphasize the need to conduct fair, honest and appropriate transactions, to respect human rights through all company activities, and to respect employees' diversity. We promote fair and equal procurement activities, and we ask suppliers to implement activities along the same lines as Kao's. We pursue *Yoki-Monozukuri* throughout the supply chain as a whole.

When problems do arise unintentionally, we work to resolve them speedily. We have set up compliance hotlines, etc. to which stakeholders can submit their views, and when problems start to manifest themselves we take steps to address them through collaboration between related units.

By working together with a wide variety of stakeholders to implement measures that strengthen respect for human rights, rather than just Kao working alone, and by striving to prevent and mitigate human rights risk, we are able to get closer to our goal of reducing human rights violations to zero, while also contributing toward the realization of our mission to strive for the wholehearted satisfaction and enrichment of the lives of people globally, as enunciated in the Kao Way.

Respecting human rights 102-12, 102-15, 103-1, 103-2

Risks related to realization of What Kao Aims to Be by 2030

Recently, as consumers' ethical awareness has grown, there has been a global increase in concern regarding the ways in which business enterprises respond to human rights issues. If a company does not give due consideration to human rights, this can lead to reputation risk.

In our business activities, both internally within Kao and in the case of suppliers and contractors, manufacturing products in environments with poor labor conditions, such as forced labor, has the potential to create quality problems. Furthermore, if Kao's reputation is damaged by human rights risk, the relationship of trust that we have with our suppliers could be damaged, which would have an adverse impact on purchasing, and consumers' loss of faith in the company could lead to reduced sales. Employees' motivation and loyalty would be weakened, which might have an adverse impact on and result in increased employee turnover.

Opportunities related to realization of What Kao Aims to Be by 2030

Kao's respect for human rights, which imbues all of our corporate activities, and the initiatives that we have taken in this area, has the potential to earn widespread approval from society. Such an effort by Kao will lead an increase in activities that foster respect for human rights. Contractors and other companies in the supply chain will pursue human rights initiatives, and this will enhance their activities. This in turn will lead to strengthened human rights awareness in society as a whole, and will contribute toward reducing human rights violations to zero.

We respect human rights, and we are working to promote fair procurement. This secures consumer support for our corporate approach and helps build and maintain trustworthy relations with suppliers. In particular, if we can secure the approval of Millennials and Generation Z, who tend to be very concerned about ethical consumption, then

this may lead to increased purchasing of our products, and increased opportunities for us to recruit talented individuals. Within the company also, promoting initiatives that embody respect for human rights can enhance employees' loyalty, and can result in enhanced productivity and lower employee turnover.

Contributions to the SDGs



Policies

In our company activities, we aim to reduce human rights violations to zero, and to resolve the issues speedily if human rights violations do emerge unintentionally.

In 2015, we formulated and announced the Kao Human Rights Policy, which stipulates that we respect international norms relating to human rights, such as the International Bill of Human Rights, and that we will conduct human rights due diligence and human rights education for employees, working diligently to fulfill our responsibilities in regard to respecting human rights in every aspect of our operations. BCG, which serves as our code of conduct for practicing the Kao Way, clearly stipulates the need to respect human rights and to ensure that we are not involved with child labor, human trafficking or forced labor.

In the supply chain also, our Policies for Procurement stipulate the need for purchasing operations to embody respect for human rights, and to contribute to the fulfillment of our corporate social responsibility. In addition, the Guidelines for Supplier's Assessment include suppliers' fulfillment of their corporate social

responsibility as an assessment item, and note that suppliers are required to take measures to prevent forced labor, child labor and other illegal labor practices.

Furthermore, our Guidelines for Sustainable Procurement of Raw Materials clearly stipulate the need to demonstrate awareness of sustainable development issues, including human rights, and to undertake the procurement of raw materials in a sustainable manner. We have formulated Sustainable Palm Oil Procurement Guidelines and Sustainable Pulp and Paper Procurement Guidelines.

In 2005, we declared our support for the UN Global Compact, which defines ten principles in the four areas of human rights, labor, the environment and anti-corruption. And we also support for CGF's* Forced Labour Resolution and its Priority Industry Principles. Besides legal compliance, in case where there is any conflict between internationally recognized human rights and the laws of a country or regions, we will follow processes that seek ways to honor the principles of international human rights.

In order to be able to respond promptly in the event that a problem does occur unintentionally, we have established hotlines to receive reports and requests for consultation both from within the company and from outside. On the basis of these reports and requests, discussions and surveys are undertaken by the Compliance Committee and other relevant divisions, and appropriate steps are taken in response as necessary.

* CGF (The Consumer Goods Forum)

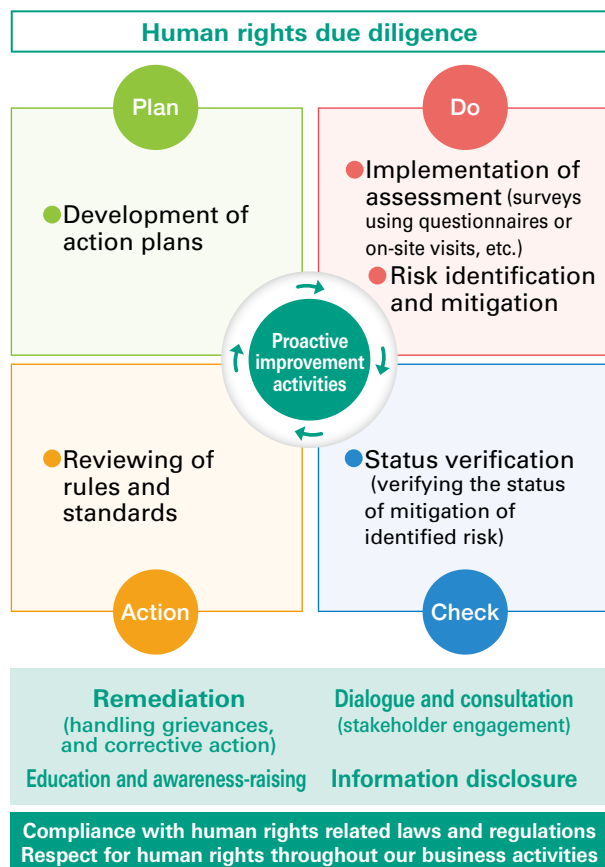
Global network of consumer goods retailers and manufacturers. We are participating as a member company.



→ p. 144 Walking the right path >
Effective corporate governance

Respecting human rights 103-2, 103-3

Overview of the initiatives based on the Kao Human Rights Policy



→ Kao Human Rights Policy

www.kao.com/content/dam/sites/kao/www-kao-com/global/en/sustainability/pdf/kao-humanrights-policy.pdf

→ Kao Business Conduct Guidelines

www.kao.com/global/en/about/policies/compliance/business-conduct-guideline/

→ Policies for Procurement

www.kao.com/content/dam/sites/kao/www-kao-com/global/en/sustainability/pdf/procurement-policy.pdf

→ Guidelines for Supplier's Assessment

www.kao.com/content/dam/sites/kao/www-kao-com/global/en/sustainability/pdf/procurement-supplier-guidelines.pdf

→ Guidelines for Sustainable Procurement of Raw Materials

www.kao.com/content/dam/sites/kao/www-kao-com/global/en/sustainability/pdf/procurement-raw-materials-guidelines.pdf

Risks anticipated by the Kao Group (significant risks are underlined>

		R&D	Procurement	Production	Marketing	Logistics	Sales	Corporate (Business support)
Stakeholders	People we work with (Kao employees, subcontractor employees and supplier employees)	<ul style="list-style-type: none"> • Forced or compulsory labor • Child labor • Poor working environment • Restrictions on freedom of association and / or collective bargaining • <u>Unsatisfactory compensation (failure to pay wages or paying excessively low wages)</u> • <u>Discrimination in any form (whether based on age, place of birth, nationality, foreign status, being a migrant worker, ethnic background, gender, LGBT status, disability, illness, or pregnancy or childbirth)</u> 						
	Business partners	• Deterioration in business partners' working environment due to abuse of Kao's dominant position						
	Consumers / Customers	<ul style="list-style-type: none"> • Adverse impact on health or safety due to product design issues 	<ul style="list-style-type: none"> • <u>Unhygienic company-provided accommodation</u> • <u>Poor working environment, forced or compulsory labor, or child labor on palm farms</u> 	<ul style="list-style-type: none"> • <u>Unhygienic company-provided accommodation</u> 	<ul style="list-style-type: none"> • Invasion of customers' privacy • Adverse impact on minors, senior citizens or women due to inappropriate advertising or promotion 		<ul style="list-style-type: none"> • Invasion of customers' privacy • Misleading customers through inaccurate statements • Inappropriate packaging or labeling 	<ul style="list-style-type: none"> • Invasion of employees' privacy • Discriminatory hiring practices
	Local communities	<ul style="list-style-type: none"> • Harm caused to indigenous inhabitants' culture, traditions or livelihoods due to construction of plants, etc. • Damage caused to ecosystems or local communities due to the construction and / or operation of plants, etc. (including damage to health resulting from plant construction, impact on the water supply, waste water discharge, waste gas discharge, etc.) 	<ul style="list-style-type: none"> • Harm caused to indigenous inhabitants' culture, traditions or livelihoods due to construction of plants, etc. • Damage caused to ecosystems or local communities due to the construction and / or operation of plants, etc. (including damage to health resulting from plant construction, impact on the water supply, waste water discharge, waste gas discharge, etc.) 			<ul style="list-style-type: none"> • Damage to health caused by leakage of harmful substances while being transported 	<ul style="list-style-type: none"> • Damage to health and adverse impact on people's lives caused by mistaken use of products 	<ul style="list-style-type: none"> • Business practices that fall below internationally accepted human rights standards

Respecting human rights 102-20, 102-43, 103-2, 404-2

Education and promotion

In order to prevent and mitigate human rights related risks in every aspect of corporate activities, it is vitally important to ensure that every employee has an in-depth understanding of human rights issues, and to implement measures to foster respect for human rights. To this end, besides disseminating information and implementing education and training in line with the Kao Human Rights Policy, we also take advantage of various opportunities to provide education and training focused on individual topics, such as compliance, responsible procurement, safety and peace of mind in the workplace, diverse human talent, etc.



- p. 79 Making thoughtful choices for society > Responsibly sourced raw materials
- p. 144 Walking the right path > Effective corporate governance
- p. 186 Walking the right path > Inclusive & diverse workplaces
- Responsible care activities
www.kao.com/content/dam/sites/kao/www-kao-com/global/en/sustainability/pdf/sus-db-2021-e-all.pdf#page=27

Collaboration and engagement with stakeholders

We implement initiatives that promote respect for human rights in all of our corporate activities. We recognize the importance of continuing to further enhance these activities through dialogue with a wide range of relevant stakeholders, including employees, suppliers, consumers, etc. We make use of a variety of opportunities and methods to communicate with employees, suppliers, consumers, shareholders, business partners, local communities, government agencies, etc., endeavoring to ensure that they understand our policies and ethical standards.

With regard to employees, we strive to monitor employees' attitudes through the *Find* employee survey, which is implemented once every two years. For suppliers, we introduce our activities and engage in an exchange of views at the vendor summits. In regard to local communities, site reports are issued for each plant, and we introduce our activities to people in the local community.

So as to further improve our activities in this area, we intend to create opportunities for exchanging views with NPOs and NGOs that possess specialist expertise in relation to human rights, and to foster collaboration with these organizations.

Framework

The human rights initiatives of the Kao Group as a whole are implemented within the ESG promotion structure as one of the 19 Kao Actions of the Kirei Lifestyle Plan.

As human rights issues are so multi-faceted, various different units are implementing initiatives in this area,

depending on the specific stakeholders concerned and the individual topics. In the case of initiatives that relate to our employees, Corporate Strategy plays a central role in the implementation of initiatives relating to workplace safety and security, while Human Capital Development plays a key role in those relating to the building of inclusive and diverse workplaces. The Procurement Division has main responsibility for initiatives relating to suppliers. The aspect that is most directly related to consumers is human rights concerns relating to representations in advertising. The Business divisions and Creative divisions have responsibility for this aspect. Legal and Compliance is responsible for the compliance hotlines that collect views from both inside and outside the company.

The ESG Division exercises oversight over, and promotes, all of these individual initiatives, and the Executive Officer in charge of the ESG Division has overall responsibility for the company's human rights initiatives. To ensure a comprehensive, integrated view of our human rights initiatives, we have established a Human Rights Promotion Team that includes representatives of Corporate Strategy, Human Capital Development, Legal and Compliance, Procurement and ESG. The team undertakes information-sharing on a regular basis, four times a year. Activities are also coordinated with other units when necessary.

Once a year, the ESG Division reports to the Management Committee, and its subordinate organization the Corporate Committee, on the overall state of human rights initiatives in the company.



- p. 18 ESG promotion structure

Respecting human rights 103-2, 103-3, 412-1, 412-2, 412-3

Mid- to long-term targets and performance

Mid- to long-term targets

In all of our *Yoki-Monozukuri* processes, we aim to reduce human rights violations to zero, and to resolve the issues speedily if human rights violations do emerge unintentionally.

To this end, we use human rights due diligence and awareness-raising activities to deepen stakeholders' understanding of human rights. We will continue to identify, prevent and mitigate human rights related risks in our business activities.

As human rights issues are so multi-faceted, they potentially impact a wide range of stakeholders. We therefore assess what human rights risks exist for each type of stakeholder, and address them, giving priority to those risks that would have a profound impact on stakeholders and significantly impact our business activities if they were to manifest themselves.

We have identified employees and suppliers as being the highest-priority stakeholders. We are aiming to raise the risk assessment survey implementation rate for these stakeholders to 100% by 2030. In the case of employees, the risk assessment survey targets both Kao Group plants and offices and contractors (that operate on Kao Group worksites). In the case of suppliers, risk assessment surveys are implemented for each individual company.



→ p. 144 Walking the right path >
Effective corporate governance

Anticipated benefits from achieving mid- to long-term targets

Business impacts

Once a human rights violation occurs, the company is exposed to direct litigation risks and forced to bear litigation expenses, collection expenses and other economic burden. There is also greater probability of severe damage to our company image, a lower reputation among consumers, weakened employee loyalty, and loss of trustworthy relations with suppliers.

Continuing to identify, prevent and mitigate human rights risks in our business activities not only avoids direct economic losses but also contributes to increasing opportunities for consumers to choose our products through their support for our corporate approach, reduces procurement risks by strengthening trust with suppliers, increases opportunities for recruiting talented individuals, improves productivity from increased employee loyalty, and reduces hiring costs from lower employee turnover.

Social impacts

Expanding company measures to ensure respect for human rights contributes to enhanced awareness for human rights in society as a whole. Our measures are

one part of this. For example, deepening understanding among stakeholders enhances awareness for human rights in society as a whole, mitigates human rights problems such as forced labor, and can also prevent negative environmental impact by reducing indiscriminate development in developing countries.

Providing products made with consideration for human rights reduces the chances of consumers indirectly infringing on human rights and leads to less human rights violations in society as a whole.

Performance in 2020

Performance

Human rights due diligence Internal

(1) Risk assessment

- Conducted a survey of the group companies using the Human Rights Checklist (100% response rate from surveyed companies)
- Conducted a survey of the group production sites (42 plants in total) using the Sedex* Self-Assessment Questionnaire (100% response rate from surveyed plants)
- Preparations are underway for implementing surveys of contractors starting from the next fiscal year.

(2) Risk identification and reduction

The results obtained in the risk assessment of Kao Group worksites did not indicate that Kao had caused or contributed to any adverse impact on human rights. The results obtained did not show any human rights related risks at either our production sites or our group companies. There are therefore no cases of improvements being implemented as a result of human rights due diligence.

(3) Status verification

In 2020, only risk identification was performed, using risk assessment, and auditing was not implemented.

(4) Reviewing of rules and standards

It is anticipated that the content of the Human Rights Checklist will be adjusted in 2021, as it will then be three years since the checklist was first formulated.

* Sedex (Supplier Ethical Data Exchange)

A large-scale global platform for the sharing and verification of information relating to labor standards, health and safety, environmental protection and business practices, aimed at promoting the adoption and maintenance of ethical business practices in global supply chains

Suppliers

- As in the previous year, suppliers were encouraged to register with Sedex.
- Risk assessments were conducted at sites for which access rights with us have been established by December 31, 2020.



→ p. 79 Making thoughtful choices for society > Responsibly sourced raw materials

Remedies and handling of grievances

We have opened a wide range of channels so that we can receive reports and requests for consultation from all stakeholders. Our compliance hotlines handle reports and requests for consultation from employees, suppliers and contractors, while consumers can submit reports and requests for consultation to the support desks by telephone or e-mail, etc. In addition, views expressed directly to managers are shared with relevant units, and action taken in response, as needed.

For example, in the case of the *Laurier* Kosei-ful Campaign that was implemented in 2020, although we attempted to bring across the various different aspects of menstruation, there were comments from outside the company suggesting that we had not paid sufficient attention to ensuring that the real meaning of some aspects was brought across clearly to consumers, and in response to these comments we decided to make some adjustments to the project.

In addition, because Kao does not enter into direct contracts with oil palm farms, we ask suppliers of oils and fats to establish effective grievance handling

mechanisms. We verify the status of these mechanisms through audits, etc., and we request that improvements be made when necessary. In October 2020, we announced the implementation of the SMILE activity to provide an opportunity for direct dialogue between Kao and small oil palm farmers, to listen to the issues, and to request that suppliers of oils and fats make improvements.



→ p. 144 Walking the right path > Effective corporate governance

→ p. 79 Making thoughtful choices for society > Responsibly sourced raw materials



→ Kao, Apical and Asian Agri Launch 'SMILE' Program to Help Oil Palm Smallholders Improve Yields, Acquire Certifications, and Secure Premiums
www.kao.com/global/en/news/sustainability/2020/20201014-001/

Education and awareness-raising Suppliers

- We work to spread awareness of human rights risk at meetings with suppliers.

Employees

- We have posted material that addresses human rights topics on the company intranet to raise awareness among employees.
- We have promoted awareness of the importance of respect for human rights through BCG training and refresher test implementation.

Respecting human rights 103-2, 103-3, 412-1, 412-2, 412-3

- We have continued to implement LGBT study sessions and LGBT ALLY recruitment, as part of our efforts to promote active participation by diverse employees and to foster understanding of diverse types of customers.
- We have implemented training relating to racial discrimination issues.



- ➔ p. 79 Making thoughtful choices for society > Responsibly sourced raw materials
- ➔ p. 144 Walking the right path > Effective corporate governance
- ➔ p. 186 Walking the right path > Inclusive & diverse workplaces

Dialogue and consultation

- We have implemented an online meeting with suppliers. A total of 38 supplier companies participated in the event at which views were exchanged.
- We participate in the UN's Global Compact Network Japan and in the Human Rights Coalition of CGF, and we exchange information with experts at other business enterprises, NPOs, international organizations and government agencies.

Information disclosure

- Information about Kao's initiatives is shared with consumers using our website, etc.
- We report on our initiatives to promote respect for human rights on our website and in our Sustainability Data Book.
- In 2015, the "Act to make provision about slavery, servitude and forced or compulsory labour and about

human trafficking, including provision for the protection of victims; to make provision for an Independent Anti-slavery Commissioner; and for connected purposes" (the Modern Slavery Act 2015)* was enacted and came into effect in the U.K.

A statement noting the measures taken by the group in relation to the act has been posted on our website.

* Modern Slavery Act 2015

The Act requires for-profit groups and companies conducting business activities in the U.K. whose annual sales exceed a certain scale to produce and release annual statements about measures enacted to ensure that slave labor and human trafficking offenses have not been committed.



➔ Modern Slavery Act Statement
www.kao.com/global/en/sustainability/topics-you-care-about/humanrights/modern-slavery-act-statement/

Other

During the period in which measures to reduce the need for employees to leave their homes, including the adoption of working from home, etc., have been in effect due to the impact of the COVID-19 pandemic, we have been providing a special allowance for those employees who still need to go into work to ensure continuity of production, logistics or sales operations, etc.

Reviews of performance

With regard to human rights initiatives, we have set ourselves the goal of raising the human rights due diligence survey implementation rate to 100% by 2030 for the Kao Group, suppliers, and contractors (specifically, those contractors operating on Kao Group worksites). The survey implementation rate in 2020 was 100% for the Kao Group. The suppliers that completed the survey accounted for 83% of global transactions (on a monetary value basis), which represented a move in the right direction. However, it was not possible to have the survey implemented for contractors. We prepared for the implementation of the survey for contractors starting from next year.

While the survey results did not show any serious human rights risk for the Kao Group, as the situation changes every year, we will continue to implement the survey next year and after, as we strive to identify, prevent and mitigate human rights risk.

In relation to suppliers, in the future, besides continuing to encourage suppliers to join Sedex, we will also request improvements from suppliers whose assessment results are low (scores of B or C).



➔ For more details about human rights in the supply chain, see p. 79 Making thoughtful choices for society > Responsibly sourced raw materials

Our initiatives

Human rights due diligence process

We are making efforts to investigate and identify human rights risks involving the group, including forced labor, workplace labor conditions and discrimination.

Every year, we implement risk assessment both internally and with respect to suppliers and contractors. By reviewing the results and using them to identify risk, we strive to identify, prevent and mitigate the adverse impacts of human rights issues.

1. Efforts in the group

Every year, we perform a risk assessment targeting all of our business locations throughout the world. With respect to production sites, we make effective use of Sedex, a global corporate ethics information sharing platform. For other Kao Group companies besides the production sites, a Human Rights Checklist was compiled, which these companies are required to complete.

In 2020, a total of 42 production sites completed the Sedex Self-Assessment Questionnaire. For other Kao Group companies, a total of 57 Kao Group companies completed and returned the Human Rights Checklist. In both cases, there was a 100% completion and return rate. The results obtained did not show any human rights related risks at either our production sites or our group companies. There are

therefore no cases of improvements being implemented.

In 2020, only risk identification was performed, using risk assessment, and auditing was not implemented. It is anticipated that, next year and after, auditing will be performed, and the content of the Human Rights Checklist will be adjusted, as it will then be three years since the checklist was formulated.

2. Efforts in the supply chain

New clauses relating to concern for the environment and for human rights added to standard contract with suppliers

In 2012, new clauses relating to concern for the environment and for human rights were added to the master agreement that we sign with suppliers. In principle, this master agreement is used when signing contracts with new suppliers or renewing existing contracts.

Request for self-assessment and monitoring

Since 2008, suppliers have been required to perform self-assessments of their conformity with the Guidelines for Supplier's Assessment, which we then monitor. In the case of suppliers whose self-assessment shows a failure to meet the required standards, our personnel visit the supplier so that the

supplier can share information about the problems, and so that we can collaborate on achieving improvements. Since joining Sedex in 2014, we have held presentations to explain Sedex to suppliers, and we continue to request that suppliers join Sedex, respond to Sedex questionnaires, and set up data access rights. As of the end of 2020, suppliers accounting for 83% of global transactions (on a monetary value basis) were Sedex members (including Kao SAQ, an alternate program*).

* EcoVadis and other survey programs used as alternatives to Sedex



→ p. 79 Making thoughtful choices for society >
Responsibly sourced raw materials

Respecting human rights 412-2

Internal human rights education

Raising awareness of the importance of respecting human rights using the BCG (global)

We implement educational activities to deepen employees' understanding of the BCG, which set out our approach to ensuring respect for human rights among employees in all of our group companies. In 2020, we revised the BCG Casebook, which provides a more in-depth understanding of the BCG, and we uploaded translated versions of the BCG Casebook to the intranets of individual Kao Group companies, and notified employees to make use of them. In Japan, we implement harassment prevention training using e-learning for all employees, as well as online lectures by the Compliance Committee Chairperson, compliance training for new employees and new managers, etc. For overseas subsidiaries, besides implementing the BCG refresher test, during the group-wide Compliance Awareness Month in October we have promoted activities aimed at realizing a workplace culture in which people can work with enthusiasm, by making people aware of the importance of workplace communication that gives due consideration to the person you are talking to.



→ p. 144 Walking the right path >
Effective corporate governance

Raising awareness of the importance of respecting human rights using the company's intranet (Japan)

We have posted material that addresses human rights topics on the company intranet to raise awareness among employees.

In 2020, we launched a new D&I Short Video Series to help employees develop a better understanding of diversity and inclusion through viewing this content. This series introduces topics such as LGBT, cultural diversity, hearing impairments, discriminatory actions and speech, harassment, etc., presenting basic knowledge and helping to deepen employees'

understanding of D&I. By helping employees learn how to communicate well with people from diverse backgrounds, this video content promotes concern for human rights.

In addition, on Human Rights Day in December, we posted video content to our intranet which introduces the Universal Declaration of Human Rights and the UN Guiding Principles on Business and Human Rights.



→ p. 186 Walking the right path >
Inclusive & diverse workplaces

Respect for human rights in advertising (Japan)

We have put in place a framework to facilitate self-checks in relation to verification of how the human rights perspective is presented in advertisements, product packaging, etc. When making the determination as to whether such representations include content that could be deemed to violate human rights, it is important to have several pairs of eyes doing the checking, so the relevant business division manager and their supervisor verify whether the content could be considered to violate human rights, while also sharing information with our internal creative division (i.e. Advertising Communication).

We also work to cultivate personnel to undertake human rights promotion* within the Advertising Communication, as well as engaging in sharing and consultation within the division, and putting in place the framework needed for proactive improvement. In cases where it is difficult to make a judgment, the relevant personnel consult with and seek verification from the ESG Division in order to be able to respond effectively.

* Personnel to undertake human rights promotion
These are human talent that strive to enhance human rights literacy within Advertising Communication, and to lead the division's efforts in this area.

Initiatives for deepening understanding of racial discrimination issues

In 2020, the Black Lives Matter movement against racial

discrimination in the U.S. attracted a great deal of attention. Within the Kao Group, we implemented awareness-raising activities to deepen understanding of racial discrimination issues.

- On June 19, we launched a new Kao Way training activity entitled Racial Discrimination in the Americas—Key Aspects and Background. Historians Ms. Eri Kitada of Rutgers University and Ms. Yuki Takauchi of the University of Illinois gave a talk on racial discrimination as a social construct, and on the historical roots of colonialism and slavery, which was used as the basis for internal discussion within the company.
- On August 31, during the ESG Promotion Meeting, a video was shown featuring an address by Mr. Chris Miller, a Senior Director at the National Underground Railroad Freedom Center, a museum in Cincinnati which is focused on inspiring dialogue on freedom and human rights based on stories of the past. The video was subsequently made available for all employees to view on the company intranet.
- In the Americas, experts have been invited to participate in discussions, and workshops have been held to deepen understanding of diversity topics such as systemic racism and increasing awareness of cultural differences.

Human rights initiatives during the COVID-19 pandemic

- A special page has been established on the company intranet, presenting information that includes details of pandemic response measures and techniques for working effectively when working at home, etc. The need to respect human rights has also been mentioned in the CEO's Message.
- During the period in which measures to reduce the need for employees to leave their homes, including the adoption of working from home, etc., have been in effect due to the impact of the COVID-19 pandemic, we have been providing a Special Requirements Allowance for those employees who still need to go into work to ensure continuity of production, logistics or sales operations, etc.

Stakeholder engagement

Human rights initiatives in procurement activities



Hiroshi Ishida

Executive Director,
Caux Round Table Japan
(CRT Japan)

Global trend: E×S×G = striving to be a resilient company

Legislation concerning human rights due diligence is becoming stricter, particularly in Europe. In the future, companies will be required to engage in direct dialogue with workers in the supply chain through a sampling process, identify workers whose human rights are being violated and address those violations.

In addition, the criteria that ESG investors used to make investment decisions will include not just individual responses to E, S and G, but also the ability to explain the relationship of these three to operations in the sense of promoting their diffusion throughout management and whether companies can sustainably pursue strong resilience even during the COVID-19 pandemic.

Notable Kao initiatives

Kao has created mechanisms for ESG policies and management structures (human rights due diligence). To ensure that we do not overlook the concerns of stakeholders (procurement of stable natural resources including palm oil, paper and pulp), the Human Rights Promotion Team, which is made up of relevant departments centered on the ESG Promotion, has an outstanding system for cross-organizational responses.

Expected future actions

- Draw up a grand design in agreement with management as an ESG Strategy and quantitatively and qualitatively indicate the direction to be pursued in the future
- E×S×G = Corporate resilience
 - E: Develop a grand design for achieving carbon neutrality by 2030 and 2050
 - S: Identify foreign workers within and outside Japan, confirm whether there are any direct human rights violations in relation to raw materials (palm oil), and establish a hotline for receiving complaints
 - G: Disclose the processes of debate and decision making by the ESG Committee and Human Rights Promotion Team (information disclosures from the perspectives of transparency and diversity)

- Human rights due diligence and complaint processing mechanisms in conformity with the UN Guiding Principles on Business and Human Rights have not yet been achieved, so a rapid response would be desirable. Identification of foreign workers in supply chains and determination of direct human rights issues relating to small-scale oil palm farmers are urgent tasks.
- This is extremely important because quality relationships will be enhanced by establishing a consensus through dialogue with experts in accordance with the above processes, and a framework that can secure reliability and legitimacy will be completed.

Human capital development 102-15, 103-1, 404-2

Employees are a company's most important asset. Aiming to draw out the unlimited potential that every employee possesses to generate immense vitality, and utilize this vitality to the maximum possible extent as an organization. We strive to create an environment and a corporate culture in which both individuals and the company grow together through successful completion of work and making positive contributions to society.

ESG Keyword

Ideal Organization and Ideal Human Capital

Compensation levels

Dialogue with employees

Human capital development programs

Career development support

Employee survey *Find*

Kao's creating value to address social issues

Social issues we are aware of

In the midst of trends such as the digital revolution, ESG management and the advent of a super-aging society in Japan, societal issues concerning the optimal forms of how people live and social systems are becoming increasingly complex, and the way people work is changing drastically. The spread of COVID-19 in 2020 has hastened these changes and has brought about even more new changes. According to data from the Ministry of Health, Labour and Welfare of Japan, the implementation rate of telework at companies with more than 1,000 employees has risen to 74.7% during the COVID-19 crisis, and the number of companies that have implemented telework has doubled from what it was prior to this crisis.

As these trends continue, it is pivotal that at Kao, we make optimal use of our assets through cooperation and collaboration and contribute to society through Kirei Lifestyle Plan activities with a commitment to innovation, to continuously progress in step with society.

Employment and human capital management are undergoing fundamental changes. We continue to maximize the vitality of our employees to push forward a human capital strategy that leads to changes and contributes to society.

Kao's creating value

We are expanding our support measures in relation to childcare, nursing care and long-term care needs, and we are implementing measures to promote empowerment of female employees, promote normalization (expand employment and utilization of persons with disabilities), expand the continued employment and active utilization of older employees who have already passed retirement age, promote more flexible work styles, and raise productivity by enhancing efficiency and changing attitudes.

Furthermore, reflecting our awareness of the fact that employees' health represents not only a key foundation of each employee's life but also an important asset for the company and a fundamental source of corporate growth, we are providing active support to encourage employees to look after their own health properly.



→ p. 199 Walking the right path >
Employee wellbeing & safety

We are therefore making a global effort to promote diversity and inclusion so that all employees are able to demonstrate their different characteristics and capabilities to the maximum possible extent.



→ p. 186 Walking the right path >
Inclusive & diverse workplaces

We are strengthening and promoting, on a global basis, measures to cultivate human talent that can make a wide-ranging positive contribution to society through corporate activity.

Besides aiming to enhance both corporate growth and employee motivation, we eliminate authoritarian approaches and place great importance on a corporate culture in which top management and employees collaboratively work together to achieve business goals. In order to build favorable labor relations, we provide opportunities for sharing and discussion with employee representatives with regard to our current situation and policies as well as measures for human capital development. This encourages our employees to further exercise their creativity, and to provide even higher-quality products and services.

Risks related to realization of What Kao Aims to Be by 2030

It may be difficult to secure outstanding human resources as a result of the failure to systematically implement human resource hiring, development and assignment in a

Human capital development 102-12, 102-15, 103-2, 404-2

manner that anticipates major environmental changes, and this poses a risk of business stagnation.

If we fail to maintain healthy labor relations, then employee engagement may fall, and there is a risk that we may be unable to achieve the business objectives that we planned in order to realize What Kao Aims to Be by 2030.

Opportunities related to realization of What Kao Aims to Be by 2030

By reinforcing the development of next-generation leaders who can anticipate changes, conducting business that enables each member of a diverse workforce to perform their work in a healthy and enthusiastic manner, and achieving growth by performing work and contributing to society, we will become a company with a global presence that undergoes continuous growth.

By maintaining and developing healthy labor relations, we can strengthen employee engagement. If our employees are able to further exercise their creativity, then it can be anticipated that we may be able to achieve results that surpass the business objectives that we planned in order to realize What Kao Aims to Be by 2030.

Contributions to the SDGs



Policies

At Kao, we believe that the diversity of our workforce and the efforts of each and every employee to pursue individual achievements by exercising his or her own

abilities and characteristics to the utmost contribute to the success of the employer and lead to growth as an organization. Based on this concept, we aim to create such an environment and corporate culture.

To this end, we have defined this policy as the Guidelines for Human Capital Development and have made clear what constitutes an Ideal Organization and Ideal Human Capital. To attain this, we support the growth of our employees based on the principles of line management by recruiting and selecting them in line with Ideal Human Capital from the employment stage and providing them with opportunities to develop their skills in accordance with the employee's own wishes and targets of the organizations.

Furthermore, we clearly state roles and

responsibilities and endeavor to fairly evaluate the performance of each employee on a regular basis in order to provide fair evaluations and compensation without regard for employment status, gender or other individual attributes.

In order to achieve our vision by 2030 to make Kao a company with a global presence, we will further enhance our culture of innovation, which is part of the Kao Way, and aim to cultivate a company structure and culture in which every single employee takes on challenges without fear of failure.

Note: Employee compensation is set at levels commensurate with our company capabilities and growth, and at levels ensuring market competitiveness through verification of external markets and other factors. Through this verification, compensation levels also adequately take into consideration living wages.

Guidelines for Human Capital Development

Continuously improve overall efficiency based on creative and innovative activities aimed at the sustainable growth of the Kao Group through *Yoki-Monozukuri*.

(Pursuit of efficiency)

Provide a work environment where each individual's dignity is respected, and which makes full use of employees' autonomy and diversity, since the enthusiasm of all employees to display their boundless wisdom is the wellspring of creation and innovation.

(Respect for human dignity)

Integrate organizational efforts and individual efforts through creative and innovative activities so as to achieve evolution for all. Make efforts to improve policies in order to offer all individuals freedom to display wisdom, and to enable combined individual efforts to lead the Kao Group to further prosperity.

(Efforts aimed at integration)

Vision of Human Capital Development

Ideal Organization

We commit to building organizations that are characterized by openness and frankness so as to encourage people to pursue innovation, by empowerment characterized by greater transparency, and by organizational management based on the Kao Way. We also endeavor to actualize organizations in which the entire Kao Group operates harmoniously based on the concept of an "organically functional organization" that flexibly and quickly adapts to environmental change.

Ideal Human Capital

1. People with consistent willingness to take on challenges (Challenge & Change)
2. People with high expertise (Professional Capabilities)
3. People with a global perspective (Global Perspective)
4. People with the team spirit needed to achieve superior performance (Communication & Collaboration)
5. People with strong ethics (Integrity)

Human capital development 102-43, 404-2

Education and promotion

Our Guidelines for Human Capital Development, and the concepts of the Ideal Organization and Ideal Human Capital that constitute our vision for human capital, are posted on our company's intranet so that employees can check them at any time. We are also working to ensure that this vision is disseminated as widely as possible, by sharing the vision during a wide range of training activities, including training for employees who have just been appointed to managerial positions, and training for cultivating global leaders, etc.

In addition, we strive to foster understanding between senior management and employees by facilitating opportunities for mutual dialogue, with the objective of developing a sense of unity throughout the group. We promote mutual understanding between senior management and employees by providing opportunities for the exchange of opinions and views whereby the senior management explains priority issues such as the company's current situation, policies and human capital development to employees as well as responding to their questions. In this way, we establish an understanding of the genuine concerns and opinions of employees, which then feeds into ongoing measures to develop human capital and policies to improve the workplace environment, among other undertakings.

There are regular opportunities for dialogue between the factory labor unions at Kao Corporation's Wakayama Plant and Sakata Plant, and the labor unions of our affiliate companies, and our senior managers and human resource managers, enabling

us to respond to the labor unions' proposals and expectations, and making it possible for management and employees to share details of our current situation and future strategy.

We continuously promote these activities, and widely share and disseminate with our employees the direction the company is going and the issues we're facing. In 2020, in-person activities were limited due to the effects of the COVID-19 crisis, but we continued to conduct activities online and via video streaming.

Collaboration and engagement with stakeholders

We strive to enhance employee engagement by holding activities involving the exchange of views between senior management and employees as opportunities for dialogue.

Kao Forum and Employee-Management Meetings are where we share company policies, where employees directly convey and discuss their thoughts and opinions with senior management, and where employees and senior managers come together to consider the current state of the company and its future direction.

We also conduct *Find* employee survey, periodically to realize the goal of creating a "Great place to work." We then confirm the respective strengths and areas where improvement is needed of each organization by visualizing the organizational status using numerical data. Subsequently, we identify our challenges based on analyses of these

results, and formulate and set and implement effective action plans. In these ways, we endeavor to consolidate the RPDCA cycle* to improve our organization and workplaces.

In the 2018 employee survey *Find*, the global response rate was 70%, with the affirmative answer rates to a question on "Engagement / Employer of Choice" of 66% and to a question on "Development Opportunities & Climate" of 52%.

* RPDCA cycle

This adds "Research" (which equates to "analysis of the current situation") to the PDCA cycle for operational improvement. Doing so has allowed us to strengthen our ability to respond to changing circumstances.

Human capital development 102-8, 102-20, 103-2, 404-2

Framework

Human capital development structures

To promote activities within the group in accordance with the Guidelines for Human Capital Development, we have introduced a framework that is shared and utilized globally. For example, we manage labor costs and make use of human capital information via a global human capital information system. We also improve our organizational capabilities through the employee survey *Find* and bolster our human capital management and development through the establishment of job rank, evaluation and training systems and compensation policies that are shared globally.

We pursue these activities under Senior Vice President of Human Capital Development and our matrix management structures in cooperation with the human capital development divisions of each group company, both within and outside Japan.

Furthermore, we have set up human affairs functions within major divisions in Japan while also establishing on-site career coordinators who oversee the nurturing of each employee and provide assistance in career development.

The Human Capital Development Conference, which is made up of the persons responsible for human capital development in major divisions and group companies in Japan, meets monthly, while persons responsible for human capital development overseas meet annually to share information on and discuss policies relating to human capital development throughout the group and the status of activities at each group company.

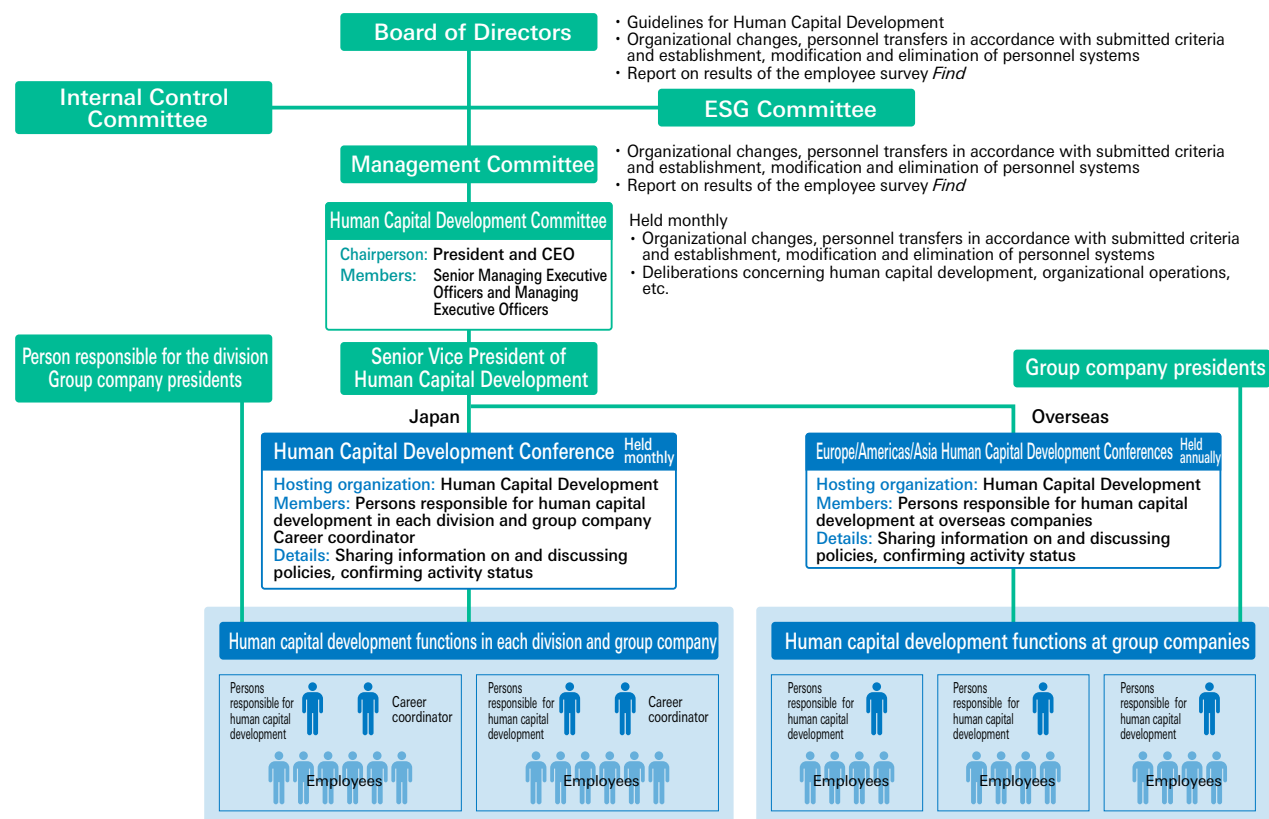
Major organizational changes, personnel transfers in accordance with submitted criteria and

establishment, modification and elimination of personnel systems are deliberated on by the Board of Directors, Management Committee and Human Capital Development Committee.

In addition to the above, the officer responsible for the Human Capital Development reports on human capital development policies and the results of the employee survey *Find* to the Board of Directors.

The Human Capital Development Committee, where top executives participate as members, meets monthly to discuss human capital development, organizational operation and other matters in addition to deliberation matters pursuant to submitted criteria.

Human capital development structures



* As of December 2020

Human capital development 103-2, 103-3, 404-2

Employee dialogue structure

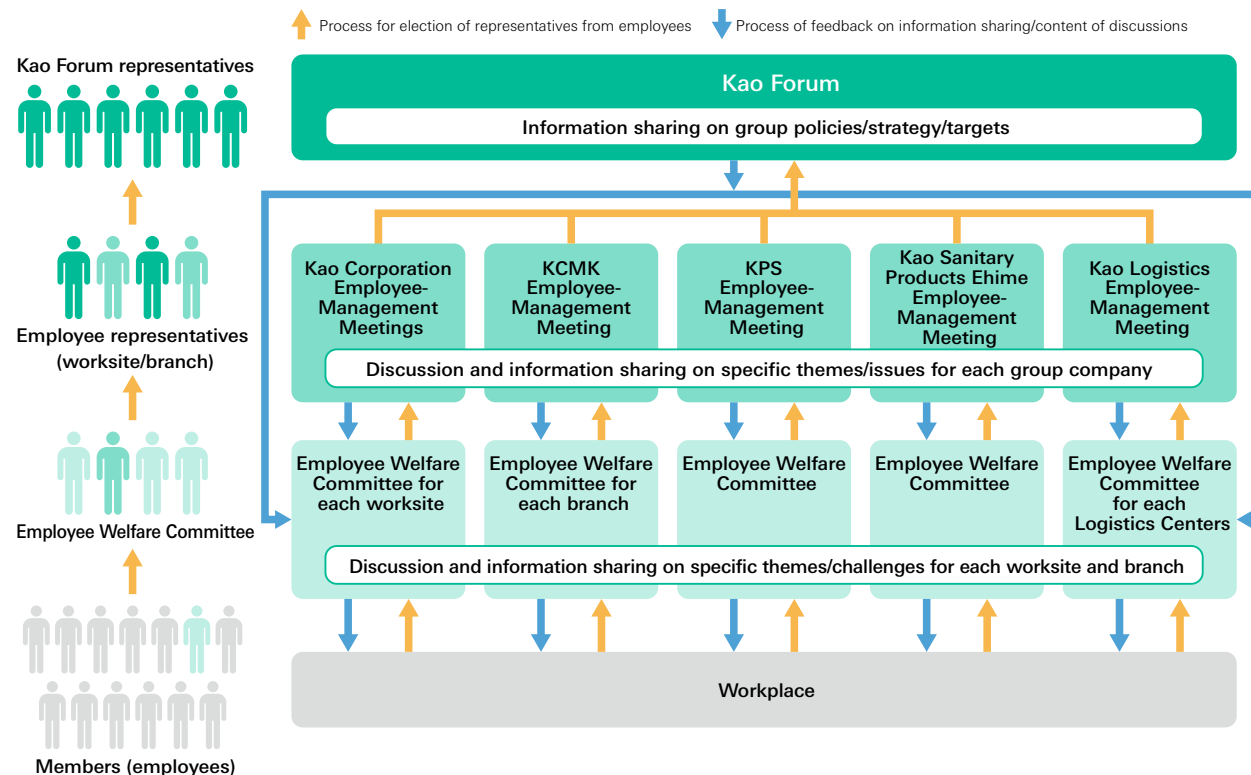
Platforms for regular dialogue with employees include Employee Welfare Committees at each worksite and branch, Employee-Management Meetings at every group company, and the Kao Forum for the group as a whole.

The Kao Forum is held in both Japan and Europe, with employee representatives from Kao Corporation, Kao Group Customer Marketing Co., Ltd., Kao Professional Services Co., Ltd., Kao Sanitary Products Ehime Co., Ltd. and Kao Logistics Co., Ltd. participating in the Kao Forum in Japan.

Meetings of the Employee Welfare Committee are conducted monthly, and the Employee-Management Meetings and Kao Forum are conducted twice a year. Continuous mutual information sharing on the content of the discussions and information shared at each meeting is implemented for all employees through the employee representatives and Employee Welfare Committees. Within the group as a whole, the percentage of employees that are union members is 34%*.

* This figure excludes Kao Group member companies that do not track the number of employee union member. Due to information protection reasons and freedom of association of countries / regions where they operate business, employer doesn't have the rights to confirm about the union membership.

Employee dialogue structure



→ p. 18 ESG promotion structure

Mid- to long-term targets and performance

Mid- to long-term targets

For the process of respecting, eliciting and fostering the potential inherent in all individuals, such as pursuit of the essence, creating to generate new values, and learning on their own initiative, we seek to identify the potential of each individual from multiple perspectives, and we provide support so that all employees can continue to hone their capabilities, knowledge, skills and experience on an ongoing basis.

We also seek enhance and consolidate the RPDCA cycle moving toward regular implementation of employee survey *Find* and organizational improvements.

While continuing and strengthening our ongoing initiatives, we will investigate and promote new initiatives for the Kao Group Mid-term Plan 2025 (K25).

Anticipated benefits from achieving mid- to long-term targets

Business impacts

By promoting the enhancement of employees' skills and sense of purpose and the retention of human capital, and by enabling individual employees to fully demonstrate their abilities, the organization as a whole can generate high performance, while ensuring appropriate opportunities for dialogue and thereby enhancing employee engagement. In this way, we can achieve our planned growth goals, or even achieve results that exceed these goals, which in turn will ensure and expand profitability.

In addition, the reduction in employee turnover can be expected to lead not only to a fall in recruitment costs and an improved return on investment in human capital, but also to an enhancement in Kao's reputation as an employer.

Social impacts

When, thanks to improved employee engagement, employees boldly take on challenges without fearing change in workplaces where they feel a sense of purpose, ideas that potentially solve social problems are generated, and we can provide products and services that enhance consumer satisfaction and even better products and services that help to realize a sustainable society.

Performance in 2020

Performance

Implementation of training programs to encourage self-learning and lead change

- Implementation of training programs during the COVID-19 crisis

Our priority is the safety and security of our employees undergoing training (as well as their coworkers and families), so various training programs, that were conventionally conducted in a face-to-face setting, were moved online given the effectiveness of this training (its content and timing).

We conducted training by combining online streaming and e-learning, using newly created videos and materials, and interactive training that incorporates online meeting tools in accordance with the objectives, content and participants of each training program. The reviews received from participants indicate that the effectiveness of this training has been on par with the conventional group training. Going forward, we will optimize the format of this training for the COVID-19 situation and for the content and effectiveness of learning.

- For creating an environment of self-learning and cultivating a culture that makes learning fun
We introduced an e-learning platform with a new concept that automatically gathers online learning content based on each employee's individual interests and can easily be shared with other employees. Through this, employees can efficiently collect and record this content. The ease of information sharing between employees is expected to result in interconnection and synergy of mutual learning. Going forward, we will implement initiatives to tackle any issues for retaining the usage of this platform.

- Providing employees with diversified development support

Starting in 2017, we have implemented a 50+ Career Seminar for employees who have reached the age of 50 (starting with Kao Corporation), in addition to the Life Career Design Seminar for employees who have reached the age of 45 and the Life Plan Seminar for employees in their late 50s.

Dialogue with employees

- Employee survey *Find* and actions taken based on the results

We have implemented the action plan based on the results obtained in the employee survey *Find* that was implemented in 2018.

- Employee communication

The spread of COVID-19 in 2020 resulted in the Kao Group Employee-Management Meetings and Kao Forum being put on hold. The Kao European Forum was conducted online in November and 19 representatives of employees throughout Europe participated. This was a year where face-to-face communication between senior management and employees became more difficult. However, this increased the opportunities to periodically send messages through the company intranet and share information about strategies and policies. In the future, it is our wish to enrich the way we communicate, so we will examine new forms of communication that incorporate online meeting tools.

- Working-from-home system

In 2020, we took special measures for employees to work from home for any reasons, including child care or family care, due to the spread of COVID-19 infections. We are continuing to share opinions and discuss new ways to work in the new normal.

- Regarding the expansion of career support options for employees who are re-employed after reaching retirement age, we report on progress and exchange views.

Human capital development investment

	2016	2017	2018	2019	2020
Average training hours	—	13.0	12.6	14.1	9.2
Expenditure on education and training per employee (consolidated)	66,000 yen	58,000 yen	56,000 yen	51,000 yen	27,000 yen

Reviews of performance

Implementation of training programs to encourage self-learning and lead change

From 2021 onwards, we will strengthen our programs for training and supporting the next generation of managers who will become the global business leaders to achieve K25. We will also be creating opportunities for managers to undertake liberal arts study at an earlier stage. In addition, we are further expanding the Managing Human Performance Program to strengthen line management capabilities. We will expand learning the range of opportunities for individual employees to learn according to their own needs, so that employees with a high level of motivation to continue to learn, change and grow by themselves can put themselves forward and challenge themselves.

Dialogue with employees

In 2020, we continued to work on action plans formulated to address the issues identified from the results obtained in the employee survey *Find* 2018, and we implemented measures to resolve these issues. We implemented concrete action plans, in line with the issues affecting individual organizations, which embody the key features of the strategy adopted for company-wide initiatives, including Communication and Challenge.

Our future objectives are to encourage employees to take on challenges and double the productivity of our business activities by giving examples of maximizing the power and potential of employees in K25 and introducing Objectives and Key Results. We intend to keep supporting each employee to set their sights high and work together as a team and as one integrated organization.

Our initiatives

Human capital development programs

Implementation of training programs during the COVID-19 crisis

Due to the spread of COVID-19 infections, face-to-face training was put on hold in 2020 and various training was conducted online.

The reviews received from participants indicate that the effectiveness of this training has been on par with the conventional face-to-face training, due to the incorporation of the latest online meeting tools and the expansion of preliminary and concluding topics, in addition to the selection of online training formats in accordance with the objectives, content and participants of each training program.

Providing employees with diversified development support

- In-house trainers have been cultivated at individual Kao business locations, working with speed and attention to detail to ensure that all employees absorb the Kao Way and Kao's emphasis on Integrity, and acquire necessary business skills.
- By expanding opportunities for cross-industry exchange when employees are reaching milestones in their careers, and building networks to expand employees' perspectives, we have provided enhanced stimulus for intellectually creative activity.

- We also make effective use of new learning tools such as e-learning and other internet-enabled tools for language learning, etc. Besides creating new learning environments in this way, we also actively support employees' own self-directed learning efforts.
- In Japan, recognizing the growing importance of career development that takes into account the work styles appropriate for employees who wish to continue working after the age of 60, we have been implementing programs such as the Life Plan Seminar for middle-aged and older employees.

Career development support











- We are promoting individual career development throughout the group for all employees regardless of which group company they are employed by and regardless of the type of employment and are building an environment in which all employees can challenge themselves while working toward forward-looking goals.
- We have adopted the Self Education & Development Scheme, whereby, once the individual employee has decided on which direction they hope to take their career in, we implement individualized career development support based on human capital development and suitability perspectives.

Human capital development through the employee evaluation system

- Through our fair and transparent evaluation system, we are able to draw out the motivation, pride and personal growth of individual employees through the process of taking on challenges and achieving goals, implementing systematic and carefully planned human capital cultivation over both the short term and the medium to long term.
- We have standardized our performance management system with some of our affiliates in Japan, Europe, the Americas and Asia, and have put into operation infrastructure using common metrics. We implement an annual cycle that includes the following series of linked processes: (1) Setting of targets and task implementation, (2) Review the performance status and follow-up as needed, (3) Evaluation determination based on confirmation of the results achieved, and (4) Capability development review using feedback interview sessions.

Human capital development 404-2

Kao Group global common training program and specialist programs

		Marketing	Sales	SCM	R&D	Information Systems
SMP Level	 Global Leadership Development Program II					
	 Global Top Management					
	 Training for Promotion to G3 Level		Executive Business Leader			Stage 3 Integrated IT Training
MP Level	 Global Leadership Development Program I		Leader II Program	Supply Chain Development Program - Advanced Course	Specialist Programs Managers and Supervisors Forum	Stage 2 Methodology Training (Application) Applied Application Training Applied Technology Training
	 Managing Human Performance Program (MHPP)		Leader I Program			
LS Level	 Training Program for International Assignment	"Marketing University" (Master Level)	Business Skill Smart Learning	<ul style="list-style-type: none"> • Kao Techno School • Kao Engineer School • "High Pressure Academy" • "Anti-microbial Technology Academy" • Quality On-the-job Training (OJT) • SHIC 	Science Basics Academy	Stage 1 Methodology Training (Basic) Basic Application Training Basic Technology Training
	 Business Skills Facilitation, negotiation, project management	"Marketing University" (Basic Level)	Sales Training (Advanced)			
		Marketing Fundamentals II				
S Level	 Kao Way  Integrity	Marketing Fundamentals I	Sales Training (Basic)	Monozukuri Skills Transmission C	"Freshman Forum"	
	 New Employee Orientation					Specialist IT Training for New Employees

SMP Level: Senior management/senior professional level

MP Level: Management/professional level

LS Level: Leading staff level

S Level: Staff level

Implementation of the employee engagement survey, and drafting of action plans

The employee engagement survey *Find* is implemented regularly, once every two years. In the first year, the focus is on survey implementation, results analysis and development of action plans. In the second year, the action plans are put into practice. The implementation results are then verified in the next *Find* survey, thus ensuring the effective implementation of the RPDCA cycle.

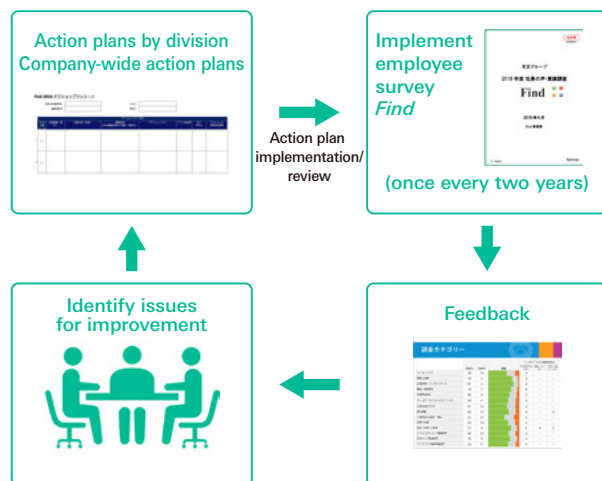
In 2020, we implemented, on a company-wide basis, the action plan based on the results obtained in

the 2018 employee survey *Find*. As regards the overall strategic direction for company-wide action, we selected five key items, including moving forward to the big changes and challenges relating to implementation of K20, and return to the basics of the Kao Way “To be closest to consumers and customers.” Action plans were formulated following discussion at each worksite, and taking into account the issues already affecting individual companies and divisions. All employees worked to implement these

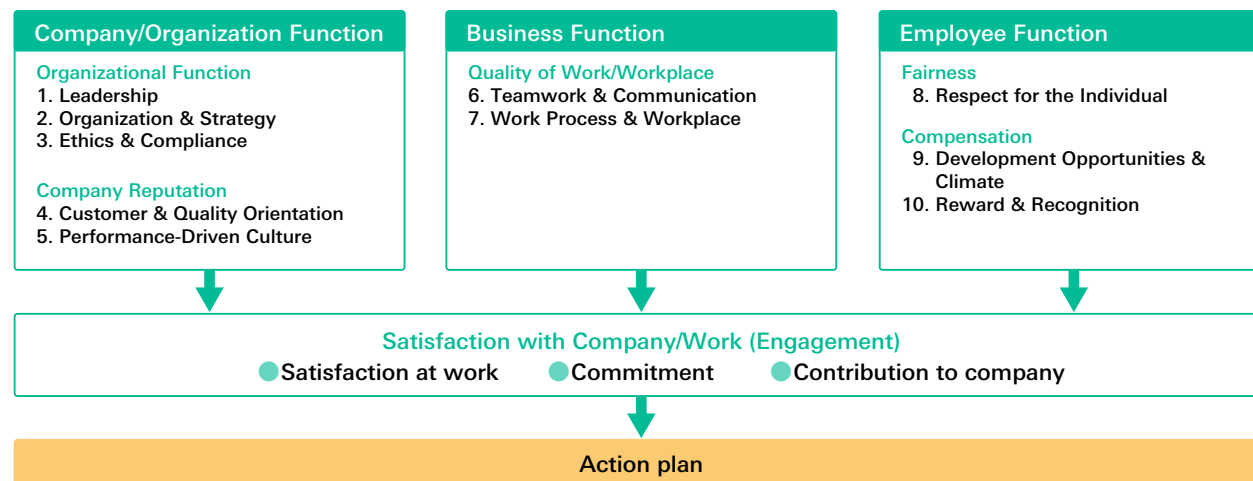
action plans with an ownership mindset. To ensure that action plans were properly implemented, the progress status was monitored on a periodic basis by both the company and the individual employees.

Going forward, we plan to implement the survey in 2021 after reexamining how to implement it in a way that leads to the most effective initiatives. In the years ahead, we will work with every employee to improve our organizational capabilities.

RPDCA to improve organizational capacities



Employee survey *Find* questionnaire items



Human capital development

Employees' voice

Online training due to the COVID-19 crisis

Masahide Hoshino

Learning & Development,
Human Capital Development,
Kao Corporation



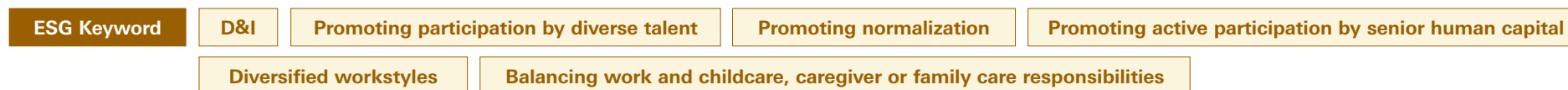
Due to the spread of COVID-19 infections, face-to-face training had to be put on hold in 2020. However, in response to the strong desire to continue these studies, we were able to conduct training online due to the tenacity of the staff in charge of training and the incredible support from everyone involved in these programs.

One of the training participants expressed that “I wanted to meet and chat with other participants”, while another expressed, “It was nice that I didn’t need to go or stay overnight anywhere.”

We are examining how to conduct and format training in the future with COVID-19 and after COVID-19.

Inclusive & diverse workplaces 102-12, 102-15, 103-1, 103-2, 404-2

We firmly believe that the vitality and synergy derived from diversity drives our business developments. We therefore strive to create an environment and culture where each of our employees is able to maximize their talents and individuality, and both individuals and company can develop.



Kao's creating value to address social issues

Social issues we are aware of

Social values and lifestyles are undergoing significant changes and are diversifying. In addition, as business becomes globalized, economic and social uncertainty has increased. In this changing society, the number of employees who are working while dealing with problems in their lives is growing, and so is the number of employees who need to adopt different workstyles.

It is essential to actively approach these social changes by creating an environment where diverse employees have an opportunity to play active roles in order to create continuous corporate growth.

Kao's creating value

We work with all of our employees to upgrade the working environment of each employee and maximize the result of our operations, providing support for balancing work with childcare, nursing care or family care and putting in place an environment where employees have an opportunity to play active roles regardless of other attributes (such as nationality, gender, sexual orientation, gender identity, age and

disability). As a result, employees with diverse backgrounds play active roles, the creativity and innovation of our organization are enhanced, we are able to continue to provide products and services with speed that bring increased satisfaction in line with social changes in lifestyles and values for a diverse range of customers, and we are able to lead the way toward an increased awareness of Diversity & Inclusion (D&I) activities within society.

Contributions to the SDGs



Policies

In accordance with our corporate philosophy, the Kao Way, we have made clear our respect for diversity, recognizing that the vitality derived from diversity drives our business developments.

In order for individuals and company to grow together, we aim to become a team with diversity, respect each other as individuals, incorporate diverse perspectives and ideas, and transform them into the

power of our organization. And we also aim to create an environment where each individual can maximize their own talent and individuality.

Education and promotion

In order to make diversity a source of power for our organization, we are spreading awareness of the meaning of D&I, and providing the knowledge and information needed to put it into practice. We conduct training (e-learning) for management, who have an important role to play here, especially in terms of emphasizing the value of diversity, and we implement educational activities for employees working with others who are in difficult situations. Furthermore, since there are great differences in diversity conditions and challenges among each division and domestic group company, we work to identify individual issues, and are also working to formulate and execute a Diversity Promotion Plan.

Inclusive & diverse workplaces 102-43, 103-2

Collaboration and engagement with stakeholders

In order for diversity to be a source of power for our organization, it is essential that every one of our employees understands the importance of D&I and practices it. It is also necessary that consumers, shareholders, business partners and local communities are aware of our ideas and initiatives and that we work to increase the awareness together.

Therefore, in order to promote understanding and awareness both within and outside the company, in regard to activities that are strengthening social momentum, we are striving to take a proactive attitude toward participation in such activities, in cases where we agree with their goals. We also have participated as a member of the study groups of government agencies and various organizations, giving corporate case study presentations at lectures and seminars and arranging tours of our special subsidiary, etc. when possible.

Framework

Kao Corporation has a special-purpose organization (D&I, Human Capital Development) for promoting and firmly establishing D&I throughout the group. Collaborating with a specialized organization in Kao Group Customer Marketing Co., Ltd. (KCMK) Group, and the persons responsible for human capital development in each division and domestic group company, we broadly share information and opinions, and deliberate, through the Human Capital

Development Meeting and other individual meetings.

For important issues related to promoting diversity, discussion is held in the Human Capital Development Committee, which consists of executive officers.

Responsible managers and personnel of human capital development from nine Worksites of Kao Corporation and from major group companies are in charge of the dissemination of information regarding D&I promotion, and infrastructure development aimed at individual support, acceptance and retention of employees who need support.

At Kao CP Americas, not only does its Human Capital Development carry out D&I promotion

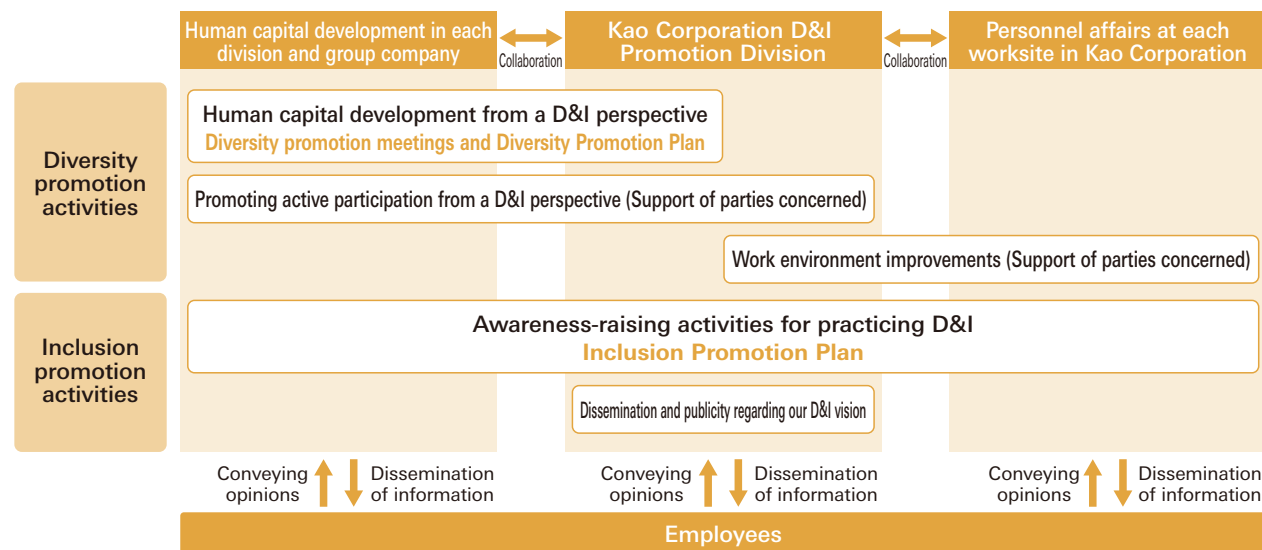
activities, it has established an Inclusion & Diversity Advisory Board, consisting of employees outside of the department, that promotes organizational change from a D&I perspective in collaboration with the Human Capital Development.

In EMEA, we have established an EMEA Diversity & Inclusion Taskforce which includes each of our employees from each country in EMEA as members, as a promotional organization to spread D&I to organizations in each country.



→ p. 18 ESG promotion structure

Framework for D&I promotion activity (within Japan)



* As of December 2020

Mid- to long-term targets and performance

Mid- to long-term targets

In order for our employees to practice D&I, it is necessary for each one to deeply understand their importance. To this end, we strive to make all our employees aware of our D&I goals and their significance, and implement measures aimed at creating an environment and corporate culture that encourages all employees to play an active role in the company.

Anticipated benefits from achieving mid- to long-term targets

Business impacts

- Enhanced vitality, at the level of both individual employees and the organization as a whole, through a higher sense of fulfillment and pride in one's work
- Providing better products and services to customers through ideas and innovation from a multitude of perspectives
- Improved employee retention and increased competitiveness in the hiring market through becoming a more attractive company to work for

Social impacts

Raising D&I awareness by society as a whole through the expansion of D&I in business

Performance in 2020

Performance

Within Japan, in order to more effectively carry out D&I promotion activities, we clarified the roles of Kao's D&I, HCD and personnel in charge of human capital development at each department, worksite and domestic group company.

After diversity promotion meetings discussing issues with Kao Corporation's D&I, HCD, human capital development in each division and domestic group company formulated a Diversity Promotion Plan regarding the promotion of human capital development activities from a D&I perspective.

Aimed at promoting D&I practices from our employees, Kao Corporation's D&I, HCD formulated an Inclusion Promotion Plan. Based on the plan, we implemented awareness-raising activities, including publicizing an educational video, making improvements to the D&I portal site, holding seminars on family care and spreading good examples of D&I practices in the company. Information was made available through intranet and online to prevent the spread of COVID-19 and be accessible without time and location restrictions.

Kao CP Americas highlights a different Diversity and Inclusion topic each month on the intranet. Over the course of the year, we invited a guest speaker featured on Black History Month to promote an inclusive workplace by strengthening understanding of racial background, conducted five Unconscious Bias training sessions to promote an inclusive workplace by increasing understanding and awareness of the biases that may impact the workplace, and implemented Employee Resource Group (ERG) activities to address the needs of specific

employee populations, such as women and young professionals. Our ERG's are led by passionate employees who help to foster a culture where talented individuals of varying backgrounds, experience and perspective can feel connected, valued and respected.

In the EMEA, we began discussing the future agenda within the D&I Taskforce. We tried to clarify the needs in the region with an employee survey as starting point.

Reviews of performance

Within Japan in 2020, we focused on educational activities to help employees realize how D&I is related to them. By making these activities available online, we were able to provide more employees with useful information for practicing D&I, regardless of where they work or their personal time constraints. In order to further raise employee awareness of D&I, in 2021 we will work on developing new efforts to instill the purpose and significance of D&I within the Kao Group as we continue our educational activities. In Europe and the Americas, we promoted activities based on their respective characteristics. In the future we plan to further improve and promote these activities by sharing efforts between Japan, Europe and the Americas.

Our initiatives

Promoting participation from diverse talent

Screening and development regardless of gender and other personal attributes

We thoroughly promote and evaluate employees based on their individual ability regardless of other attributes. In order to rapidly eliminate the disparities in gender ratios—for both the number of employees and the number of managers—issues regarding gender within each of our divisions and domestic group companies were discussed at diversity promotion meetings and we formulated a Diversity Promotion Plan. In addition, we set target values for selecting core human capital according to the composition of the workforce, and we are steadily implementing selecting and development regardless of personal attributes. Human capital meetings conducted by executive officers engage in discussions while confirming that women are included among the candidates for senior positions.

As the number of role models available for women is more limited than for men, we encourage female managers to participate in multiple outside study groups in other industries as a part of our positive action. In addition to study groups conducted by NPOs and public service corporations, female executive officers within Kao voluntarily plan and implement study groups in collaboration with officers from other companies.

Diversity promotion meetings

As a new activity in 2020, we began implementing diversity promotion meetings. Under a larger theme of

human capital development from a D&I perspective (recruitment, evaluation, education and promotion, etc.), in 2020 we especially focused on female employees and those with disabilities. Individual sessions (16 in total) were held with the persons responsible for human capital development in each division and domestic group company. During this process, while coming to understand the unique current situation and different issues, we exchanged opinions toward clarifying action plans and goals for future promotion with each department and group company. In the future these diversity promotion meetings will be implemented as a place for regular exchange between Kao Corporation's D&I, HCD and each organization, and in addition to checking the progress of our 2021 action plan, aim to improve cooperation toward further enhancing D&I promotion activities within the entire Kao Group.

Devising tools for accelerating inclusion promotion activity

Conventional D&I awareness-raising activities have been implemented, mainly targeting our employees at each worksites and group company of Kao Corporation, but from 2020, at the same time Kao Corporation's D&I, HCD started taking the initiative to form an Inclusion Promotion Plan, we began aiming to accelerate inclusion promotion activities throughout the entire Kao Group in Japan by shifting

to a style that also targets other surrounding employees (superiors, colleagues, etc.).

With the spread of COVID-19, we have taken difficulties in conducting in-person group training as an opportunity to eliminate location and time restrictions by making effective use of online tools, and to devise ways to easily and frequently deliver measures to more employees.

For example, as part of our family care seminar, in addition to enabling live broadcasts and recorded viewings using online conference tools, we have established a system where employees can take classes covering three different themes per request every 30 minutes.

Regarding educational content on childcare and work compatibility, disability, LGBT and different cultures, we switched from a conventional method of distributing materials to a method of delivering short videos comprised of smaller themes five to seven minutes in length, which has been well-received due to how easy they are to understand and watch in one's free time.

Furthermore, the D&I portal site has undergone a complete renewal, where information sent to employees such as guidebooks and handbooks can be accessed and viewed easily.

Moving forward we will continue developing inclusion promotion activities to promote the realization of a positive working environment for every employee and the creation of a better organizational culture.

Inclusive & diverse workplaces 404-2



Portal site main page and various educational content

Development of communication measures aimed at employees unfamiliar with working in Japan and worksites accepting them (Kao Corporation)

At Kao Corporation, where there are a growing number of employees unfamiliar with Japan employed by Japanese workplaces, we created a “Communication sheet -- For person unfamiliar with Japan” distributed for trial use at relevant locations.

This sheet is a tool that aims to create an environment where people can work comfortably, promoting mutual understanding and active communication in the workplace, by sharing customs and values toward work and daily life between employees unfamiliar with Japan, their superiors and other members in advance.

Targeting main development in 2021, we are working to improve its content and conduct hearings at worksites where it is distributed.

LGBT training (Kao Corporation)

To promote employee understanding of LGBT issues, we published basic LGBT materials on our D&I portal site so that employees may refer to them at any time.

In addition we are continuing recruitment for ALLY* while providing ALLY information through educational videos, where approximately 425 employees have made statements in support of it to date (as of December 2020). Employees who make an ALLY declaration are issued with special straps which they are encouraged to wear.

* ALLY

participants are people who may not necessarily be LGBT themselves, but who express understanding and are supportive of LGBT people.

LGBTs Lecture (KCMK Group)

Within our KCMK Group, in 2020 LGBTs lectures were held as part of Advanced Master Training for Board Certified Behavior Analysts to learn more about practical customer service.

Lectures contained group work with lively discussions on how to better serve in store customers. In addition, we are making efforts to improve our environment by creating a place for information exchange and interaction with LGBT employees utilizing online conference tools and the exchange of various opinions.

EYPIC activities (Kao CP Americas)

In Kao CP Americas, a new ERG activity, EYPIC (Empowering Young Professionals—Inspiring Change) was launched to create a network of young

professionals that will promote personal and professional empowerment tailored to their unique skills and mindsets. It aims to bridge the gap between millennials and other generations in the work place, to develop young professionals through conversations, pathways and plans tailored to young professionals, to allow all Millennials in varying departments to connect and meet, and to increase exposure of Kao to the community using the unique skillsets of millennials and young professionals within the Kao organization. Through the EYPIC Newsletter, in conjunction with Corporate Communications, we will highlight employees within Kao organization that have a story to tell about volunteering at their local animal shelter, coaching a youth sports team, or speaking out against racial injustice.

Implementation of mentoring programs (EMEA)

EMEA Mentoring has been implemented since 2014 as a successful instrument for supporting the career development of talented employees to a higher management level. We are able to ensure that expertise-transfer, corporate knowledge, networking and succession planning are handled properly, and are actively perceived from successful leaders as a value-added contribution.

In particular, women should be encouraged to pursue a career in the senior ranks and dare to pursue this path. In 2020 we have continued on this path with a total of 26 mentoring relationships.

Promoting better understanding of disability and promoting the employment of persons with disabilities

We position support for people with disabilities as an important part of our D&I efforts, and have formulated a basic policy of “Striving for a society where people with and without disabilities work and live together, we create workplace environments for employees with disabilities that make life easier for them and foster a sense of pride in one’s work.”

Promoting normalization

- Every year, we administer a questionnaire to employees with disabilities, asking about the current status of their disability and any problems they may be experiencing at work. Based on the answers given, where necessary we coordinate with relevant Kao personnel and provide support to help resolve the employees’ problems.
- We also assign Vocational Life Consultants for Persons with Disabilities to worksites nationwide to conduct consultations for employees with disabilities. We hold an Employees with Disabilities Support Meeting once each year to help the consultants upgrade their skills and strengthen the overall support system for persons with disabilities.
- We prepared a Disabled Person Employment Manual and a Communication Sheet and distributed them on our D&I portal site to promote mutual understanding among employees with disabilities and their colleagues.
- We introduced UD Talk voice-recognition application to support communication with employees who have hearing impairments.
- For prospective employees with disabilities, we provide information about the support that the company provides for disabled employees before they join the company, and by confirming in advance what support each employee will need, we help to reduce worry for

these employees after they join the company.

- We periodically hold seminars, tours of our special subsidiary and other events for all employees to increase understanding of disabilities. In 2020, as mask wearing and the implementation of social distancing measures were promoted as a response to COVID-19, we introduced communication response examples on the intranet for employees who have hearing impairments and experience major communication difficulties.
- On April 1, 2020, we acquired the Wasa Welfare Factory from Sumiya Social Welfare Corporation in Wakayama City in Wakayama Prefecture, and began handling its operation as the Kao Wakayama Plant.

The Wasa Welfare Factory was established in April of 1993 as a place supporting financial and mental independence as well as social participation, providing work to people with disabilities along with lifestyle guidance and health management, in cooperation with medical institutions and under Wakayama City and Wakayama Prefecture guidance and subsidies. Currently a total of 28 employees, including 22 with disabilities, fill smaller sized bottles of shampoo and conditioner as well as an assortment of Kao travel sets.

M2M Project (KCMK Group)

Our KCMK Group launched the M2M Project (minority⇄majority) aimed at generating a vitality of diversity by encouraging employees with disabilities to express themselves. As part of this project, in order to increase the presence of employees with disabilities and to fully demonstrate their aptitudes and abilities, discussion were held from various perspectives and we implemented two initiatives during the Week for People

with Disabilities in December. We will continue the expansion of these activities from 2021 onward.

Measures implemented at special subsidiaries

Kao Peony Co., Ltd., a special subsidiary, has actively employed persons with severe disabilities, primarily persons with intellectual disabilities, since it was established in 2005, and the Production Division has achieved the same production volumes as those on lines operated by persons without disabilities. Office Support that Kao Peony established in 2017 has been working to expand the scope of its business activities and employment, and as of January 2021, a total of 73 employees work at Kao Peony, including 57 with disabilities.

Efforts toward working from home during the COVID-19 crisis

As working styles became diversified in 2020 due to the spread of COVID-19, as part of our Office Support we introduced working from home for employees with intellectual disabilities, creating a permanent hybrid working environment where employee could work both from home and at office regardless of the degree of disability.

Combining computer and manual work according to employee work performance and proficiency, we introduced new origami pieces to be made by hand for internal ESG-related campaign usage.

Specifically, we used folded flowers in the creation of our Pink Ribbon Campaign panels exhibited at eight worksites nationwide. Many employees who viewed these panels praised them by expressing how touched they were by the warmth and care they felt put into the making of each one identical.

Inclusive & diverse workplaces 404-2, 405-1



PR panel exhibit (Kashima Office) Note: Masks were only removed when taking this photo.



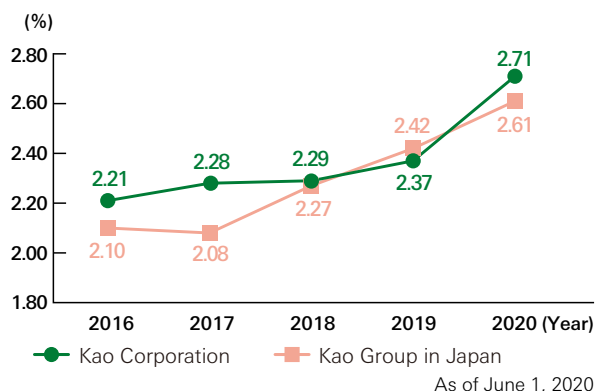
→ Corporate citizenship activities >
Support for cancer education through the Pink Ribbon Campaign

www.kao.com/content/dam/sites/kao/
www.kao.com/global/en/sustainability/pdf/sus-db-2021-e-all.pdf#page=98

Employment rate of persons with disabilities (Japan)

Currently, persons with disabilities account for 2.61% of the total workforce of the Kao Group in Japan, exceeding the statutory minimum rate (as of June 2020).

Kao Group employment rate of persons with disabilities*



* Scope:

Thirteen domestic affiliates that are required to employ people with disabilities (Kao Corporation, Kao Group Customer Marketing Co., Ltd., Sofina Beauty Counseling Co., Ltd., Kanebo Beauty Counseling Co., Ltd., Kao Field Marketing Co., Ltd., Kao Professional Services Co., Ltd., Kao Sanitary Products Ehime Co., Ltd., Kao Logistics Co., Ltd., Kao Business Associe Co., Ltd., Kanebo Cosmetics Inc., e'quipe, LTD., Kao Cosmetic Products Odawara Co., Ltd. and special subsidiary Kao Peony Co., Ltd.)

Fostering active participation by senior human capital

In an era in which more and more people can expect to live to 100, Japan has been working to build an employment environment that encourages people to work longer, through the amendment of relevant laws etc., with the aim of creating a society in which diverse human talent can remain active for longer. As part of the adjustment of our personnel systems, the Kao Group in Japan has been working to expand the employment system for senior citizens, implementing measures that are focused on the following two key areas.

Expanding the scope for active participation by senior human capital

Since 2016, Kao Corporation has held open recruitment for people aged 55 or over. We are implementing careful matching

of human talent with positions, expanding the opportunities for senior citizens to use their experience, specialist expertise and other strengths to include not only positions within our company but also positions at non-profit or non-governmental intermediary support organizations. In 2018, we set up a dedicated page on our intranet, which is used to disseminate relevant information and provide individual career consultations.

Support for self-directed career development

Kao Corporation organizes three seminars (with voluntary participation) for employees aged 45, 50 and 55 respectively, with the aim of getting employees to think about "What kind of lifestyle, and what kind of working style, do I want to have in the future?" from both life planning and financial planning perspectives. These seminars are implemented in conjunction with a career consultation interview at the age of 55, to provide the support that older employees need in order to change their mindset and behavior to be ready for the future, and so that they will be aware in advance of the importance of refamiliarization and preparing for the future.

In 2020 we switched from holding in-person seminars to holding them online as to prevent the spread of COVID-19. When we asked employees who attended these seminars for their opinions, many expressed they were able to make their thoughts clear through written correspondence and interaction, and felt it was meaningful to hear ideas from other participants. Going forward we would like to improve this attendance rate so that we may provide more employees with the opportunity to think about future work and life styles.

KCMK and Kanebo Cosmetics Inc. also implement seminars and interviews, and we are aiming to roll out these activities throughout the group.

In the future, we will continue to expand the range of working styles available to older employees, and we will be working to expand the range of opportunities—both within and outside the company—for senior employees to utilize the experience and specialist expertise that they have accumulated at Kao to remain active and make positive contribution.

Realization of diversified workstyles

With the aim of making it possible for diverse employees to maximize their potential in various workplaces, we have undertaken efforts to develop environments and personnel systems that will improve workplaces and facilitate more flexible work styles.

Especially in 2020 as a countermeasure against COVID-19, we worked to expand opportunities to work from home and make remote work environment improvements, while making as much effort as possible to incorporate disease countermeasures at workplaces by wearing masks, installing disinfectant, washing hands and thorough disinfection.

Going forward, we aim to realize a new way of working as we strive to balance infection prevention measures and business, searching for systems suitable for each department and occupation field to conduct business, along with reviewing our personnel system.

Systems to realize diversified workstyles

The Kao Group in Japan is implementing measures to increase work-related time and location options and facilitate diversity in workstyles. The systems that we have adopted include a flextime system (with no required core hours) and a remote work system. Based on job type and nature of work, the entire Group is proceeding with studies and trials on more effective diverse working styles.



→ p. 196 Main systems for supporting diversified workstyles (Kao Corporation)

Workstyles during the COVID-19 crisis

In 2020, as a countermeasure against the spread of COVID-19, we implemented special measures for a remote work system, originally set up for employees who have specific reasons such as child care or family care, for all of our employees except for those in certain fields such as sales or production. In 2021 we are considering a remote work and related system, reviewing the conventional remote work system, in light of COVID-19.

Encouraging employees to take vacation time

Since 2018, the Kao Group in Japan has continued to implement activities aimed at achieving the following targets: 80% or higher average vacation time usage rate; 50% or higher minimum usage rate for individual employees. However in 2020 due to the effects of COVID-19 which prevented employees from leaving home, the average vacation time usage rate for the group fell below the previous year. Even as flexible workstyles are increasing with regard to workplaces and working hours, we will continue to make efforts to improve vacation time acquisition for refreshing the mind and body and achieving a well-balanced workstyle.

Flexible work system without core time (Kao Germany)

Kao Germany has adopted a flexible annual working time model without a core working time, which eliminates several stress factors for employees with family responsibilities. It includes working from home in all areas where possible.

Support for balancing work and childcare or family care responsibilities

Seminars for employees returning from childcare leave (Tatsuno-oshigoto Seminars)

Each year, we conduct seminars for employees who are about to return to work from childcare leave (Tatsuno-oshigoto Seminars) at Kao Group companies in Japan. In these seminars, in addition to helping employees prepare their attitudes and raise their awareness regarding reinstatement, we encourage partner participation and communicate the importance of building cooperative relationships with partners both in family life and career development.

Currently, the content of these seminars were broadcast nationwide simultaneously from our Kao Corporation Kayabacho head office, and they were conducted in a group training format through lectures and group work with employees at worksites in various regions and at group companies such as Kanebo Cosmetics. To prevent the spread of COVID-19, in-person group training was suddenly cancelled in 2020 and various training sessions were conducted online as an alternative using a conference tool to transmit recordings. Due to the advantage this provided by making it easy for employees to take the course online at their own convenience, from 2021 we plan to review content and management methods in order to switch to conducting seminars entirely online.

KCMK Group

At our KCMK Group we are establishing New Normal reinstatement support during the era with COVID-19.

Inclusive & diverse workplaces 404-2

In 2021 we will shift our efforts to improving reinstatement follow-up measures and a move toward self-chosen support options, in order to meet the diverse needs of those returning to work. We plan to give enhanced necessary support to alleviate worries in preparation of returning to work and counseling regarding concerns after. Additionally, in order to promote men's childcare leave, we are planning a seminar led by those who have taken childcare leave.

Conducting a survey about men's childcare roles

Since 2010 we have conducted regular surveys on our male Kao Group employees with newborns regarding men's roles in childcare.

We conducted this survey in 2020 as well, regarding ease when making use of the childcare support system, their impressions on taking paternity leave and so on, for the purpose of understanding current situations and issues so that male employees can actively participate in housework and childcare. In the future we strive to create an environment where men can take participative roles in childcare by referring to the responses given to this survey.

External evaluation of childcare support measures

Awarding of Platinum Kurumin certification and Kurumin certification

In 2016, Kao Corporation was awarded Platinum Kurumin certification for creating a supportive workplace for employees with children, in accordance with the provisions of the Act for Measures to Support the Development of the Next Generation. Kanebo Cosmetics and KCMK and Kao Logistics were respectively awarded Kurumin certifications in 2009, 2011 and 2019.



Family care support measures

In accordance with our fundamental policies of enabling each individual to act independently and providing assistance based on a spirit of mutual support, we are taking measures to educate employees and to promote mutual understanding in the workplace with the aim of preventing employees from leaving work the cause of family care obligations. In 2020 we held our first online seminar for employees nationwide (291 participants). In 2021 we plan to distribute a wide range of information, including a recording of this seminar, for those who could not attend.

We also undertake the provision of information—including introduction of family care handbooks—and provided consultation services where appropriate.

Main support for balancing work and childcare responsibilities

- Conducting pre- and post-maternity / paternity leave interviews
- Encouraging communication between employees on maternity / paternity leave and their workplace supervisors using maternity / paternity leave reports
- Holding seminars for employees returning from maternity / paternity leave (Tatsuno-oshigoto Seminars)
- Provision of an on-site day care facility (*Merries Garden*)
- Distributing a leaflet with information on systems that support the life-work balance targeting male employees
- Conducting a survey about men's childcare roles
- Diversity Management e-learning (for managers)

Main support for balancing work and family care responsibilities

- Holding family care seminars
- Provision of family care handbooks
- Reinforcement of family care consultation skills by human resources personnel
- Establishment of an external family care consultation service

General work-life balance measures

- Individual guidance before using leave systems
- Encouraging employees to make full use of relevant allowances and services
- Provision of the Work and Life Balance Guidebook

Examples of collaboration with stakeholders

In 2010, we signed the Women's Empowerment Principles, which are international guidelines for women's participation in society based on UN Women and the UN Global Compact.

In 2019, Kao Corporation President and Chief Executive Officer signed a declaration confirming Kao's support for the 30% Club, a campaign to raise the share of female executive officers at major companies to at least 30%, and for the Declaration on Action by a Group of Male Leaders who Will Create a Society in Which Women Shine, an initiative organized by the Gender Equality Bureau of the Cabinet Office. The President and Chief Executive Officer also signed a declaration for the approach and initiatives of The Valuable 500, an international initiative established to get companies playing a leading role in building an environment in which people with disabilities can participate actively in business, society and the economy in general, etc.

Key aspects of performance in 2020

- Kao Corporation President and Chief Executive Officer participated in 30% Club TOPIX Presidents' Committee where members exchanged and discussed their opinions. In addition, employees participated in a mentoring program planned by the PM team* for young women and female candidates for executive positions. In addition the President and Chief Executive Officer gathered female candidates for executive positions in each company, holding a mentorship program exchange meeting.

* PM team

Consists of the representatives and managers responsible for promoting female empowerment (and D&I) within their companies

- With regard to The Value 500, in 2020 we worked on sharing conditions and exchanging opinions with related departments within the company and global survey responses received from our member companies.



→ p. 191 Our initiatives: Promoting better understanding of disability and promoting the employment of persons with disabilities

→ p. 51 Making my everyday more beautiful > Universal product design

- Kao Peony, our special subsidiary, has been providing support to help people with disabilities secure employment, including arranging workplace visits and workplace training opportunities for students from special needs schools.
- We have given corporate case study presentations for government agencies and other organizations, with the aim of contributing to the promotion of D&I throughout society.
- We introduced our efforts to promote D&I at a seminar about women empowerment in Ibaraki Prefecture.



External evaluation

Kao was selected for inclusion in the 2020 Bloomberg Gender-Equality Index

In January 2020, Kao was selected for inclusion in the Bloomberg Gender-Equality Index (GEI) for its second year in a row. The GEI identifies companies that are committed to transparency in gender reporting and to advancing equality for women in the workplace. In 2020, a total of 325 companies were selected for inclusion in the GEI, from 42 countries and regions.

Kao was selected by the Ministry of Economy, Trade and Industry as a Nadeshiko Brand

In March 2020, Kao was selected for the Nadeshiko Brand list as a company that has made outstanding achievements in advancing women's participation in the workplace. The Nadeshiko Brand is a joint effort between the Ministry of Economy, Trade and Industry and the Tokyo Stock Exchange to accelerate government efforts to promote women's advancement as the core of its growth strategy, with plans to select and publicize companies that are promoting active participation by women, including the creation of an environment where they are able to continue working. At Kao, in order to promote a more flexible and diverse workstyle, we have established a flextime system (with no required core hours), leave taken in hourly increments, and—to be more compatible with family care including caregiving and childcare—one with reduced hours, a system for taking leave and working-from-home system, which we encourage our employees to use. These efforts and financial performance were thoroughly evaluated.



Inclusive & diverse workplaces 401-3

Main systems for supporting diversified workstyles (Kao Corporation)

Main systems	Content	
	Childcare related	Nursing care and family care related
Leave	In principle, maternity / paternity leave can be taken until the first April 30 following the child's first birthday. Paid leave is provided for the first five days after the commencement of childcare leave.	Nursing care and family care leave can be taken for a maximum period of one year. During the period in which nursing care and family care leave is permitted, such leave can be taken in a maximum of three blocks of time.
Reduced working hours and staggered working hours	These are available until the child completes the third grade of elementary school. Either specified working hours can be reduced by up to two hours per day, or the specified time for starting work or finishing work can be adjusted.	Along with flexible working hours, this system can be utilized for a period of up to three years. Alternatively, this benefit can be taken in up to two blocks of time within the three-year period. Either specified working hours can be reduced by up to two hours per day, or the specified time for starting work or finishing work can be adjusted.
Flexible working hours	In principle, this can be implemented, on the request of the company, until the first April 30 following the child's first birthday. Employees can either work three days a week, or work a half day five days a week.	Along with reduced working hours and staggered working hours, this system can be utilized for a period of up to three years. Alternatively, this benefit can be taken in up to two blocks of time within the three-year period. Employees can either work three days a week, or work a half day five days a week.
Restriction on extra working hours	Up until the first April 30 following the child's enrollment in elementary school as a first grader, the employee can request either limits or exemption to perform work outside normal working hours, work on holidays, or work late at night.	Employees who have family members requiring nursing care or family care for a period of more than two weeks can request either limits or exemption to perform work outside normal working hours, work on holidays, or work late at night either.
Special leave for nursing care and family care	Special leave is available for employees who need to fulfill nursing care or family care responsibilities (up to a maximum of either 40 days a year or 20 days a year).	Special leave is available for employees who need to fulfill nursing care or family care responsibilities (up to a maximum of either 40 days a year or 20 days a year). This leave can be taken in increments of either one day, half a day, or one hour.

Main systems	Content	
	In common	
Flexitime system	With the exception of some shift workers, flexitime is applied to all employees, regardless of grounds. There is no required core time period. The times for the start of work and end of work are set within a flexitime range of 07:00-20:00. Settlement periods have been set at one-month units.	
Working-from-home system	With the exception of some shift workers, the working-from-home system is applicable to all employees. Grounds for applying to work from home include the need to provide family care or nursing care, the need to provide childcare (for children up to age of completion of the third grade in elementary school), the need to receive medical treatment for injury or illness, or operational requirements. Working-from-home can be performed in the employee's own residence, in the home of the person for whom the employee is providing family care or nursing care, or in the residence of an employee posted away from their family. Working-from-home can be utilized up to twice per week, and employees can choose either to work at home for an entire day or for only part of the day.	
Ability to take annual paid leave in hourly increments	Annual paid leave can be taken in hourly increments up to a maximum of five day-equivalents within any one-year period, regardless of the reason.	
Family leave for overseas assignments	Where an employee's spouse is on an overseas assignment and the employee wishes to accompany the spouse, a period of leave of at least one year and no more than two years can be taken.	
Special leave for personal injury or sickness	Special leave is available for employees who incurred a personal injury or sickness (up to a maximum of either 40 days a year or 20 days a year). In principle, this is available for periods of leave of at least 8 days.	
Special leave for volunteering activities	Special leave is available for employees who participate in volunteering activities approved by the company (up to a maximum of 5 days a year). This leave can be taken in increments of either one day or half a day.	
Refreshment leave	This leave is granted to employees who have completed 10, 20, 30 or 40 years of service with the company (up to a maximum of 5 days a year).	

Inclusive & diverse workplaces 102-8, 401-1, 405-1

Number of Kao Group employees in 2020 (regular employees)

	2019	2020
Total (persons)	33,603	33,449
Male (persons)	16,946	16,814
Female (persons)	16,657	16,635
Female employees as percentage of total (%)	49.6	49.7
Japan	22,101	22,038
Male (persons)	10,809	10,715
Female (persons)	11,292	11,323
Female employees as percentage of total (%)	51.1	51.4
Asia and Oceania (excluding Japan)	7,170	7,202
Male (persons)	3,900	3,914
Female (persons)	3,270	3,288
Female employees as percentage of total (%)	45.6	45.7
Europe	–	2,830
Male (persons)	–	1,514
Female (persons)	–	1,316
Female employees as percentage of total (%)	–	46.5
Americas	–	1,379
Male (persons)	–	671
Female (persons)	–	708
Female employees as percentage of total (%)	–	51.3

Status of regular employees (Kao Corporation)

	2016	2017	2018	2019	2020
Regular employees (persons)	7,195	7,332	7,655	7,905	8,135
Male	5,568	5,631	5,831	5,979	6,077
Female	1,627	1,701	1,824	1,926	2,058
Female employee ratio as percentage of total (%)	22.6	23.2	23.8	24.4	25.3
Female manager ratio as percentage of total (%)	14.0	15.5	16.8	18.2	20.1
Female managers (persons)	336	381	432	479	546
Female executive officers ratio as percentage of total (%)	8.8	8.6	5.7	8.3	8.3
Female executive officers (persons)	3	3	2	3	3
Average age (years)	41.2	41.0	41.8	40.6	40.5
Male	42.0	41.7	42.6	41.2	41.0
Female	38.5	38.6	39.4	38.8	38.9
Average length of employment (years)	18.3	17.4	17.8	17.7	17.4
Male	19.4	18.4	19.2	18.7	18.3
Female	14.5	13.9	13.5	14.6	14.7
Number of recent graduates hired (persons)	283	269	304	306	264
Male	214	196	214	218	176
Female	69	73	90	88	88
Employee turnover (%)	0.5	0.6	0.7	0.9	0.7

* Company officers include executive officers.

Status of female employees in the Kao Group

		2016	2017	2018	2019	2020
Female employees						
Global	Percentage (%)	49.2	49.4	49.8	49.6	49.7
	No. of employees (persons)	16,332	16,590	16,748	16,657	16,635
Japan	Percentage (%)	50.6	51.3	51.4	51.1	51.4
	No. of employees (persons)	11,130	11,399	11,464	11,292	11,323
Asia and Oceania (excluding Japan)	Percentage (%)	–	–	–	–	45.7
	No. of employees (persons)	–	–	–	–	3,288
Europe	Percentage (%)	–	–	–	–	46.5
	No. of employees (persons)	–	–	–	–	1,316
Americas	Percentage (%)	–	–	–	–	51.3
	No. of employees (persons)	–	–	–	–	708
Female managers						
Global	Percentage (%)	25.4	25.1	27.3	29.4	28.8
	No. of employees (persons)	1,700	1,618	1,799	1,991	1,872
Japan	Percentage (%)	13.1	14.6	18.4	21.2	19.2
	No. of employees (persons)	573	648	847	1,006	865
Asia and Oceania (excluding Japan)	Percentage (%)	–	–	–	–	49.7
	No. of employees (persons)	–	–	–	–	545
Europe	Percentage (%)	–	–	–	–	48.4
	No. of employees (persons)	–	–	–	–	278
Americas	Percentage (%)	–	–	–	–	55.4
	No. of employees (persons)	–	–	–	–	184
Female executive officers						
Global	Percentage (%)	6.7	7.7	8.0	8.0	9.4
	No. of employees (persons)	11	14	16	16	19
Japan	Percentage (%)	4.1	4.5	6.0	5.7	6.0
	No. of employees (persons)	5	6	10	10	10

* Company officers include executive officers.

Number of persons re-employed after retirement (Kao Corporation)

	2016	2017	2018	2019	2020
Number of employees who reached retirement age*	104	93	109	129	174
Of which, Number of employees re-employed after retirement	86	73	92	110	144
Percentage	82.3	78.5	84.4	85.3	82.8

* Number of employees who reached retirement age = Number of retired employees + Number of reemployment after retirement

Employment system utilization status (Kao Corporation)

Employment system	Disclosure data			Unit
	2018	2019	2020	
Average hours worked outside regular working hours (per month)	18.7	17.7	14.4	(Hours)
Average days of paid leave taken	15.1	14.4	13.3	(Days)
Average paid leave utilization rate	78.8	74.6	69.6	(%)
Average hours of leave taken in hourly increments	3.30	2.98	2.41	(Hours)
No. of employees taking maternity / paternity leave (male)	124	115	108	(Persons)
No. of employees taking maternity / paternity leave (female)	113	84	100	(Persons)
No. of employees taking reduced working hours or staggered working hours to meet childcare responsibilities (male)	12	1	3	(Persons)
No. of employees taking reduced working hours or staggered working hours to meet childcare responsibilities (female)	102	122	68	(Persons)
No. of employees taking nursing care or family care leave (male)	2	0	0	(Persons)
No. of employees taking nursing care or family care leave (female)	2	2	0	(Persons)
No. of employees taking reduced working hours or staggered working hours to meet nursing care or family care responsibilities (male)	1	0	0	(Persons)
No. of employees taking reduced working hours or staggered working hours to meet nursing care or family care responsibilities (female)	0	0	0	(Persons)
No. of employees taking family leave for overseas assignments (male)	0	0	0	(Persons)
No. of employees taking family leave for overseas assignments (female)	8	8	3	(Persons)
Average number of days of special leave for volunteering activities taken	1.9	1.0	1.0	(Days)
Total number of employees taking special leave for volunteering activities	9	30	9	(Persons)
No. of employees utilizing the working-from-home system	308	584	7,218	(Persons)

Employees' voice

Improving each employee's sense of ownership

Mariko Arakawa

D&I, Human Capital Development,
Kao Corporation



We believe the key to promoting Kao Group's D&I lies in each employee's sense of ownership. We decided to focus of our educational activities in Japan based on the New Normal in the following three ways: (1) involving others (superiors and colleagues), (2) providing specific information that leads to changes in awareness and behavior and (3) improving online accessibility.

Giving focus to short videos under ten minutes as an implementation method. As our first attempt as a team, we had leaders organize content based on their current knowledge of each theme, and during the latter half of 2020 we produced five educational videos (Japanese and English) on these themes which were childcare and work compatibility, disability, LGBT and cultural differences. This D&I Short Video Series was praised for its easy-to-understand format and content supporting our practices, and viewed by employees of various age and occupation. (Each video was played approximately 1,000 times in two months after being posted.) In survey responses many said that they would like to apply what they had learned at work and in daily life and that it reaffirmed the importance of communication, and from 2021 we plan to continuously disseminate content covering a wide range of themes related to D&I.

Going forward, adjusting how we educate based on our current progress, we will continue to implement awareness-raising activities as one team, to create a better working environment.

Employee wellbeing & safety 102-15, 103-1, 403-6 (Occupational health and safety 2018)

Optimistic, energetic employees (what we refer to as “GENKI employees”) are the foundation of Kao’s business activities. We as a company are only as strong as the health of our employees. In order for our GENKI employees to dedicate themselves to meaningful societal activities, we are striving to put in place an environment which, as far as possible, mitigates or allays the concerns of employees who are suffering from illness or injury or who are restricted in the types of work that they can perform. By caring for our employees in this way, we allow our talent to fulfill their potential.

Employee wellbeing



Kao’s creating value to address social issues

Social issues we are aware of

With the global trend toward the aging of the population, there has been an increase in the percentage of people affected by chronic diseases. Many senior citizens require support or care because of disease or deterioration of joints or muscles. Within Japan, there has been a steady rise in medical expenses because of this situation, and the financial health of companies’ health insurance societies has rapidly worsened*¹.

In addition, the lockdown restrictions that have been adopted in response to the global spread of the COVID-19 pandemic have led to a deterioration in lifestyle habits, an increase in the number of people who are obese, and a reluctance to visit hospitals and clinics for medical treatment, which increases the risk that serious medical conditions may go unnoticed.

A further issue is that, with people tending to work to a more advanced age and with the increase in the number of working women, it has been reported that around 30% of cancer patients are people of working age*². It can be anticipated that, in the future, the

number of cases of people continuing to work while dealing with serious illness will increase still further.

We believe that it is important for us to provide support to help people improve their lifestyle habits in response to the New Normal, and to further enhance the support that we provide for disease prevention and early diagnosis and treatment of medical issues, as well as support for people who have to work while dealing with medical conditions.

*1 National Federation of Health Insurance Societies press release dated November 5, 2020

*2 Cancer Incidence of Japan 2016, a report based on data compiled by the Cancer and Disease Control Division, Ministry of Health, Labour and Welfare

Kao’s creating value

At Kao, we implement initiatives to support the health of employees and their families in cooperation with the Kao Health Insurance Society. We aim to improve our corporate activities by helping to increase the number of healthy employees and family members, and by creating lively and spirited workplaces.

We continue to endeavor to limit excessive increases in medical expenses through preventive initiatives including the promotion of lifestyle improvements and active implementation of various health guidance measures. We are focusing our efforts on the control of long working hours through promotion of modulated work styles and mental health training for managers from the perspective of promoting pleasant workplaces.

With respect to employees suffering from chronic disease, or from cancer or other diseases, in order to help these employees maintain the right balance between managing their health issues and their work responsibilities, we offer support which, rather than being “one size fits all,” is carefully tailored to the actual circumstances of each individual employee.

Furthermore, we actively promote initiatives that make use of our internal healthcare-related research findings. In the case of particularly useful findings, we provide related healthcare services outside the company through our GENKI Project.

Employee wellbeing & safety 102-12, 102-15, 103-1, 103-2, 404-2, 403-6 (Occupational health and safety 2018)

What Kao Aims to Be by 2030

Realizing a society in which a variety of lifestyle habit improvement activities can be implemented cheerfully and enthusiastically, to help each individual recognize the health issues that are relevant to them personally and work to maintain the best possible health status, as we move toward an era in which it will be normal for people to continue working until the age of 70.

Risks related to realization of What Kao Aims to Be by 2030

The increase in the average age of employees brings with it a heightened risk of a rise in the number of employees affected by lifestyle diseases and also by diseases such as cancer and musculoskeletal disorders. The increase in the number of employees who are restricted in the type of work they can perform has the potential to negatively impact productivity. Furthermore, because the aging process tends to be accompanied by a deterioration in the immune system, there are concerns about the potential impact on the health of employees and their family members of unknown infectious diseases similar to COVID-19.

Opportunities related to realization of What Kao Aims to Be by 2030

Our vision is for the company to provide support to help employees who possess health literacy to improve their health through self-directed, self-disciplined efforts.

Programs originally designed to help Kao employees maintain and improve their health are also made available for external use, and are being deployed for health maintenance and promotion activities in local communities and in workplaces. We hope that the initiatives at Kao will have a positive influence on local communities and society as a whole, and contribute to increased lifespans and a healthier society.

Contributions to the SDGs



Policies

The Kao Health Declaration

To spend every day in lively good health

We aim to become a company which inspires engagement with the promotion of healthy bodies and minds alongside our customers while helping to realize healthy and enriched lives through the creation of lively and spirited workplaces

Cultivation of employees with high health literacy

We are working to make our health promotion activities more visible, engaging in health and productivity management using the PDCA cycle to improve employee health, with the aim of increasing the number of employees with high health literacy.

We consider employees with high health literacy as employees who do the following:

1. Reviews and improves lifestyle independently, based on health check-up results
2. Consults with private physicians in regard to health check-up results as needed rather than just consulting occupational physicians
3. Maintains awareness of their mental health, and confers with appropriate professionals as needed

Five health promotion initiatives

Rather than merely fulfilling the minimum requirements for health management that we are required to meet as a company, we implement health

promotion in line with the five core themes below. Health promotion refers to the independent maintenance and improvement of the employee's own health.

1. Lifestyle diseases
2. Mental health care
3. Smoking cessation
4. Cancer
5. Women's health

Education and promotion

Within Japan, the Kao Health Declaration is distributed to all employees, and we strive to ensure full penetration of the Kao Health Declaration message by including reference to it in messages from senior management.

During the COVID-19 pandemic, messages from the President and Chief Executive Officer have on several occasions noted that ensuring the health and safety of Kao Group employees and their family members is a first priority for the company, and that if Kao fails to safeguard the health and safety of its employees, this will prevent the company from being able to successfully carry out its business activities.

Various on-site campaigns, seminars and health promotion activities are deployed in line with the five core initiatives.

As a result of the implementation of these types of initiatives, the percentage of employees who have taken steps to improve their lifestyle habits now stands at 27.3% in the case of male employees and 18.6% for female employees.

Note: Based on the results obtained in the 2019 periodic health check-up questionnaire

Employee wellbeing & safety 102-43, 103-2, 103-3, 403-6 (Occupational health and safety 2018)

Collaboration and engagement with stakeholders

We outsource the implementation of health check-ups to the Association for Preventive Medicine of Japan, with the aim of ensuring that health check-ups are conducted efficiently while also maintaining high quality and precision.

For mental health care, we collaborate with an external Employee Assistance Program to provide consultation services for employees and their family members.

With regard to health-related systems and the compilation of health-related white papers, we collaborate with INTAGE TECHNOSPHERE Inc., which undertakes system construction and data analysis on our behalf.

We also make effective services that we have developed available outside the company, based on the needs reported by external experts in occupational health promotion and local government officials in the local community. For example, we have made a useful contribution toward the prevention of societal health issues such as metabolic syndrome and locomotive syndrome.

To create new health value, we also promote collaborative research with external organizations.



→ p. 210 Examples of collaboration with stakeholders

Framework

Systematization of the health promotion framework

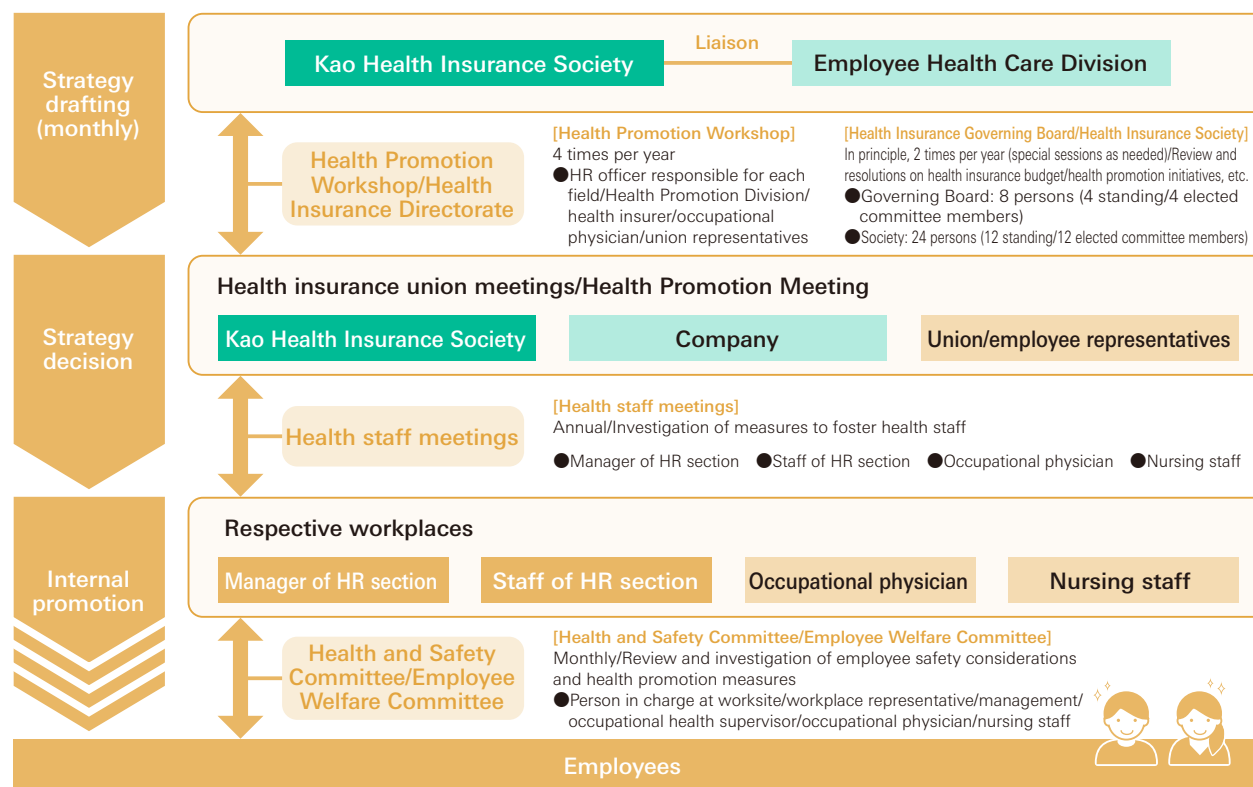
Our health promotion strategy embodies collabohealth (i.e., close collaboration between health insurance providers and companies to safeguard employees' health), with the company and the Kao Health Insurance Society working closely together to formulate plans for strategy implementation, which are discussed at regular, monthly meetings.

Major strategies are finalized at a company-wide Health Promotion Committee meeting after consideration by

working groups and the committee members of the Kao Health Insurance Society with employee representatives. We have an appropriate number of health staff who possess specialist expertise permanently available, and these health staff are actively involved in the implementation of health promotion strategies of various kinds. At every individual worksite or branch, the manager and staff of the HR section work together with occupational physicians and nursing staff.

Information on the state of progress in Japan is shared with group companies outside Japan, and the specifics of health management are implemented in line with government policy in each country or region.

Health promotion framework (Japan)



Employee wellbeing & safety 103-2, 403-6 (Occupational health and safety 2018), 404-2

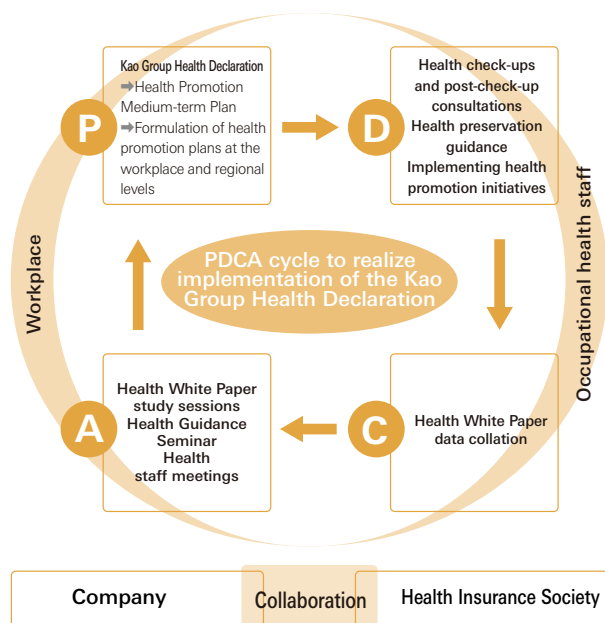
Increasing the visibility of the Health Promotion Management System

Since 2009, we have compiled a statistical summary of the previous year's health data in an anonymized format (including medical interviews, check-ups, occupations, diseases, etc.), and made this information available to the 19 health consultation rooms throughout Japan.

Each health consultation room then drafts and implements a health services plan based on the health data for their respective regions.

Since 2009, we have held annual White Paper on Health Seminars so that employees in charge of human resource and general affairs and occupational health nurses can together learn methods of analyzing the various types of health data and of formulating measures.

Health Promotion Management System



→ p. 18 ESG promotion structure

Cultivation of health staff and internal information sharing

Extraordinary health staff meetings were held twice in 2020, in April and July respectively, mainly to discuss the measures being adopted in response to COVID-19. Rather than just deciding on internal rules and responses, the kind of response that was needed for employees was decided on in detail, including the dissemination of information based around the theme of “standing together with employees,” and the sending out of e-mail messages of support for employees from each health consultation room, etc.

In addition, the annual health staff meeting, which brings together managers and staff of HR sections, occupational physicians and nursing staff, was held online in August 2020, with the aim of building consensus regarding the company-wide strategy and exchanging information. We also shared case studies of successful initiatives within the company, and aimed to realize horizontal diffusion to other worksites and branches. The Tochigi Plant's “Advice for Specific Health Guidance Recipients and for Those Who Are on the Borderline Using the Food Selection Survey and Questionnaire Survey” and the Kashima Plant's “Implementation of the Kashima Plant Cafeteria Smart Meal Certification Campaign/Smart WASHOKU® Campaign” were selected as examples of best practice. “Workstyle Reform and Provision of Information on Cessation of Smoking Using Video Content” by the Chugoku and Shikoku Branch of Kao Group Customer Marketing Co., Ltd. was selected as an example of good practice.

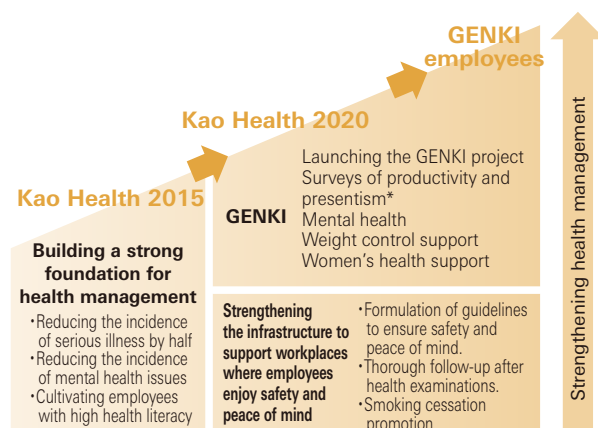
In addition, in January we implemented a Health Guidance Seminar with the aim of enhancing the health guidance capabilities of nursing staff. At the health staff meetings and Health Guidance Seminar, besides discussing strategies, we also hold study sessions regarding perspectives on health data and occupational health plan formulation methods.

Mid- to long-term targets and performance

Mid- to long-term targets (Kao Health 2020)

In 2017, we formulated the Kao Health 2020 mid-term health-related plan. This plan aims to cultivate GENKI employees by further enhancing health and productivity management.

Kao Health 2020



Aiming to achieve a further enhancement of health management by cultivating healthy employees who are capable of leading change, and strengthening the infrastructure to support workplaces where employees enjoy safety and peace of mind

* Presentism
Coming to work while sick or ill, and having reduced working competency and productivity as a result.

Anticipated benefits from achieving mid- to long-term targets

Business impacts

- Prevention of manpower loss due to decreases in long-term absenteeism
- Reduction in costs of specific health guidance due to decrease in numbers of employees receiving specific health guidance
- Enhanced productivity from increase in highly motivated employees

Social impacts

- Enhanced productivity and provision of improved products and services to society
- Provision of exemplary case studies in promotion of health and productivity management to society
- Reduction of the social welfare burden on the country as a whole and on individual communities through the health of the families of Kao employees

Performance in 2019*

Performance

Key health indicators for Kao Group employees in Japan

Item	2017	2018	2019
Percentage of employees undergoing periodic health check-ups	100%	100%	100%
Percentage of employees who underwent follow-up examinations	91.3%	93.9%	94.9%
Percentage of employees who eat breakfast at least three times a week	Male 77.2% Female 74.3%	Male 77.6% Female 75.5%	Male 77.1% Female 76.1%
Percentage of employees who exercise at least once a week	Male 55.9% Female 31.8%	Male 56.4% Female 35.0%	Male 57.5% Female 36.5%
Percentage of employees who walk for at least 60 minutes a day	Male 57.1% Female 63.5%	Male 53.9% Female 60.7%	Male 56.0% Female 61.7%
Percentage of employees who get adequate sleep	Male 68.4% Female 63.7%	Male 64.0% Female 62.2%	Male 63.0% Female 61.9%
Percentage of employees who do not smoke	Male 70.5% Female 80.0%	Male 72.3% Female 80.8%	Male 72.6% Female 81.6%
Percentage of employees with a BMI of 25 or higher	Male 24.9% Female 12.3%	Male 25.5% Female 13.4%	Male 26.7% Female 14.0%
Percentage of employees who are at risk of developing metabolic syndrome (employees aged 35 or over)	Male 30.8% Female 6.4%	Male 30.6% Female 6.6%	Male 32.3% Female 7.4%
Percentage of employees receiving specific health guidance (employees aged 40 or over)	Male 18.4% Female 7.3%	Male 18.3% Female 7.8%	Male 19.0% Female 7.9%
Specific health guidance implementation rate (employees aged 40 or over)	73.5%	72.2%	71.6%

* Health check-up and interview results for 2020 will be published in the following fiscal year.

Reviews of performance

The follow-up examination rate for employees who had an issue diagnosed during a health check-up has risen, which will facilitate early discovery and early treatment of problems. As a result of awareness-raising activities and the provision of various programs, there has been an increase in the percentage of employees who exercise at least once a week and in the percentage of employees who do not smoke.

However, the percentage of employees who do not eat breakfast has remained more or less unchanged, and the percentage of employees who get adequate sleep has fallen slightly, so we feel that in the future we will need to provide support to help individual employees develop a living rhythm that matches their lifestyle. Furthermore, as the percentage of employees who are obese has continued to increase, we will continue to provide support to help people lose weight, utilizing both the popularized approach and the individual approach.

Our initiatives

COVID-19 measures (Japan)

Improvement of systems and rules

As one of our strategies adopted in response to the COVID-19 pandemic, in January 2020 we established an Infection Countermeasures Team. Besides starting work on the formulation of pandemic response measures, the team also began collecting data on employees who had been feeling unwell. In February, we notified employees as to how they should respond if they feel unwell. Starting from late March, we began implementing a health status survey every week on Mondays using the company's safety verification system. Under this routine, if an employee reports feeling unwell, nursing staff will implement a follow-up examination.

We also formulated the Guidelines for Handling Personnel Who Have Tested Positive for COVID-19, which specifies how to deal with and care for employees who are not feeling well, those undergoing testing, those who have been infected and those who have been exposed to close-contact settings, as well as specifying required disinfecting measures, etc.

Dissemination of health information

With the increase in the number of people working from home, we have been periodically posting information online about key points to note in relation to staying healthy, stretching exercises that people

can perform at home, mental health care, etc.

In March 2020, we distributed COVID-19 Prevention Self-checks That You Can Perform Yourself to all employees, and we have implemented awareness-raising activities so that employees can take preventive action together with their family members.

In June 2020, New Work Style Incorporating Infection Prevention was distributed to human resources and occupational health staff, which outlined preventive measures to be implemented in the workplace in relation to commuting and coming into work.

In July 2020, we began encouraging employees to use the COCOA contact tracing app developed by Japan's Ministry of Health, Labour and Welfare (MHLW). For employees who were notified by COCOA that they had been in contact with an infected person but who were unable to receive government-provided testing, we put in place a system whereby those who wished to be tested could receive testing from one of our occupational physicians.

We are currently implementing infection prevention activities in collaboration with our internal Infectious Disease Risk Assessment Project.

Health management for Japanese personnel on overseas assignment

With regard to employees who are posted to work outside Japan, we implement health status grading in accordance with the health management guidelines for personnel working overseas, and make a determination as to whether it is appropriate for each employee to be working overseas. Furthermore, personnel are not sent overseas until they have had all of the inoculations required by the FORTH criteria established by the Quarantine Information Office, MHLW.

Regarding health management for employees working outside Japan, those employees requiring follow-up receive frequent health follow-up sessions from the health consultation room, and on the basis of the results of these sessions they may have an appointment made to see an occupational physician. In principle, employees stationed outside Japan are entitled to return to Japan for a health check-up once a year. However, in 2020, in cases where it was possible to have a health check-up at a local health check-up service provider, employees were notified to do this instead.

In the case of regions affected by Avian influenza, every year employees visiting or stationed in such regions were encouraged to get vaccinated against influenza. In 2020, as it was possible to subsidize the full cost of vaccination for all employees who wished to be vaccinated against influenza, employees were encouraged to receive the vaccination within this framework.

Lifestyle habit improvement initiatives

Events and activities

Smart WASHOKU®

Smart WASHOKU® is a dietary method developed by us for eating well without increasing visceral fat levels. Rather than focusing on the overall quantity of food consumed, the Smart WASHOKU® approach emphasizes three key points—(1) the ratio of protein to fat, (2) the ratio of dietary fiber to sugar, (3) the ratio of Omega 3 to fat—to provide a diet that enables people to consume plenty of food while still keeping their visceral fat level down.

- During the period in 2020 when the state of emergency was in effect in response to COVID-19, “Try It at Home! Smart WASHOKU®” (three sessions) and “What You Need to Know About the Food Your Immune System Needs” were disseminated online, and utilized to provide nutritional education to employees working from home. These materials have been viewed by around 5,000 employees.
- The eighth day of every month has been designated as Smart WASHOKU® Day. Video content is disseminated online introducing the Smart WASHOKU® approach and how to put it into practice. Also, starting from September, we have also been disseminating recipe videos as well, with the aim of not only deepening people’s understanding of Smart WASHOKU®, but also getting them to realize it in their daily lives. These videos were accessed by around 4,400 employees a month.
- Smart WASHOKU® online seminars were implemented for six worksites and branches. A total of 1,272 employees participated. (As a textbook to accompany the seminars, copies of the book *Onakayase no Ogonhi Reshipi* [Golden Ratio Recipes for Slimming], written in Japanese and published by Bungeishunju Ltd. were distributed to participants)
- As a gift to the participants in a contest held at the event commemorating the 130th anniversary of the launch of

Kao Sekken (Kao Soap), copies of the book *Onakayase no Ogonhi Reshipi* (Golden Ratio Recipes for Slimming), published by Bungeishunju, were distributed to approximately 500 employees. Recipe videos were also distributed to employees and their family members. These videos have been viewed by around 760 employees in total.



Recipe video distributed to employees

HocoTouch Pedometer Gait Measurement

We hold Gait Measurement at which analysis of how employees walk makes it possible to gauge their “walking age” and their future living functions risk. We also rent out HocoTouch pedometer device, a unique device developed by Kao, which can stimulate improvements in daily living habits.

- HocoTouch devices were rented out for use at 98 spot locations by 10,962 personnel.
- 23.9% continued to use the devices, of which 39.4% achieved Rank A walking steps and speeds over one day or more.

Health-related events using *Healthya*

We are working to encourage wider participation in sports- and health-related events at worksites in Japan. In 2020,

the Monitoring Health, a *Healthya* LINE app, was used to measure employees’ visceral fat, with the aim of reducing the body fat percentage by 1.0% and weight by 1.5kg within one month.

- Event participants

Monitoring Health with *Healthya* program: 267 people (of which 106 achieved their goal)

Weight measurement program: 577 people (of which 171 achieved their goal)

Dissemination of information and campaign activities

We have been implementing company-wide campaigns and awareness-raising activities so that employees can take steps to improve their health even while working from home.

Survey of lifestyle habits during the period in which employees have been working from home

Using the company’s intranet, we implemented a questionnaire survey on changes in attitudes and living habits during the period when employees have been working from home, with the aim of helping to maintain and improve employees’ health during this period. The data obtained through the survey has been used as the basis for providing health-related information.



Results obtained in the survey of lifestyle habits during the period in which employees have been working from home

Employee wellbeing & safety 403-6 (Occupational health and safety 2018)

Examples of information dissemination based on internal survey results

In the survey, we obtained responses from approximately 2,600 people. The results showed that there had been an increase in the number of employees who ate more snacks between meals, who felt that they were not getting enough exercise, and who reported problems with eyestrain, stiff shoulders, lower back pain, etc. In addition, while there was an increase in the number of employees who reported feeling lonely because they lived alone and had no-one to talk to, other employees reported benefits of working from home, such as having more time to spend with their families, being able to eat the evening meal earlier, getting more sleep at night, etc. These results were reported on the company intranet, to notify employees of the overall trends seen in the survey respondents as a whole.

Regarding the problems affecting employees that were revealed in the survey, we are putting forward proposals to enhance employees' health using our company's own products.

The survey was implemented twice for the same subjects, in March and May 2020, making it possible to identify changes in attitudes and lifestyle over an extended period of working from home. The content of the survey results has been shared with health staff throughout Japan.

GENKI Mori Mori Bulletin

The 25th day of every month is designated as GENKI Mori Mori Day, on which we disseminate health-related information using the company's intranet. We present the types of information that employees want to know (regarding how to strengthen your immune system, infection prevention, effective time management when working from home, etc.) in an

easy-to-understand format and in a timely manner through collaboration between relevant units and research institutes. We have also established a GENKI Mori Mori Community to serve as a venue for the exchange of information relating to employees' health.

Weight-loss Challenge

This campaign encouraged employees to try to lose 2kg in weight over the 42-day period between February 1 and March 13 (except employees with a BMI of less than 19).

In 2020, participants were able to make use of the online community to obtain useful tips on how to lose weight, and to share their experiences of losing weight, providing each other with mutual encouragement.

- A total of 2,407 employees took part (representing a participation rate of 11%), of which 784 (32.6% of participants) succeeded in losing at least 2kg.
- The combined total of visceral fat lost by all participants was 2.4 tons.

Pre-examination Weight-loss Challenge (for employees who received specific health guidance in 2019, and those on a waiting list for specific health guidance)

This campaign encouraged employees to try to lose weight over a 42-day period 2 months prior to their annual health examination. The participants in the 2020 campaign had Smart WASHOKU® video content disseminated to them, along with copies of the book *Onakayase no Ogonhi Reshipi* (Golden Ratio Recipes for Slimming), so that they could learn cooking methods and lifestyle habits that help to avoid the accumulation of visceral fat, thereby making it possible to lose weight without a great deal of effort.

- This has been implemented 4 times, with 664 participants, of which 187 (28.2%) lost at least 2kg in weight.

Walking Challenge

This campaign is to encourage walking over the 61-day period between October 1 and November 30. In 2020, an online community was used to facilitate sharing of information such as images of participants and the scenery through which they have been walking, as well as their reflections on the activity, etc.

- A total of 2,715 people took part (representing a participation rate of 10.2%).



Online Radio Calisthenics Journey

This activity was implemented over the two-week period between August 20 and September 2, 2020, using GENKI-WEB. Every day, video footage of people performing calisthenics enthusiastically while listening to the instructions given on the radio was distributed to participants. During the activity period, online radio calisthenics club meetings were held twice a day, with large numbers of people taking part every day. Participants were able to post video footage and photographs of them doing radio calisthenics to the online community, and Like and Super Like awards were presented.

- GENKI-WEB participants: 1,657 people
- Radio calisthenics club meeting participants: 3,244 people



Mental health care

By 2020, our system for implementing stress checks for employees in Japan had been in use for five years. We made effective use of stress check results to proactively implement mental health care. Occupational physicians and nursing staff promptly follow up on employees who are assessed as requiring emergency treatment in light of their responses to these stress tests, and individual follow-up e-mails are sent to employees who are judged to display slightly high stress levels.

As an organization, we also hold briefings based on stress check group analysis at company, department, worksite and branch levels, and we identify workplaces needing priority attention and implement measures to improve the working environment at these sites. For example, in the case of workplaces where a rapid increase in business volume has been accompanied by increased stress, we have performed in-depth analysis to gauge the reasons for the increase in stress besides supporting individual employees, and we have begun to implement activities to improve the organizational structure and the communication methods.

We also aim to enhance the ability of each individual employee to treat their own mental health through training and provision of information. We are continuing to foster a corporate culture in which everyone at Kao, including the colleagues at our individual worksites, acquires the ability to pay attention to small but significant changes that have occurred in their own lives, address problems at an early stage, and help each other out in times of difficulty.

In addition, we are making effective use of our guidelines for helping to ensure a smooth return to work after long periods of leave. By implementing activities to help people avoid mental health problems and to address them at an early stage if they do experience them, at the

level of both individual employees and the organization as a whole, we are creating workplaces filled with vitality and higher productivity.

In 2020, taking into account the spread of COVID-19, we have been promoting mental health care that is tailored to the circumstances, for example by distributing notifications to all employees to perform stress self-checks, and by providing training to managers regarding supervision of their team members and communication under circumstances where employees are working from home and being encouraged to stay at home.

As an external activity, we presented a corporate case study in the Online Mental Health Seminar (Mental Health Initiatives in Response to COVID-19), and participated actively in the exchange of views with experts.

Mental health care projects implemented in 2020

Item	Performance in 2020
Invigorated workplace ratio	60.5%
Stress checks participation ratio	98.4%
High stress rate	1.9% improvement
Training for managers	11 sessions with 1,591 participants
Self-care training	18 sessions with 1,041 participants
External EAP usage rate (number of usage/number of target employees)	198 telephone consultations + 1,510 e-mail consultations / 710 employees = 6.5%
Consultations with internal counselors (focused on career interviews)	12,340 people

Support for dental health

As a support initiative for dental health in Japan during the COVID-19 pandemic, we distributed "Video Messages from Dentists" on a monthly basis between August and December 2020. The content of these videos was not limited to general oral hygiene lectures. It also included advice tailored to employees' living circumstances during the COVID-19 pandemic (covering the tendency for people to eat more between meals, infection prevention

strategies, etc.). Evidence-based data linked to the video content, along with easy-to-understand comments from personal healthcare researchers, was also disseminated to employees, to help deepen their understanding.

Smoking cessation initiatives

Promoting smoking cessation (Japan)

Since January 2018, we have been promoting prohibition of smoking during work hours.

Starting from April 2020, having built consensus with management, we have been using the company's intranet to clearly enunciate both the prohibition on indoor smoking and the need for consideration for smokers to employees, and we have been strengthening measures to prevent passive smoking and encourage people to stop smoking.

For smokers, we have been providing guidance in relation to activities that encourage people to stop smoking, including the provision of individual consultations to support efforts to quit smoking, the holding of smoking cessation seminars, etc.

- We are helping employees to quit smoking through implementation of the Kao Group Smoking-Cessation Campaign.

In January: A total of 79 employees participated (of which 29 succeeded in stopping smoking)

In April: A total of 68 employees participated (of which 34 succeeded in stopping smoking)

In May: A total of 98 employees participated (of which 56 succeeded in stopping smoking)

- Kao Health Insurance Society-subsidized smoking cessation treatment was provided for 8 people.
- Online smoking cessation program led by Kao Health Insurance Society implemented.

Online smoking cessation program in spring: 45 employees participated

Online smoking cessation program in autumn: 47 employees participated

Women's health

Within Japan, we have established a Women's Health Consultation Service (for e-mail consultations), which arranges for occupational physicians to respond to employees' concerns about health issues.

Women's News, a women's health information newsletter, is distributed regularly (once every three months) using the company's intranet, to help deepen understanding of women's health issues.

We also hold women's health seminars, providing support for female employees to implement self-care appropriate to their current life stage, and helping them to develop the physical capacity they need to work energetically.

Expansion of health checks for employees working long hours

While we are promoting reductions in long working hours at Kao, some employees still find themselves working long hours during busy periods. To address the fatigue and stress experienced by employees with long working hours, we have undertaken to implement more detailed health checks as outlined below. These will facilitate early detection of symptoms and identification of potential distress signals from such individuals.

Performance of health checks for employees working long hours in 2020

Content	Performance in 2020 (up until August)
Meetings with occupational physicians	Scope: Employees logging over 80 hours work outside normal working hours per month No. of eligible employees: 89 No. of employees attending consultations: 88 (Implementation rate: 99%)
Online health checks (simple diagnostics)	Scope: (1) Employees logging an average of over 80 hours of work outside normal working hours per month over a period of 2 to 6 months No. of eligible employees: 6 No. of employees attending consultations: 6 (Implementation rate: 100%) (2) Employees logging an average of over 60 hours of work outside normal working hours per month over a period of 2 to 6 months No. of employees responding to online medical interviews: 855 Of whom, all of 229 employees who had been deemed eligible for consultations by occupational physicians have actually received consultations.

Support for specified fertility treatment

Since 2009, we have been providing support for specified fertility treatment within Japan.

Initially, the Kao Health Insurance Society subsidized treatment, but in 2013 responsibility was transferred to the Kao Family Association (a mutual aid association). Subsequently, the program was revised several times. In 2017, financial assistance for male fertility treatment was added, and in 2020 the scope of application was expanded to cover additional companies, so that all Kao Group companies within Japan are now covered.

With the increase in the scope of application, in 2020 the annual total of instances of subsidy usage rose to 175 (none of which involved male fertility treatment), representing a year-on-year growth rate of 148%.

We have also put in place an environment in which employees can seek to maintain an appropriate balance between work responsibilities and treatment, by making effective use of the various flexible working arrangements that we offer (including a flextime system, a working-from-home system, and the ability to take leave in hourly increments).

Content of support for specified fertility treatment (Japan)

Item	Details
Scope	Employees and their spouses/partners (If both partners are Kao employees, financial support will be provided for only one person)
Subsidy	60% of the co-payment for one round of treatment (up to 120,000 yen). Up to 1 million yen per couple (for the co-payment, from which all assistance including public support etc. has been deducted).

Company-wide deployment of health promotion activities

Deployment of company-wide health promotion activities (Japan)

Content	Performance in 2020
42-day Weight-loss Challenge	2,407 participants
Pre-examination Weight-loss Challenge	664 participants
Challenge <i>Healthya</i>	835 participants
Online Radio Calisthenics	1,657 participants
Smoking-Cessation Campaign:	245 participants
<i>Healthya</i> Walking Challenge:	2,715 participants
Women's Health News	4 issues published
Dissemination of information over the company intranet during the period of home working (March-June)	13 times (no. of times accessed: 69,891)
GENKI Mori Mori Bulletin (July onwards)	6 issues published (average no. of times accessed: 4,423)
Smart WASHOKU® Bulletin	6 issues published (average no. of times accessed: 4,400)

Deployment of health promotion activities at individual worksites (Japan) (planning of events / seminars / campaigns)

Content	Performance in 2020
Lifestyle disease-related: exercise and nutrition seminars, strength tests, health fairs, lectures by occupational health practitioners, etc.	Held 70 times, with a total of 17,051 participants
Smoking cessation	Held 7 times, with a total of 727 participants
Female: Women's health seminars, change-of-life seminars, etc.	Held 5 times, with a total of 1,397 participants
Mental: Mental health courses, mental health training seminars for beauty advisors, new employees and newly promoted employees	Held 36 times, with a total of 3,043 participants
Health lectures, etc	Held 9 times, with a total of 456 participants
Rest and sound sleep seminars	Held 6 times, with a total of 610 participants

Promoting the GENKI Project (Japan)

The Project for Maintaining the Health of Employees and Their Family Members (GENKI Project) was formally initiated in January 2020 as one of the projects promoted under Kao's Mid-term Plan 2020 (K20).

GENKI Project involves the provision of health management solutions that make effective use of the group's healthcare know-how, technologies and products to our employees and their families.

GENKI-Action

In our Human health care, we have for many years now been undertaking research on areas such as the relationship between visceral fat and lifestyle and the relationship between walking and health. The knowledge obtained from this research is utilized not only in the development of new products, but also to improve the health of our employees and their families through our health promotion programs. We call this unique approach to health promotion Kao GENKI-Action. What makes Kao GENKI-Action special is the way it realizes visualization of health status and lifestyle habits, which helps to boost health awareness and encourages people to make effective improvements through lifestyle changes. In order for people to achieve a health-conducive lifestyle without it being too stressful, and so that they can keep it up over the long term and enjoy doing it, we provide support for building a healthy environment, and offer assistance through our company's products.

We also make effective use of GENKI-WEB, a health community website for Kao employees, as a platform for Kao GENKI-Action, with recording of daily living activities, implementation of special health events, etc.

GENKI-Action

Visualization (Awareness)

Measurement and analysis of visceral fat and lifestyle habits



- Using unique visceral fat measurement technology and lifestyle analysis algorithms, we hold measurement sessions at worksites throughout Japan.
- We are able to visualize the issues affecting individual employees and individual worksites.
- Health promotion achievements can be realized through changes in visceral fat levels.

Using Kao products to help people maintain lifestyle changes

- We are helping people to continue with health-conscious lifestyles through the gifting of and use of Kao products.

Effective improvement through lifestyle

Building a healthy eating environment in which people can enjoy delicious food without accumulating high levels of visceral fat

スマート和食



- We provide our unique Smart WASHOKU® lunches, which allow people to eat well without increasing their visceral fat levels, at employee cafeterias in 11 worksites throughout Japan.
- We also hold special lunch seminars, and Smart WASHOKU® cooking classes in which employees can participate with their families.

Building an environment which encourages walking together joyfully and effectively



- We have distributed unique HocoTouch pedometers, which enable employees to work out their "walking age" based on how far they have walked youthfully in a given day.
- HocoTouch stimulates communication among employees, who are eager to ask each other "What is your walking age today?"
- We have also launched walking "competitions" for the staff at our factories and sales offices.



* NaiBO®, Smart WASHOKU® and HocoTouch are registered trademarks of Kao Corporation.

Kao GENKI Project for Everyone

Besides working actively to promote the health of employees and their family members, the Kao Group also shares this knowhow externally with local government authorities, corporations, senior care facilities, etc., thereby providing support for health promotion efforts.

The activity content is disseminated widely throughout society using the Kao GENKI Project for Everyone website.



→ Kao GENKI Project for Everyone
www.kao.co.jp/genki/ (Japanese)

Examples of collaboration with stakeholders

The health promotion measures and services that we promote within the company are also provided for external stakeholders including consumers.

The influence of Kao's health services on local communities and society as a whole

NAiBO visceral fat mini-lab®

As a new endeavor during the COVID-19 pandemic, we began providing a service to people outside the company that makes it possible to calculate an estimated value for your own visceral fat and notice aspects of your living habits that require improvement.

- No. of participating worksites: 12
- No. of participants: 17,340



Visceral Fat & Lifestyle Check-ups (lifestyle habit analysis and visceral fat measurement)

This service helps to enhance awareness of the need to improve lifestyle habits by digitalizing and displaying the results obtained through a questionnaire survey of lifestyle habits and measurement of visceral fat, which tends to be

affected by lifestyle habits.

- Held 9 times externally, with 563 participants (January–February 2020)

Awareness of Smart WASHOKU®

We have also been working to spread awareness of the Smart WASHOKU® dietary method for eating well without increasing visceral fat.

- Smart WASHOKU® master class e-learning seminar for public health nurses, nutritionists and other specialists: Held 3 times externally, with 212 participants
- Follow-up discussion meeting held online for people who had already participated in the master class, with 24 participants. Activity case studies and relevant topics were discussed during this meeting.
- Holding of Smart WASHOKU® online cooking classes at ABC Cooking Studio (administered by ABC Cooking Studio Co., Ltd.): Held twice externally (in Iwate Prefecture), with 16 participants
- Provision of Smart WASHOKU® boxed lunches (with a different menu every day) at municipality level: Toyohashi City in Aichi Prefecture

Get Walking Program

As part of a program to create an effective and enjoyable walking environment in workplaces and in local communities, we have been distributing our unique HocoTouch pedometer devices and holding Basic Walking Capabilities Testing Sessions to provide detailed analysis of walking “quality.”

- HocoTouch Pedometer Gait Measurement: Held externally at 64 corporate, foundation and local government facilities, with around 8,200 people participating
- Basic Walking Capabilities Testing Sessions: Held 7 times externally, with 444 participants
- Participation in the Washoku Day event organized by the

Ministry of Agriculture, Forestry and Fisheries. Smart WASHOKU® online seminars were implemented as part of the health and beauty related seminars.

Comprehensive initiatives

Initiatives that integrate the health solutions noted above in a comprehensive manner have been provided in collaboration with local governments and universities.

Iwate Prefecture: Local Resident-Focused Health Enhancement Support Project

For three years starting in 2018, we have been providing visceral fat measurement, lifestyle habit analysis, walking support using HocoTouch, and diet improvement support using Smart WASHOKU®, in an integrated, comprehensive manner, for companies engaging in health and productivity management in Iwate Prefecture. In 2020, this support was provided for a total of 625 people at 16 different companies.

Fukushima Prefecture: Health Promotion in Collaboration with Private-sector Enterprises

We have been involved in Fukushima Prefecture's Health Promotion in Collaboration with Private-sector Enterprises project for three consecutive years.

We were commissioned by four municipalities to provide our walking improvement (promotion) program, and by one worksite to provide our dietary improvement program.

In 2020, in order to help prevent the spread of COVID-19, we strove to ensure participants' safety and peace of mind by switching over to presenting the results online, and by using the OriHime avatar robot at venues. Approximately 310 people participated in both the HocoTouch provision activity and the basic walking ability testing activity, respectively.

Information exchange with external organizations

We participate in the Association for Considering Health and Management. Besides presenting case studies of the initiatives that Kao has implemented, we are also able to learn from the health and productivity management initiatives that other companies have adopted. We also participate in the Forum for Building Healthy, Vigorous Workplaces, through which we obtain information about initiatives taken to build employee-friendly workplaces and about mental health issues. In addition, we are able to exchange views about occupational health projects implemented by human resources and health staff through our participation in the Sanpo-Kai association.

Developing consortium projects focused on senior citizens in collaboration with local government authorities

In March this year, the results achieved in the Health Project Linking Senior Citizen Health Promotion with Local Government consortium activity (managed by the Kao Health Insurance Society), which was implemented by five corporate health insurers belonging to the Japan Soap and Detergent Association, were presented on the MHLW data portal site. These results have been utilized and horizontally diffused as an example of an effective initiative for the reference of health promotion by labor union health insurers, the Japan Health Insurance Association and local governments, etc. throughout Japan.

Going forward, we will continue to implement activities aimed at joint development.

Joint research with COI, Hirosaki University

As part of our efforts to contribute toward the building of a sustainable, healthy society, we are undertaking collaborative research with the Center of Healthy Aging

Innovation (COI) at Hirosaki University, which is engaged in creating a "lifespan revolution." Focusing on Aomori Prefecture, which has the shortest average lifespan in Japan, we are conducting social implementation research that integrates basic research on visceral fat reduction with visceral fat measurement and attention to dietary and exercise habits, with the aim of preventing metabolic syndrome.

In 2020, we implemented big data analysis to show the importance of exercise during the COVID-19 pandemic, and also demonstrated that light exercise such as doing housework, and increasing the walking speed of people aged 50 or over, which reduce the amount of time that people spend being inactive, have an important role to play in preventing the accumulation of visceral fat. We have provided health promotion related feedback on these research results to residents of individual municipalities in Aomori Prefecture, and to employees of enterprises operating in the region.

Also in 2020, we conducted visceral fat testing at quality-of-life health check-ups, an awareness-raising type health check-up activity implemented at business enterprises and in municipalities in Aomori Prefecture. We also provided HocoTouch devices to 418 people as follow-up after the health check-ups.

Health insurer information exchange with other corporations

We implement information exchange at meetings and seminars hosted by the General Incorporated Payer's Association for Better Healthcare. This includes identifying and discussing issues relating to health insurance, and the presentation of case studies of improvement efforts.

Employees' safety

ESG Keyword

Eradication of occupational accidents

Creating a pleasant working environment

Death and serious lost-time accidents

Lost time accident frequency rate

Total accident frequency rate

Severity rate

Number of employees who experienced lost work days due to occupational illness

Risk assessment of chemical substances

Kao's creating value to address social issues

Social issues we are aware of

As we have several large-scale plants, process safety and disaster prevention needs are increasingly heightened in the context of accidents at chemical plants and the many natural disasters that have occurred recently.

Given this situation, providing a working environment in which employees can work safely is a vitally important issue for the enterprise.

Kao's creating value

Kao's Responsible Care (RC) Policy specifies occupational safety and health-related activity guidelines, and we strive to safeguard the safety and health of everyone working at Kao by implementing risk assessment of operations, machinery and chemical substances, ensuring thorough implementation of health check-ups and related follow-up, and implementing activities focused on mental health.

We will deliver workplaces which provide job satisfaction and peace of mind for employees and for their families, by creating safe, healthy and pleasant

working environments.

Risks related to realization of What Kao Aims to Be by 2030

- Risk of stoppages to operations due to occupational illness resulting from critical disasters or compromised operating environments
- Risk of loss of societal trust in the company due to the above

Opportunities related to realization of What Kao Aims to Be by 2030

We actively work, by means of thorough risk assessments, to eradicate the factors which threaten the occupational health and safety of all employees, thereby creating workplaces where they can work in safety, health and peace of mind.

Contributions to the SDGs



Policies

Activities to ensure occupational safety and health are clearly stipulated in the Kao RC Policy. This is a policy to "eradicate occupational accidents and reduce potential risks, as well as provide comfortable working environments and promoting employee health." Accordingly, when occupational accidents occur, we carefully investigate the accident or disaster, and identify and analyze the causes. The results of the analysis are shared throughout the group to help prevent similar accidents from occurring again in the future, thereby protecting our employees while maintaining safe and stable operations.



→ Kao Responsible Care Policy
www.kao.com/content/dam/sites/kao/www-kao-com/global/en/sustainability/pdf/responsible-care-policy.pdf

Education and promotion

To ensure that work can be carried out safely, we draft educational plans related to occupational safety and health for employees and temporary workers, and conduct training for new hires or reassigned personnel at the location of deployment. Furthermore, we identify operations that require special education, and ensure that this education is provided to all employees who need it.

By implementing education, we are able to share information relating to safety and health in the workplace, and are able to undertake activities aimed at achievement of safety and health targets.

We are also endeavoring to ensure that the efficacy of past drills is not weakened by the passage of time, by designating a Safety Day on days when accidents occurred in the past.

Collaboration and engagement with stakeholders

We strive to create workplaces where employees can work with safety and peace of mind every day.

Furthermore, in order to ensure the safety of employees of partner companies who work together with us at our worksites, we conduct events related to safety and disaster prevention in cooperation with partner companies. Every month, we share safety-related information—including case studies of occupational accidents within Kao and the steps taken in response—with partner companies, and we strive to become an enterprise characterized by safety and peace of mind through collaborative promotion of safety activities.

Framework

The Kao RC Policy and the promotion framework and activities can be found on the following page.



→ Responsible care activities
www.kao.com/content/dam/sites/kao/www-kao-com/global/en/sustainability/pdf/sus-db-2021-e-all.pdf#page=27



→ p. 18 ESG promotion structure

Mid- to long-term targets and performance

Mid- to long-term targets

We aim to become a company that meets top-level safety and health criteria on a global basis by 2030.

We have set ourselves the goals of reducing deaths and serious lost-time accidents to zero, reducing the lost-time accident frequency rate to 0.10 or less, and, with regard to work-related traffic accidents, reducing 100% negligence accidents causing bodily injury to zero, with respect to both Kao employees and employees of partner companies, by 2030.

We will be working steadily to realize these targets, with related backcasting goals and activities being adopted as annual RC targets.

Anticipated benefits from achieving mid- to long-term targets

Business impacts

By making it possible for all employees to work safely, we will ensure that business activities can be carried on normally, thereby controlling unnecessary expenditure and reducing overall costs, which in turn will lead to higher revenues.

Social impacts

Stable provision of products with sound implementation of business activities by having all employees working in good health. Moreover, this can facilitate the stabilization of product prices.

Performance in 2020

We implemented activities from the two perspectives of “Eradication of occupational accidents” and “Creating a pleasant working environment and improving employees’ health.” More specifically, with regard to the eradication of occupational accidents, we have focused on promoting risk assessment of operations and machinery in existing facilities, promoting improvement through reporting of near-miss incidents, implementing risk assessments and safety-



related acceptance inspections before new facilities begin operation, preventing equipment-related accidents by familiarizing employees with and requiring compliance with safety policies and rules, taking steps to prevent slipping and falling on stairs, etc., and working to prevent traffic accidents.

In the area of creating a pleasant working environment and improving employees’ health, we have strengthened management of the working

environment, ensuring effective implementation and follow-up of health check-ups, undertaking health promotion activities, stress checks and implementing risk assessment for chemical substances.

In addition, at the Health and Safety Committee meetings which are regularly held at each worksite, we report on activity plans as well as giving performance reports, and we disseminate this information to employees.

2020 targets and performance (Kao Group)

Item	Indicator	Scope	2018	2019	2020	
			Results	Results	Target	Results
Occupational accidents	Death and serious lost time accidents*1 (persons)	Including both regular employees and temporary workers (Kao Group)	0	0	0	0
		Breakdown				
		Japan	0	0	—	0
		Asia	0	0	—	0
		Americas	0	0	—	0
		Europe	0	0	—	0
		Subcontractors (Kao Group)	0	0	—	0
		Breakdown				
		Japan	0	0	—	0
		Asia	0	0	—	0
		Americas	0	0	—	0
		Europe	0	0	—	0
	Lost time accidents frequency rate*2	Including both regular employees and temporary workers (Kao Group) 	0.77	0.78	0.1 or less	0.53
		Breakdown				
		Japan	0.54	0.67	—	0.41
		Asia	0.19	0.25	—	0.07
		Americas	4.18	3.21	—	2.03
		Europe	4.66	3.30	—	2.85
		Including both regular employees and temporary workers (Reference: Member companies of Japan Chemical Industry Association)	0.31	0.42	—	—
		Subcontractors (Kao Group) 	0.40	0.24	0.1 or less	0.66
		Breakdown				
		Japan	0.55	0.66	—	0.85
		Asia	0.11	0.06	—	0.14
		Americas	0.00	0.00	—	5.51
		Europe	7.06	4.18	—	7.88
		Subcontractors (Reference: Member companies of Japan Chemical Industry Association)	0.52	0.57	—	—

*1 Serious lost time accidents: Accidents in which there is a continued loss of physical function after treatment for the injury has been completed (with a loss of physical function of Level 5 or higher).

*2 Lost time accident frequency rate: Number of persons dead or seriously injured in occupational accidents per million hours worked (including only accidents involving at least one lost work day and also the loss of a part of the body or a bodily function).

Employee wellbeing & safety 103-1, 103-2, 103-3, 403-9, 403-10 (Occupational health and safety 2018)

2020 targets and performance (Kao Group)

Item	Indicator	Scope	2018	2019	2020	
			Results	Results	Target	Results
Occupational accidents	Total accident frequency rate*3	Including both regular employees and temporary workers (Kao Group)	2.43	2.33	0.56 or less	1.90
		Breakdown				
		Japan	2.20	2.47	—	2.00
		Asia	1.37	0.49	—	0.34
		Americas	8.36	6.02	—	4.05
		Europe	6.86	5.78	—	4.98
		Subcontractors (Kao Group)	1.21	0.75	0.56 or less	1.43
		Breakdown				
		Japan	2.11	1.87	—	2.18
		Asia	0.40	0.18	—	0.55
		Americas	0.00	0.00	—	5.51
		Europe	10.59	16.70	—	7.88
	Severity rate*4	Including both regular employees and temporary workers (Kao Group)	0.05	0.01	—	0.04
		Breakdown				
		Japan	0.03	0.01	—	0.05
		Asia	0.14	0.01	—	0.00
		Americas	0.06	0.02	—	0.03
		Europe	0.07	0.05	—	0.08
		Including both regular employees and temporary workers (Reference: Member companies of Japan Chemical Industry Association)	0.03	0.01	—	—
		Subcontractors (Kao Group)	0.01	0.01	—	0.03
		Breakdown				
		Japan	0.01	0.04	—	0.06
		Asia	0.01	0.01	—	0.01
		Americas	0.00	0.00	—	0.17
		Europe	0.19	0.03	—	0.06
		Subcontractors (Reference: Member companies of Japan Chemical Industry Association)	0.07	0.03	—	—
	Number of employees who experienced lost work days due to occupational diseases (persons)*5	Including both regular employees and temporary workers (Kao Group) ☑	0	0	0	0
		Breakdown				
		Japan	0	0	—	0
		Asia	0	0	—	0
		Americas	0	0	—	0
		Europe	0	0	—	0
Traffic accidents	100% negligence accidents causing bodily injury (no. of accidents)	Sales and logistics (Japan)	16	5	0	1
	Accidents other than 0% negligence accidents per 100 vehicles*6		6.43	6.48	3.8 or less	3.68

*3 Total accident frequency rate: Number of persons injured in occupational accidents (including accidents without lost work days) per million hours worked.

*4 Severity rate: Number of lost days/total working hours × 1,000.

*5 There has been a global target for the number of employees who experienced lost work days due to occupational diseases since 2018.

*6 Accidents other than 0% negligence accidents per 100 vehicles: Number of traffic accidents other than 0% negligence / No. of vehicles in fleet × 100.

Reviews of performance

In 2020, performance in relation to some safety indicators was better than in the previous year. However, one reason for this improvement was that many employees were working from home because of the COVID-19 pandemic.

Employee wellbeing & safety 103-1, 103-2, 103-3

Targets for 2021

In order to become a company that meets top-level safety and health criteria on a global basis by 2030, we have set ourselves the target of striving to prevent accidents and disasters, and we are implementing activities based around backcasting of accident and disaster prevention targets for 2021.

Note that traffic accident targets are for Japan only.

Targets for 2021 (Kao Group)

Item	Scope	Indicator	2021 targets
Occupational accidents	Regular employees and temporary workers	Death and serious lost time accidents* ¹ (persons)	0
		Lost time accidents frequency rate* ²	0.45 or less
		Total accident frequency rate* ³	1.35 or less
	Subcontractor employees	Death and serious lost time accidents* ¹ (persons)	0
		Lost time accidents frequency rate* ²	0.21 or less
		Total accident frequency rate* ³	0.63 or less
	Regular employees	Number of employees who experienced lost work days due to occupational diseases (persons)	0
Traffic accidents	Sales and logistics	100% negligence accidents causing bodily injury (no. of accidents)	0
		Accidents other than 0% negligence accidents per 100 vehicles* ⁴	8.8 or less

*1 Serious lost time accidents: Accidents in which there is a continued loss of physical function after treatment for the injury has been completed (with a loss of physical function of Level 5 or higher).

*2 Lost time accident frequency rate: Number of persons dead or seriously injured in occupational accidents per million hours worked (including only accidents involving at least one lost work day and also the loss of a part of the body or a bodily function).

*3 Total accident frequency rate: Number of persons injured in occupational accidents (including accidents without lost work days) per million hours worked.

*4 Accidents other than 0% negligence accidents per 100 vehicles: Number of traffic accidents other than 0% negligence / No. of vehicles in fleet × 100.

Our initiatives

Status of occupational accident occurrences

In 2020, a total of 144 regular employees and temporary workers were involved in occupational accidents, of which 40 persons lost work days as a result, with no occupational illnesses resulting in lost work days recorded. For occupational accidents involving subcontractors, the number of persons affected was 37, of which 17 suffered injuries resulting in lost work days.

The most common types of accidents among regular employees and temporary workers were slip and fall accidents due to carelessness and insufficient confirmation (42 employees), accidents involving reactional action (16 employees) and collisions (9 employees). As slip and fall accidents have been the most common type of accident in recent years, in implementing our activities we have focused mainly on strategies to prevent slip and fall accidents.

Risk assessment of chemical substances

As many kinds of chemical substances are handled at our manufacturing locations, the risk of damage to human health and of environmental pollution is not negligible. With this in mind, we evaluate the impacts on people and the environment and make provisions to reduce these risks.

In addition, when installing additional equipment

or making changes to existing equipment, and when changing the types of raw materials used, we assess the potential impact on human health and on the environment in advance.

These measures have been implemented in response to the UN's Strategic Approach to International Chemicals Management (SAICM) initiative.



p. 219 Walking the right path >
Responsible chemicals management

Expansion of the "no accidents with lost work days award system" improving safety awareness

Since 2016, the "no accidents with lost work days award system," which had previously been limited to plants in Japan, was expanded to include plants outside Japan, in order to further improve safety awareness.

In 2020, one plant in Japan and four plants outside Japan received awards.

In the future, we will expand the scope of application of the award system to include sales companies and logistics companies, with the aim of enhancing safety consciousness.

"No accidents with lost work days award" (2020)

Region	Company / Plant	Stage
Japan	Kawasaki Plant	Stage 1 (3 years)
China	Kao (Shanghai) Chemical Industries	Stage 2 (5 years)
	Kao Huludao	Stage 2 (5 years)
Indonesia	PT. Kao Indonesia	Stage 1 (3 years)
Thailand	Kao Industrial (Thailand)	Stage 1 (3 years)

Award criteria

Stage	Award criteria
1	3 years
2	5 years or 5.4 million hours
3	7 years or 8.1 million hours
4	10 years or 12.2 million hours
5	15 years or 18.3 million hours



Kao (Shanghai) Chemical Industries Co., Ltd. (China), which has achieved Stage 2



Kao Huludao Casting Materials Co., Ltd. (China), which has achieved Stage 2

Employee wellbeing & safety 403-2, 403-4 (Occupational health and safety 2018)

Sharing safety messages globally

With the aim of enhancing safety awareness globally, since 2017 we have had the company's safety slogans translated into local languages at our worksites outside Japan, and the safety posters on which the President and Chief Executive Officer appears have been shared globally, being displayed at worksites both within and outside Japan.

Starting from 2018, the safety poster messages have been chosen in a global competition.

In 2020, the message proposed by Kao Specialties Americas LLC in the U.S. was chosen as the best entry. Safety posters using this message were created and distributed for display at Kao affiliates both within and outside Japan.

Going forward, we will continue to promote this activity, so as to strengthen safety consciousness on a global scale.



The safety poster featuring the company president was deployed in 11 different local languages (Clockwise from top left: Japanese, English, Chinese (simplified), Thai)



The award ceremony for the best entry (Kao Specialties Americas)

Creating a pleasant working environment for employees

Besides striving to create a pleasant working environment at all worksites, in order to ensure compliance with working environment standards and relevant laws in each country, we implement surveys of the working environment on a regular basis, and undertake improvement and maintenance management of the workplace environment.

Implementation of Safety Awareness Survey

We have independently implemented the Safety Awareness Survey since 2018 to survey employee awareness of safety and facilitate future safety activities. This survey was conducted in the SCM Division in Japan in 2018, and each workplace established and implemented an action plan based on the results of this survey, aiming to further improve safety awareness.

Since 2019, this survey has been expanded to include other divisions in Japan and group companies outside Japan. In 2020, the survey was implemented

at Kao Industrial (Thailand) Co., Ltd. and Kao Corporation S.A. (Spain). We will continue to implement this survey going forward, with the aim of realizing further improvements in safety awareness.

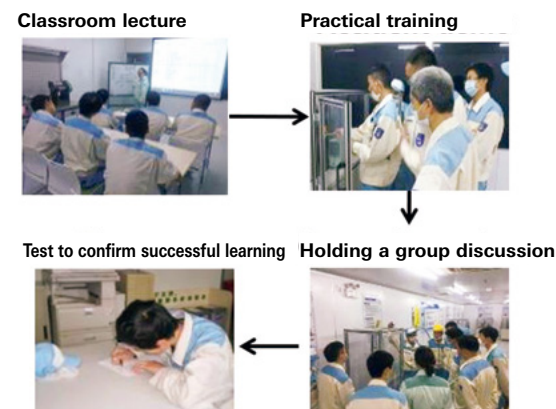
Expansion of hazard detection training facilities

In 2020, Kao Corporation Shanghai (China) adopted a new demonstration facility that helps employees to develop an awareness of hazards. The aim is to strengthen employees' understanding of the hazards that equipment poses, and to enhance their safety awareness. The company created 11 types of hazard detection equipment, including rotary machines, heavy objects, high-temperature objects, etc., and gave seminars that made use of them.

Factory operatives and personnel responsible for safety have undergone training at the hazard detection classroom, including classroom-style learning.



Hazard detection equipment



Hazard detection class flow

Responsible chemicals management 102-11, 102-12, 102-15, 103-1

We appropriately manage chemicals using science-based risk assessment and risk management procedures across the entire product lifecycle from development, production and use through to disposal, aiming to minimize their significant adverse effects on human health and the environment. We will promote responsible chemicals management and contribute to the sustainability of society based on the Kirei Lifestyle Plan (KLP).

ESG Keyword

SAICM

Risk assessment of chemicals

Lifecycle management of chemicals

Risk communication about chemicals with stakeholders

Kao's creating value to address social issues

Social issues we are aware of

Chemicals foster our lifestyles and are essential for the enrichment of the lives of people globally. On the other hand, chemicals can have negative impact on human health and the environment.

Member countries at the World Summit on Sustainable Development (WSSD) held in 2002 adopted the international goals of "aiming to achieve, by 2020, that chemicals are used and produced in ways that lead to the minimization of significant adverse effects on human health and the environment, using transparent, science-based risk assessment procedures and risk management procedures [for chemicals], taking into account the precautionary approach."

To achieve this goal, the world has been taking action in accordance with the Strategic Approach to International Chemicals Management (SAICM) adopted by the United Nations Environment Programme (UNEP) in 2006. It is said that the global chemicals market will double compared to 2017 by 2030, and even greater efforts on chemicals management are needed*.

* From Global Chemicals Outlook II (UNEP, 2019)

Kao's creating value

Based on the concept of ESG-driven *Yoki-Monozukuri*, Kao seeks to reduce negative impacts on human health and the environment and to contribute to the realization of a sustainable society throughout the product lifecycle from raw materials, production and use through to disposal.

In line with the global trend toward more rigorous chemicals management, we set mid-term targets including "active implementation of SAICM to promote sound chemicals management in accordance with SAICM" in the Kao Environmental Statement issued in 2009, and we established the company-wide SAICM Promotion Committee in 2012 to achieve the objectives. We have been working to reinforce chemicals management including improving our unique Comprehensive Management System for Chemical Substances, which we developed and have been operating until now.

Contributions to the SDGs



Risks related to realization of What Kao Aims to Be by 2030

If chemicals are not properly managed, they might cause adverse effects on human health and the environment, which could make it difficult to continue our business.

Opportunities related to realization of What Kao Aims to Be by 2030

By promoting responsible chemicals management, we are contributing to the realization of a sustainable society and gaining opportunities to earn the trust of society.

Policies

Kao handles a wide range of chemicals from industrial products to consumer products, and has always engaged in thorough chemicals management. We are promoting and strengthening chemicals management based on our SAICM Promotion Policy, which was formulated in line with internationally-agreed SAICM.

For the period beyond 2020, we established our new vision and approach to achieving the ideals that Kao seeks and announced it in April 2020. We will promote responsible chemicals management based on this approach starting in 2021.

SAICM Promotion Policy

1. Development and Use of Safer and More Valuable Chemicals, and the Development of Manufacturing Processes with Less Environmental Impact
2. Chemicals Management throughout the Entire Life Cycle of Chemicals based on Scientific Risk Assessment
3. Compliance with Laws and Regulations on Chemicals and Voluntary Standards, and the Promotion of International Cooperation and Collaboration
4. Promotion of Risk Communications with Stakeholders



→ SAICM Promotion Policy
www.kao.com/content/dam/sites/kao/www-kao-com/global/en/sustainability/pdf/saicm-policy.pdf

Education and promotion

To raise awareness of chemicals management and deepen correct understanding, we continuously provide lessons and lectures by outside experts with a focus on workers who handle chemicals including researchers. To achieve What Kao Aims to Be by 2030, we will conduct education for an even broader range of employees from now on.

Collaboration and engagement with stakeholders

As a part of our two-way communications with stakeholders, we provide customers and consumers with chemical information relating to product safety to ensure that products can be used safely with confidence. To contribute to the safer use of chemicals throughout society, we also exchange opinions with outside experts, professionals and others to promote chemicals management together with government and industry.

Framework

To accelerate implementation of initiatives aimed at realizing the SAICM objectives, we established the SAICM Promotion Committee in 2012 under the Sustainability Committee (now the ESG Committee) chaired by the President and Chief Executive Officer.

The SAICM Promotion Committee is chaired by the Managing Executive Officer responsible for overseeing the Product Quality Management.

Members are chosen from key divisions, and proposed initiatives are reflected on the day-to-day operations of individual divisions throughout Kao Group.

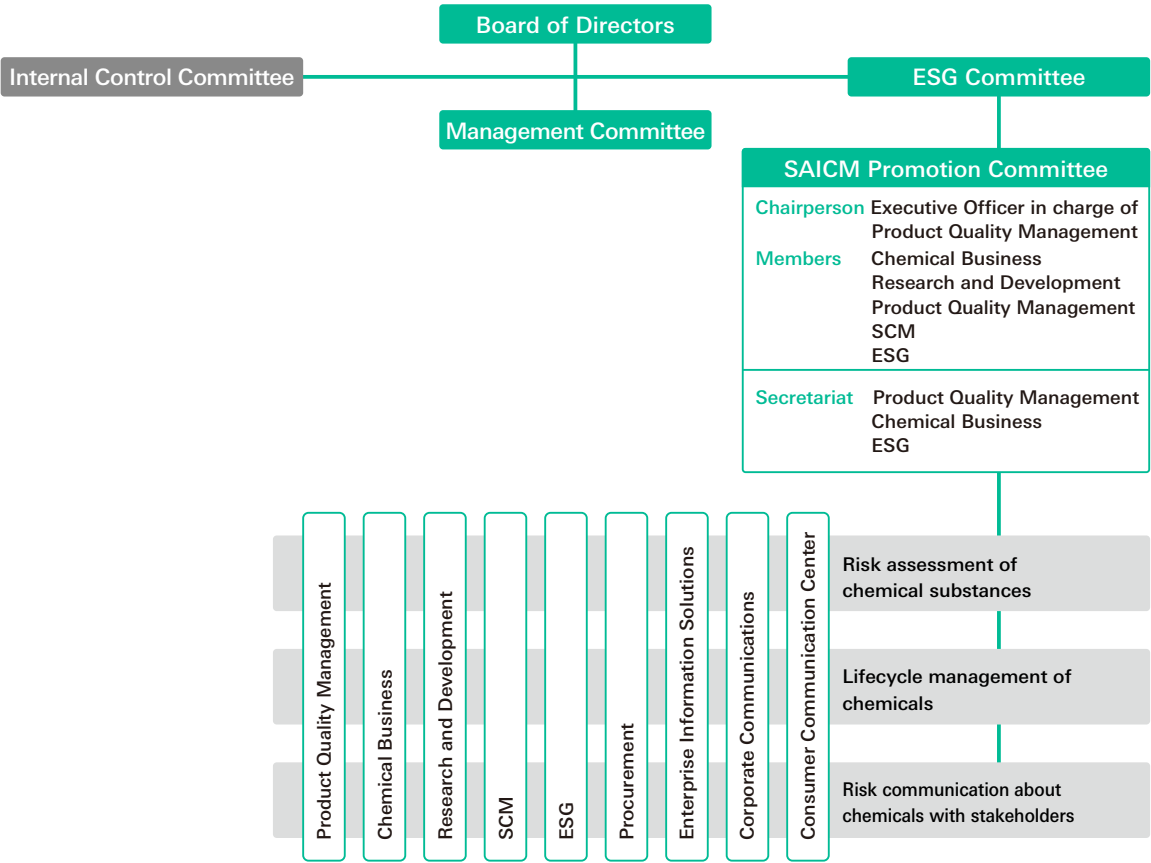
The three main areas of SAICM promotion activities undertaken by Kao are:

1. Risk assessment of chemical substances
2. Lifecycle management of chemicals
3. Risk communication about chemicals with stakeholders

We have established and have been promoting projects for each category of activity. In addition to meetings for individual projects, the SAICM Promotion Committee meets three to four times a year to conduct planning, receive progress reports, review projects and listen to lectures given by outside experts.

Responsible chemicals management 103-2

SAICM Promotion Framework



* As of December 2020



→ p. 18 ESG promotion structure

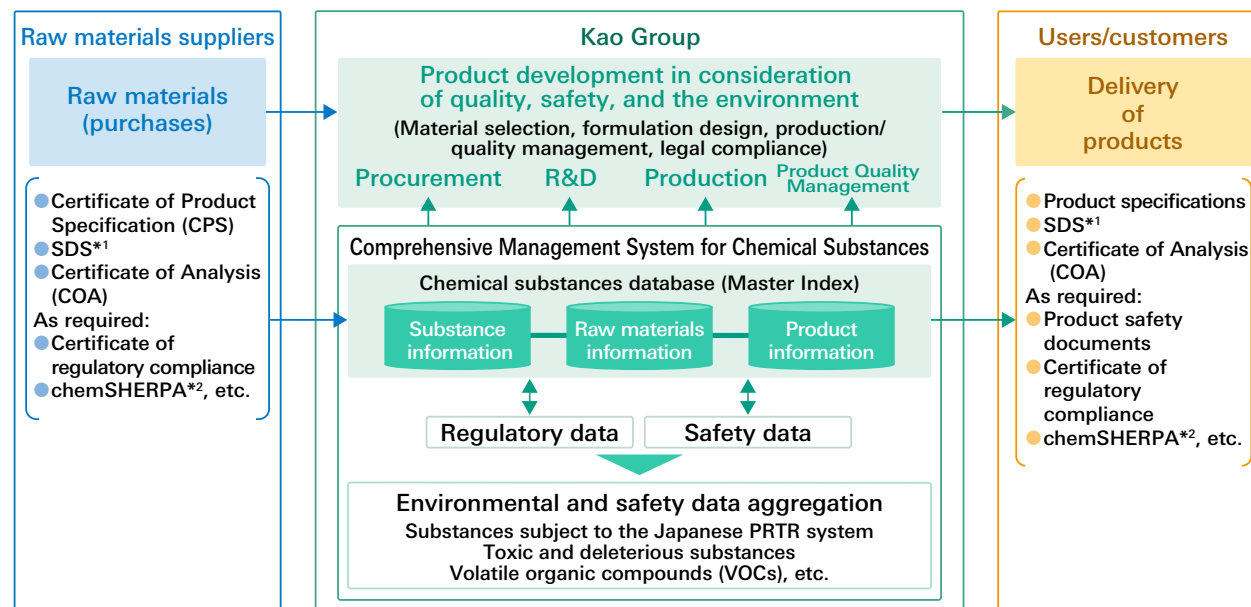
Comprehensive Management System for Chemical Substances

In addition to reinforcing responsible chemicals management with the SAICM Promotion Framework playing a central role, we developed the Kao Comprehensive Management System for Chemical Substances, an advanced IT support system created as a support tool, and use it group-wide.

This system provides a database of the constituent components of each of the raw materials included in various products from industrial to consumer products. The system makes it possible to verify the quality, safety, anti-bacterial grade, regulatory and other information of raw materials used in each product. If a problem with a raw material arises, or if risk from a new substance of concern emerges, we can rapidly identify the scope of impact and take appropriate action.

We continuously enhance the functions of the Comprehensive Management System for Chemical Substances, which aims to manage the latest information related to chemical substances used in our products, to adapt to global changes in regulatory requirements and our business expansion into new business fields and regions.

Kao Comprehensive Management System for Chemical Substances



*1 SDS

Safety Data Sheet. Document providing information to ensure safe and appropriate handling of chemicals, such as names of substances contained in the product, information about potential hazards and handling precautions.

*2 chemSHERPA

A new scheme that facilitates sharing information on chemical substances in products across the entire supply chain to address broadening regulations and appropriately manage chemical substances contained in products on an ongoing basis.

➡ chemSHERPA website: chemsherpa.net/english

Mid- to long-term targets and performance

2020 mid-term targets

1. Risk assessment of chemical substances

We select Kao priority assessment substances taking into consideration factors such as production and use volume, the exposure level for humans and the environment, and priorities in our corporate activities. We assess those substances considering the expected impact on the environment in accordance with our risk assessment policy, and implement appropriate management on the basis of the assessments.



→ Risk assessment policy
chemical.kao.com/global/sustainability/saicm/article_03/

Risk assessment of chemical substances is conducted with the following targets.

- Conduct risk assessments for Kao priority assessment substances (19 categories) by 2020 and continue assessments thereafter



→ Kao's Safety Summary of chemicals for priority risk assessment
chemical.kao.com/global/sustainability/saicm/article_05/

Examples of the 19 categories

- Alkyl glycosides (a class of non-ionic surfactants): Widely used in everyday consumer products such as dishwashing liquids, household cleaners, body soaps, shampoos, etc.
- Polyoxyalkylene alkyl ethers (a class of non-ionic surfactants): Widely used in everyday consumer products such as laundry detergents, dishwashing liquids, household cleaners, shampoos, bleaches, etc.
- Sodium linear-alkylbenzene sulfonate (a class of anionic surfactants): Widely used in everyday consumer products such as laundry detergents, dishwashing liquids, etc.
- Polyester resin for use in toner (polyester resin used as binder in toner)

2. Lifecycle management of chemicals

We have set the following targets at workplaces where chemicals are handled to prevent adverse health effects on workers.

- Conduct risk assessments and implement corresponding measures at workplaces where chemicals are handled by 2020, and continue to conduct risk assessments for new chemicals and implement corresponding measures

3. Risk communication about chemicals with stakeholders

We have set the following targets to disclose safety information for chemical substances we manufacture and sell throughout the supply chain, and to ensure safe use and proper actions in relation to chemicals.

- Release the safety summaries of 20 Kao priority assessment substances by 2020 and continue this activity after 2020
- Release GPS Safety Summaries* for 150 chemical products by 2020 and continue this activity after 2020

* GPS Safety Summary

A document providing a summary of chemical substance safety information as a reference for the general public. Besides information about physical and chemical properties, this document addresses the use and process conditions for sound risk management and outlines risk management measures. It is also used to disseminate information to downstream users.

Anticipated benefits from achieving mid- to long-term targets

Business impacts

- Increased customer trust in Kao's business and contribution to effective business activities in conjunction with achieving mid-term targets
- Since 2011, Kao has selected 19 categories of chemical substances that are important for its business as Kao priority assessment substances, has verified their safety through risks assessments, and released a total of 22

safety summaries and 177 GPS Safety Summaries. This activity has increased the understanding of consumers, customers, employees, governmental agencies and other stakeholders regarding Kao products and the chemical substances used as raw materials. As a result, we have earned trust in Kao and promoted effective business activities.

- Further increases in trust and business growth by achieving long-term targets

We will gain further trust, which will lead to business growth, by continuing to provide to stakeholders products made of chemical substances that are both safe and useful as well as information on those products.

Social impacts

- Technological advances in chemical substance assessment methods and contributions to increased efficiency in chemicals management by government in conjunction with achieving mid-term targets

By disclosing the risk assessment results of chemicals, we have contributed to raising the efficiency of chemicals management throughout society. In addition, we have disclosed information and conducted joint research with government-related organizations and industry organizations in order to verify and promote risk assessment methods which have been made more precise by Kao, contributing to raising the level of chemicals management as a social issue.

- Achieving the expected social safety and confidence and solving environmental issues by achieving long-term targets

In the future, through our activities, we will realize a safe society with peace of mind for people around the world, create social value, and press ahead to solve global and social issues.

Performance in 2020

The SAICM Promotion Committee set the following targets for individual projects in 2020 and conducted activities as planned.

Targets for 2020

1. Risk assessment of chemical substances

1. Conduct risk assessments and compile risk assessment reports for Kao priority assessment substances (three categories)
2. Contribute to the optimization of risk assessment methods (through discussion at academic societies and publication of papers)
3. Initiatives for achieving the vision for 2030: Revision of the criteria for selecting assessment substances, etc.
4. Build a global foundation of the Comprehensive Management System for Chemical Substances and start operation of functions in Japan

Three safety summaries of Kao priority assessment substances and 18 GPS Safety Summaries for chemical products

2. Engage in, propose strategies for and continue two-way communication
Stakeholders: Consumers, customers, government, industry

Reviews of performance

In our initiatives on chemicals, we achieved our targets by 2020 in all projects.

We reaffirmed that chemicals management initiatives including communication with stakeholders are essential for solving global and social issues. We share challenges that have been reaffirmed through initiatives in the committee, and we will incorporate such understanding in our activities in 2021 and later.

We are continuing discussion to achieve our mid- to long-term vision for 2030.

2. Lifecycle management of chemicals

1. Implement risk reduction measures based on risk assessments at workplaces where chemicals are handled: Implement measures in regions other than Japan and promote risk assessment by research laboratories
2. Continue implementing workplace GHS* hazard indication at production sites outside Japan

* GHS

Globally Harmonized System of Classification and Labelling of Chemicals

3. Risk communication about chemicals with stakeholders

1. Publicly disclose and disseminate SAICM promotion activity results and make good use of resources resources

Our initiatives

Internal education on chemicals

We worked on the following activities in 2020.

- To raise awareness of chemicals management from the product development stage, Product Quality Management and R&D divisions led and organized internal briefings on chemicals management and lectures conducted by outside experts, both conducted online, and approximately 400 persons attended.
- In order to prevent accidents at manufacturing sites and raise awareness regarding environmental safety and other issues, the SCM Division created educational programs to be conducted at the time of hiring and internal transfer structured according to field of expertise and level of experience. The curricula included training on the risks and hazards of chemical substances.

Communication about chemicals with stakeholders

We worked on the following activities in accordance with our SAICM Promotion Policy.

We share information about chemical risks with relevant persons to reach a common understanding (risk communication), and continuously take actions to ensure that chemicals are used safely and to foster mutual trust and confidence.

1. Collaboration and communication with consumers

We engage in continuous communication relating to chemical risks so that we can gain the trust of the consumers including those who live near our plants.

The main initiatives undertaken in 2020 are outlined below.

- We presented our environment, safety and health related initiatives to the public through participating in responsible care regional dialogues of the Japan Chemical Industry Association (JCIA) and disclosing our site reports for each site.
- We collaborated on a university course on “risk society and communication” and exchanged opinions with students on the importance of communication with local communities by presenting the Kao initiatives.



→ Collaboration on “risk society and communication,” a course presented at Yokohama National University
www.kao.com/jp/corporate/sustainability/topics/sustainability-20200225-001/ (Japanese)

- We presented Kao’s SAICM promotion activities in *Kagaku Busshitsu Kanri* (Chemical substance management), a monthly publication of Joho Kiko Co., Ltd., to raise understanding of chemicals management and to develop management capabilities in society.



→ *Kagaku Busshitsu Kanri* (Chemical substance management), February 2020 issue
johokiko.co.jp/publishing/BM160800_2002_index.php (Japanese)

2. Collaboration with distributors and customers

We share information with customers and distributors so that chemicals can be handled safely throughout the supply chain and the maximum benefits of chemicals can be derived.

Providing information on chemicals in products

We proactively manage the chemical substances contained in our chemical products (management of chemical substances in products) and provide information to our customers.

With regard to the provision of information on chemical substances in products to our customers, in September 2017 we adopted chemSHERPA, a new information communication scheme for chemical substances in products developed under the initiative of the Japanese Ministry of Economy, Trade and Industry, in advance of the industry. We released the latest version of chemSHERPA-CIs* in Japanese, English and Chinese on the Kao website, and affiliated companies in Japan and Asia played a key role in distributing them to customers.

* chemSHERPA-CI

Data entry support tool and output format for communicating information on specified chemical substances

GHS-compliant SDS and product labeling

To provide the latest chemical information relating to our chemical products to customers, we promote issuing SDS and labeling of products compliant with GHS regulations in each country.

In 2020, we began operating a Comprehensive Management System for Chemical Substances that is able to rapidly prepare and manage SDS and product labels compliant with the latest GHS regulations in countries that have introduced GHS. The system is used to create and attach GHS labels for products that are newly sold from sites in Japan and Asia to regions that implemented GHS (Japan, Asia, Europe and the U.S.). We also confirmed regulatory

developments in individual countries and regions and updated SDS and labels as necessary.

Furthermore, we are revising SDS and labels to comply with the new JIS* in Japan.

* JIS

Japanese Industrial Standards

Collaboration with distributors

The Chemical Business uses its private network with sales distributors to share information such as SDS and chemSHERPA-CI to encourage collaborative chemicals management throughout supply chains.

In 2020, we posted updated information and up-to-date information on chemical regulations and import / export controls, and requested that our customers deal with them.

We also conducted an online meeting to exchange information with selected chemical product distributors in October and discussed optimal means of international logistics during the COVID-19 pandemic. We also conducted an online meeting to exchange information with selected distributors regarding updated information including chemical regulations around the world and required measures in December.

3. Collaboration with administrative bodies

In Japan, we held four meetings with government officials online and by other means to exchange information so that we can deepen trust with regulatory authorities in relation to chemicals and conduct better chemicals management as a company that handles chemicals.

4. Collaboration with industry organizations

We have participated in various activities to contribute to chemicals management in industries.

We are actively involved in JIPS*¹, a voluntary initiative by chemical industry in Japan to strengthen chemicals management in order to contribute to SAICM. In addition, we continued our positive participation in LRI*², which is promoted by the JCIA with chemical industries in Europe and the U.S., and supported researches.

The EU Chemical Strategy for Sustainability, which describes the direction of chemical policy in the EU and was published in October 2020, may have an impact on global chemical industries. Therefore, we are carefully monitoring the situation with JCIA to update information as necessary.

We worked as a leading member of the Japan Soap and Detergent Association Environmental and Safety Expert Committee, which discusses the human and environmental safety of products and raw materials. We actively participated in government study panels to exchange opinions in order to refine environmental risk assessment methods used in chemical regulations such as Chemical Substances Control Law.

*1 JIPS

Japan Initiative of Product Stewardship

A voluntary initiative based on Global Product Strategy (GPS) principles for enhancing global chemicals management promoted by the International Council of Chemical Associations in response to the adoption of SAICM

*2 LRI

Long-Range Research Initiative

An international program that provides long-term support to researches on the potential impact of chemicals on human health and the environment

Performance in 2020 concerning mid-term targets

Details concerning performance in 2020 toward the 2020 mid-term targets were as follows.

1. Risk assessment of chemical substances

1. Conduct risk assessments, compile risk assessment reports for Kao priority assessment substances (three categories), and disclose them
 - Completed risk assessments as planned (total of 24 categories). Confirmed that risks are at acceptable levels for all three categories
 - In 2020, three safety summaries for Kao priority assessment substances for which risk assessments were conducted in 2018 were released.
 - GPS Safety Summaries were prepared for 18 chemical products (in Japanese and English) and released. The cumulative number of summaries released globally reached 177.

Released in 2020

Amidoamine, alkyl sulfate, polyethylene glycols



→ Kao's Safety Summary of chemicals for priority risk assessment
chemical.kao.com/global/sustainability/saicm/article_05/

→ GPS Safety Summaries
chemical.kao.com/global/sustainability/saicm/article_06/

2. Contribute to the optimization of risk assessment methods (deepen understanding regarding risk assessment methods through discussion with experts at academic meetings)

- Presentation at the Japanese Society of Toxicology on "Human health and environmental risk assessment of chemicals in daily use—Safety assessment of alkyl amidopropyl betaine in consideration of using consumer product—"

3. Initiatives for achieving the vision for 2030
 The following were discussed.

- Policies within Kao SAICM promotion activities (including new policies)
- Created the selection criteria of Kao priority assessment substances and selected candidate assessment substances
- 4. Build a global foundation for the Comprehensive Management System for Chemical Substances (reinforce responses to accelerating social and environmental changes and expanding business fields and countries)
- Commenced full-scale operations in Asia including Japan, starting in January 2020

Results achieved through this performance:

- Released risk assessment results for three categories in the form of safety summaries and contributed to enhancement of safety and fostering trust by providing accurate information to customers
- Contributed to increasing Kao's technological capabilities and improving product safety by discussing risk assessment results with experts
- Reinforced systems for complying with the regulatory requirements of each country
 - Started revision of Japanese SDS and labels in responses to revision of JIS (compatible with version GHS revision 6)
 - Began providing SDS in compliance with the requirements of each country of Asia

- Released a new function that enables quantitative compilation by substance and purpose (used for the EU REACH, South Korean REACH, Taiwanese annual volume reporting, etc.)

2. Lifecycle management of chemicals

1. Implement risk reduction measures based on risk assessments at workplaces where chemicals are handled

Major activities relating to ensuring worker health and safety in environments where chemical substances are handled: Change from "operation that requires" to "operations that require"

- Identified manufacturing operations that require health risk assessment and mitigated risks by conducting detailed investigations (Japan). These activities used an efficient risk assessment support tool developed by Kao based on assessment methods used internationally.
- Took action to acquire the latest versions of SDS at 12 plants in Asia to enable rolling out the risk assessment of chemicals conducted in Japan to Asia
- Started obtaining the latest version of SDS in Japan in response to revision of JIS

2. Continued expansion of workplace GHS indication at plants outside Japan

Reinforced and maintained workplace GHS indication at 12 plants in Asia out of the group's 22 plants outside Japan (there are 10 plants in Japan)

- Maintained and continued workplace GHS indication at Kao plants in Japan and continued rolling out and reinforcement at Kao plants outside Japan

Results achieved through this performance:

- Continued identification and improvement of operations that entail risks using a risk assessment

Responsible chemicals management^{103-2, 103-3}

support tool developed by Kao. As of November 2020, assessment has been completed for approximately 20,000 operations. Investigated risks in operations and started improvement of mitigation measures

- Confirmed that it was required to adopt GHS in the SDS of raw materials purchased at 12 plants in Asia and completed re-acquisition of approximately 180 SDS



Examples of workplace GHS indication (from the left: a storage tank, raw materials intake port and analysis room)

3. Risk communication about chemicals with stakeholders

1. Publicly disclose and disseminate SAICM promotion activity results and make good use of resources
- Three safety summaries of Kao priority assessment substances and 18 GPS Safety Summaries for chemical products



→ p. 227 Kao's Safety Summary of chemicals for priority risk assessment / GPS Safety Summaries

2. Engage in, propose strategies for and continue two-way communication

Stakeholders: Consumers, customers, employees, government, industry



→ p. 225 Communication about chemicals with stakeholders

Results achieved through this performance:

- Disclosed safety information of chemicals throughout the supply chain using GPS Safety Summaries, contributing to ensuring safety and education on proper use
- Won the JCIA JIPS Award Grand Prize in two consecutive years and for the third time overall. This result was also reported in the JCIA 2020 annual report.



→ Japan Chemical Industry Association 2020 annual report
www.nikkakyo.org/english/report/2020

- Worked to foster trust through two-way communications with individual stakeholders. Introduced Kao's chemicals management initiatives to society through the PRTR guidebook of the Ministry of the Environment and the industry journal
- Engaged in dialogue concerning chemicals management in response to requests from national and local governments and universities and contributed to the utilization of Kao's initiatives in government and education



→ Guidebook for Citizens to Interpret PRTR Data
www.env.go.jp/en/chemi/prtr/documents/guidebook.html

→ Kagaku Busshitsu Kanri (Chemical substance management), February 2020 issue
johokiko.co.jp/publishing/BM160800_2002_index.php (Japanese)

Responses to social and environmental changes due to COVID-19

We responded quickly to the rapid increase in demand for hand sanitizer with alcohol, enabling a significant increase in production and supply.

Employees' voice

Risk communication about chemicals with stakeholders



Keiko Hasebe

ESG Division*, Kao Corporation

The understanding of chemicals can vary greatly depending on the stakeholder, so we engage in repeated discussions with other involved persons within the company concerning the contents and methods of communication for each target audience.

The key to communication with ordinary people and residents who live in the vicinity of plants in particular is how we can use technical jargon as little as possible and transfer in a plain manner the usefulness and risks of chemical. We came up with the idea of what only Kao can do as a manufacturer of familiar products such as consumer products.

In contrast to this, when targeting persons affiliated with a university, experts or government officials, we investigated how to make Kao's activities visible to them, created opportunities for the exchange of opinions, and actively posted information on websites and in industry journals and so on.

I will continue trying to spread accurate understanding of chemicals by as many people as possible and contribute to creating a safe society where people can live with peace of mind.

* As of January 2021

Responsible chemicals management^{103-2, 103-3}

Global compliance with chemical regulations

In conjunction with rising awareness concerning human health and the environment, chemical regulations are being made stricter.

In accordance with our SAICM Promotion Policy, we register and manage the chemical substances in products that we manufacture or directly or indirectly export according to the amounts and hazards in accordance with the chemical management system of the relevant country or region.

We introduced systems that can check regulations at the time of import and export to our chemical affiliates in 2017, and we are taking measures to ensure legal compliance.

1. Japan

We investigated use information of existing chemicals throughout our supply chains and certainly reported that information in accordance with the Chemical Substances Control Law.

In addition, we promptly introduced and implemented electronic submission of performance reports concerning intermediates and other materials, a system for which was established in FY2020.

2. Australia

Australian Industrial Chemicals Introduction Scheme (AICIS), the amended chemical regulations, came into effect in July 2020. Some chemicals have a transitional period from the former regulations. Kao Australia started working to ensure conformity with this new rule with our relevant affiliates outside

Australia.

3. China

In cooperation with our local affiliates, we completed registration of new chemical substances in our products before manufacturing or import and annual volume reporting in accordance with the Measures for the Environmental Management of New Chemical Substances in China. We assessed the impact on our business from the revision of the act (Order 12), which came into effect in January 2021, and continued compliance awareness within Kao Group.

4. South Korea

In accordance with the requirements of the amended K-REACH^{*1}, which came into effect on January 1, 2019, Kao completed the pre-registration for all selected substances subject to registration. In 2020, we played a leading role in consortiums and worked on substances to be registered by the end of 2021.

^{*1} K-REACH

Act on Registration and Evaluation of Chemical substances, South Korea

5. Vietnam

In Vietnam, under the Chemical Law, a list of existing chemical substances (National Chemical Inventory [NCI]) is developing. Kao applied for additional listing of substances that are not included in the draft NCI and need to be included.

6. Other countries

In the United States, Kao Specialties Americas LLC properly reported information required every four years under TSCA^{*2}.

In addition, we made reliable submissions and management required for manufacturing and import in cooperation with our local affiliates in each country and region of Europe, North America, East and Southeast Asia and Oceania that have introduced chemicals management systems. We also made every effort to collect the latest information relating to relevant regulations.

^{*2} TSCA

Toxic Substances Control Act

A law in the United States that regulates chemical substances that pose unreasonable risks to human health and the environment



Kao Corporation receives JIPS Award Grand Prize

Kao's Safety Science Research Laboratories, Product Quality Management and Chemical Business collaborate to prepare GPS Safety Summaries and have been actively releasing them publicly since 2012 as a result of its SAICM promotion activities. We released 18 GPS Safety Summaries last year, the most in Japan, and received the JIPS Award Grand Prize in March 2020, following receipt of this award in the previous year. This is the third time that we have received the Grand Prize.

The JIPS Award was established by the Chemicals Management Committee of the JCIA in 2017. It awards prizes annually to companies that have made outstanding efforts to release GPS Safety Summaries, a voluntary initiative of chemicals management.

Summary of activities compared to 2012–2020 mid-term targets

Since its establishment in 2012, the SAICM Promotion Committee formulated the SAICM Promotion Policy in line with the “active implementation of SAICM to promote sound chemicals management” announced in the 2009 Environmental Statement. The committee has carried out activities through the following three projects and has achieved their objectives.

1. Risk assessment of chemical substances

- Selected Kao priority assessment substances (substances subject to assessment) and conduct risk assessments (19 categories). We released the results of 22 assessments in the form of safety summaries and released 177 GPS Safety Summaries for chemical products that contain those substances. These activities received the JIPS Award Grand Prize (in 2016, 2018 and 2019) and JIPS Award (in 2017) for GPS / JIPS initiative from the JCIA, and our activities won recognition in the industry.
- In order to quickly and globally manage the regulatory information and amounts of chemicals that have been managed in each country and region, we developed a centralized management IT system that integrates existing functions and started operation in 2020.

2. Conduct risk assessments and countermeasures at workplaces where chemicals are handled

We completed assessments and implemented corresponding measures for safety at all workplaces

and in all operations in manufacturing plants in Japan that handle chemicals. Outside of Japan, we are determining actual situations at our group manufacturing plants and have started gathering information and building the necessary framework. This work will continue until 2030.

3. Communication with stakeholders

We disseminated information about our activities and released safety summaries of the substances that we handle on our website. We are also collaborating with research organizations, governmental bodies and industry associations to promote chemicals management.

Furthermore, we developed communication methods for various stakeholders including consumers to earn trust through the release of easy-to-understand information and dialogue. We scrutinize the information that each party wants and continue to engage in communication.

Looking back on our contributions to the objectives of SAICM, “manufacture and use of chemicals with minimal risk” and “realization of a sustainable society,” we have promoted chemicals management that is recognized by industry organizations and governments. However, we have identified several challenges which will be resolved through collaboration and partnership with stakeholders.

We reaffirmed that Kao’s most important stakeholders are consumers, and we will conduct activities through 2030 from the perspectives of what is optimal chemicals management for consumers and what communication is needed to realize daily lives and a future where consumers can live with peace of mind.

Performance toward 2030 long-term targets

Discussion on operation of new framework (starting in 2021) to achieve the vision for 2030

Vision for 2030

We believe in a safe society where people around the world can enjoy the benefits provided by chemicals with peace of mind. To that end, the risks associated with chemicals should be properly managed. Through its ESG initiatives, Kao wants to take the lead in responsible chemicals management to help actualize such a society by 2030.

Five-part approaches and framework to achieve the vision for 2030

We will create a team for each of the five approaches in order to achieve Kao’s vision and promote responsible chemicals management throughout Kao Group.

1. Minimize environmental impact throughout the product lifecycle
2. Foster community safety and a sense of trust by having zero chemical accidents
3. Optimize risk assessment methods for efficient chemicals management
4. Make information on chemicals’ benefits and safety available in an accessible and easy-to-understand way
5. Effectively communicate with all people around the world to earn trust

Stakeholder engagement

Proposal to transit from conventional chemical risk communication to a wider communication field



Dr. Masaru Kitano

Akikusa Gakuen Junior College

Under the SAICM Promotion Committee, three projects have achieved results that exceed their initial goals: (1) risk assessment of chemical substances, (2) lifecycle management of chemical substances, and (3) risk communication on chemical substances with stakeholders. I would like to express my deepest respect for these achievements and for the launch of new projects looking ahead to 2030.

Here, I would like to discuss my requests and expectations regarding Kao's risk communication. With regard to project (3), Kao has engaged in risk communication with local residents living near your plants, other citizens, regulatory authorities and others. When speaking of risk communication, the subject matter of the communication is often limited almost entirely to chemical risks on human health and the environment. I believe that it is necessary in the future to engage in communication concerning the

entire lifecycle of chemical substances, including their usefulness, and not to limit communication on the potential risks of your products.

What I want to request is that Kao takes the initiative in establishing a new form of communication targeting residents near your plants and consumers and to conduct chemical safety education for elementary and junior high school students.

Through such communication, the residents will recognize that the location of your plants is desirable and that the proper use of chemical substances is important both economically and environmentally. A good company is one that is loved by customers, employees, local communities and other stakeholders.

The most important thing for the communication is mutual trust. Such trust comprises both trust in the scientific abilities of the staff in charge and trust in their personality. Kao is strongly expected to foster the communicators that people can trust in.

In the near future, standards of living in developing countries should rise, and Kao products will be used even more in those countries. I look forward to Kao becoming a leader in spreading the lessons gained through the new communication experiences in Japan. And I also expect that the proper use of Kao products may enhance more the understanding of the benefits of chemical substances, which are a kind of "double-edged sword." Finally, I hope that this new "friendship" with chemical substances spreads broadly throughout the world.

Kirei Lifestyle Plan KPI definitions 103-1, 103-2, 103-3

Regarding the mid- to long-term targets of the Kirei Lifestyle Plan that are noted on page 27 and 28, the formulas and factors that each indicator is comprised of, and the scope of each indicator, are as shown below.

Making my everyday more beautiful

Kao Actions	Indicator			Target value	Target year
	Formula	Factor	Scope		
Making my everyday more beautiful					
Commitment	The number of people empowered to enjoy more beautiful lives—greater cleanliness, easier aging, better health and confidence in self-expression			1 billion	2030
	Plan to disclose in 2022				
Improved quality of life	The number of products which contribute to a comfortable, beautiful, healthy life and touch the heart of people			7 billion	2030
	A (products)	A: The number of sold products of brands certified as contributing to improving quality of life according to standards set by Kao	• Consumer products of the Kao Group		
Habits for cleanliness, beauty & health	Cumulative number of people reached by awareness-raising activities for acquiring habits for cleanliness, beauty & health using Kao products and services (cumulative since 2016)			0.1 billion	2030
	A (persons)	A: Cumulative number of people reached by Kirei awareness-raising activities for acquiring habits for cleanliness, beauty & health • Number reached by awareness-raising activities using products and services provided by Kao employees • Number reached by communication-based awareness-raising activities (websites, social media, etc.)	• Kao Group • Reporting period: Since 2016		
Universal product design	% of new or improved products that meet Kao's Universal Design Guidelines			100%	2030
	A / B × 100 (%)	• A: The number of products that meet conformance criteria (pcs) • B: Total number of products (pcs)	• Consumer products of the Kao Group • New or improved products		
Safer healthier products	% of targeted ingredients of concern on which views are disclosed			100%	2030
	A / B × 100 (%)	• A: The number of ingredients of concern on which views are disclosed (ingredients) • B: Total number of established ingredients of concern (ingredients)	• Kao Group		

Kirei Lifestyle Plan KPI definitions 103-1, 103-2, 103-3

Making thoughtful choices for society

Kao Actions	Indicator			Target value	Target year
	Formula	Factor	Scope		
Making thoughtful choices for society					
Commitment	% of Kao brands that make it easy for people to make small but meaningful choices that, together, shape a more resilient and compassionate society			100%	2030
	Plan to disclose in 2022				
Sustainable lifestyle promotion	Cumulative number of people reached by awareness-raising activities for promoting environmentally friendly lifestyles and realizing a sustainable world (cumulative since 2016)			0.1 billion	2030
	A (persons)	A: Cumulative number of people reached by environmental awareness-raising activities for realizing sustainable lifestyles <ul style="list-style-type: none"> Number reached by awareness-raising activities using products and services provided by Kao employees Number reached by communication-based awareness-raising activities (websites, social media, etc.) 	<ul style="list-style-type: none"> Kao Group Reporting period: Since 2016 		
Purpose driven brands	% of Kao brands that make a contribution to solving social issues and that make people feel and sympathize with the brand's social usefulness			100%	2030
	Plan to disclose in 2022				
Transformative innovation	Cumulative number of proposed or realized products with big positive impact on lifestyles (cumulative since 2019)			10 or more	2030
	A (announcements)	<ul style="list-style-type: none"> A: Cumulative number of announcements relating to products that incorporate innovations able to create transformative sustainable impacts on lifestyles, society and / or the environment 	<ul style="list-style-type: none"> Consumer products and industrial-use products of the Kao Group Reporting period: Since 2019 		
	Cumulative number of proposed or realized businesses and systems with big positive impact on lifestyles (cumulative since 2019)			10 or more	2030
	A (announcements)	<ul style="list-style-type: none"> A: Cumulative number of announcements relating to business and systems able to create transformative sustainable impacts on lifestyles, society and / or the environment 	<ul style="list-style-type: none"> Kao Group businesses and systems Reporting period: Since 2019 		
Responsibly sourced raw materials	% of certified paper products and pulp for consumer products			100%	2025
	A / B × 100 (%)	<ul style="list-style-type: none"> A: The weight of certified paper products and pulp (FSC, PEFC, SFI) for consumer products of the Kao Group (t) B: The weight of paper products and pulp for consumer products of the Kao Group (t) 	<ul style="list-style-type: none"> Paper products and pulp for consumer products of the Kao Group Office paper and other paper used in the Kao Group 		
	Confirm traceability to small oil palm farm			Finish	2025
	A (farms)	<ul style="list-style-type: none"> A: The number of small oil palm farms for which traceability is confirmed (farms) 	<ul style="list-style-type: none"> Small oil palm farms 		

Kirei Lifestyle Plan KPI definitions 103-1, 103-2, 103-3

Making the world healthier & cleaner

Kao Actions	Indicator			Target value	Target year
	Formula	Factor	Scope		
Making the world healthier & cleaner					
Commitment	% of Kao products that leave a full lifecycle environmental footprint that science says our natural world can safely absorb			100%	2030
	Plan to disclose in 2022				
	Kao recognition or achievement level by external ratings firms			Highest evaluation level	Every year
	—	Obtain A rankings in CDP for Climate Change, Water Security and Forest simultaneously	• Kao Group		
Decarbonization	% reduction in absolute full lifecycle CO ₂ emissions (Base year: 2017)			22%	2030
	$(1 - A / B) \times 100 (\%)$	<ul style="list-style-type: none"> • A: Annual lifecycle CO₂ emissions of the year in question (t-CO₂) • B: Annual lifecycle CO₂ emissions of the base year (t-CO₂) * Base year: 2017 	<ul style="list-style-type: none"> • Entire lifecycle process for consumer products of the Kao Group • Raw materials procurement, manufacturing and distribution of industrial-use products of the Kao Group 		
	% reduction in absolute scope 1 + 2 CO ₂ emissions (Base year: 2017)			14%	2025
				55%	2030
	$(1 - A / B) \times 100 (\%)$	<ul style="list-style-type: none"> • A: Annual scope 1 + 2 CO₂ emissions for the year in question (t-CO₂) • B: Annual scope 1 + 2 CO₂ emissions for base year (t-CO₂) * Base year: 2017 	• Factories, offices, logistics centers and company cars owned by the Kao Group		
	% of renewable energy in electricity consumption			100%	2030
Zero waste	$A / B \times 100 (\%)$	<ul style="list-style-type: none"> • A: Amount of consumed electricity produced from renewable energy (kWh) • B: Amount of electricity consumption (kWh) 	• Kao Group factories, offices and logistics centers		
	Quantity of innovative film-based packaging penetration for Kao and others per annum			300 million	2030
	A + B (pcs)	<ul style="list-style-type: none"> • A: Sales quantity of innovative film-based packaging (Kao Group) (pcs) • B: Sales quantity of innovative film-based packaging using and applying Kao technologies (other companies) (pcs) 	• Kao Group and other companies		
	Practical use of innovative film-based packaging made from collected pouches			Products launch	2025
	Products launch	Launch of innovative film-based packaging made from collected pouches	• Kao Group		
	Use of PCR (recycled plastic) for PET containers			Plan to disclose in 2022	Plan to disclose in 2022
	Plan to disclose in 2022				
	Quantity of waste not for recycling from factories and offices			Zero	2030
	Plan to disclose in 2022				

Kirei Lifestyle Plan KPI definitions 103-1, 103-2, 103-3

Making the world healthier & cleaner

Kao Actions	Indicator			Target value	Target year
	Formula	Factor	Scope		
Making the world healthier & cleaner					
Zero waste	Reduction from discarded products and discarded sales promotion materials			Plan to disclose in 2022	Plan to disclose in 2022
	Plan to disclose in 2022				
	% of products which have eliminated eye-catching plastic stickers			100%	2021
	$A / B \times 100 (\%)$	<ul style="list-style-type: none"> A: Number of products which have eliminated eye-catching plastic stickers B: Number of applicable products 	• Consumer products of the Kao Group		
Water conservation	% reduction in full lifecycle water use per unit of sales (Base year: 2017)			10%	2030
	$[1 - (A_1/A_2) / (B_1/ B_2)] \times 100 (\%)$	<ul style="list-style-type: none"> A₁: Annual lifecycle water use for the year in question (million m³) A₂: Sales for the year in question (hundred million yen) B₁: Annual lifecycle water use for the base year (million m³) * Base year: 2017 B₂: Sales for the base year (hundred million yen) 	<ul style="list-style-type: none"> Entire lifecycle process for consumer products of the Kao Group Raw materials procurement, manufacturing and distribution of industrial-use products of the Kao Group 		
	% reduction in full lifecycle water use per unit of sales in regions with water scarcity (Base year: 2017)			40%	2030
	Plan to disclose in 2022				
Air & water pollution prevention	% of factories which disclose VOC and COD emissions			100%	2025
	$A / B \times 100 (\%)$	<ul style="list-style-type: none"> A: The number of factories which disclose VOC and COD emissions (factories) B: Total number of factories (factories) 	• Factories owned by the Kao Group		

Kirei Lifestyle Plan KPI definitions 103-1, 103-2, 103-3

Walking the right path

Kao Actions	Indicator			Target value	Target year
	Formula	Factor	Scope		
Walking the right path					
Effective corporate governance	Kao recognition or achievement level by external ratings firms			Highest evaluation level	Every year
	Selected	Listed as one of the “World’s Most Ethical Companies®” by Ethisphere Institute	• Kao Group		
	Number of serious compliance violations per annum			Zero	Every year
	A (cases)	<ul style="list-style-type: none"> Compliance violations that have a significant impact on management and significantly damage corporate value These violations are decided through deliberations by the Compliance Committee and the Management Committee considering the maliciousness of the violation and its impacts inside and outside our company, and are reported to the Board of Directors 	• Kao Group		
Full transparency	% of consumer product brands for which people can easily access complete ingredients information			100%	2030
	A / B × 100 (%)	<ul style="list-style-type: none"> A: The number of brands that satisfy the following conditions (brands) <ul style="list-style-type: none"> Brands that disclose the ingredient names for designated ingredients above a defined amount B: The number of all brands owned and marketed by the Kao Group (brands) 	<ul style="list-style-type: none"> Consumer products of the Kao Group * The number of brands as of December 31 each year * Excludes foods and tools 		
Respecting human rights	% response rate to human rights due diligence (internal risk assessment)			100%	2030
	A / B × 100 (%)	<ul style="list-style-type: none"> A: The number of factories (factories) and companies (companies) that conduct due diligence assessments B: The total number of factories (factories) and companies (companies) of the Kao Group 	• Factories and offices owned by the Kao Group		
	% response rate to human rights due diligence (supplier risk assessment)			100%	2030
	A / B × 100 (%)	<ul style="list-style-type: none"> A: The number of suppliers that have conducted due diligence assessments in the last three years from the applicable year (suppliers) B: The number of suppliers that Kao does business with in the applicable year (suppliers) 	• Direct materials suppliers of the Kao Group		
	% response rate to human rights due diligence (contractor risk assessment)			100%	2030
	A / B × 100 (%)	<ul style="list-style-type: none"> A: The number of contractors that have conducted due diligence assessments in the last three years from the applicable year (contractors) B: The number of contractors that Kao has contracted in the applicable year (contractors) 	• Contractors in factories and offices owned by the Kao Group		
Inclusive & diverse workplaces	Affirmative answer rate to a question on “Inclusion and Diversity” on our employee engagement survey			75%	2030
	A / B × 100 (%)	<ul style="list-style-type: none"> A: The number of affirmative answers to a question on “Inclusion and Diversity” on our employee engagement survey (answers) B: The total number of answers to a question on “Inclusion and Diversity” on our employee engagement survey (answers) 	• Employees of the Kao Group		
	% of female managers			Same as % of female employees	2030
	A / B × 100 (%)	<ul style="list-style-type: none"> A: The number of female managers (persons) B: The total number of managers (persons) 	<ul style="list-style-type: none"> Employees of the Kao Group All managers 		

Kirei Lifestyle Plan KPI definitions 103-1, 103-2, 103-3

Kao Actions	Indicator			Target value	Target year
	Formula	Factor	Scope		
Walking the right path					
Employee wellbeing & safety	Lost time accident frequency rate (per million hours worked)			0.1	2030
	$A / B \times 1,000,000$ (persons / million hours)	<ul style="list-style-type: none"> A: The number of dead and injured (persons who were absent one or more days from work and lost a part of body or function) (persons) B: Total number of actual working hours (hours) 	• Employees of the Kao Group		
	Average number of lost long-term work days (days/people) * Starting from Japan			105	2030
	$(A_1 + A_2 + \dots + A_n) / B$ (days / persons)	<ul style="list-style-type: none"> A: The number of days of leave that satisfy following conditions (days): <ol style="list-style-type: none"> Extended leave of absence of 30 or more consecutive calendar days Personal illness or injury leave, absence from work or leave of absence, except for leave with pay Applicable illness: Personal illness or injury B: Total number of employees who took leaves of absence from work (persons) 	• Employees of the Kao Group in Japan * To expand to all employees of the Kao Group		
	Ratio of employees who have lost long-term work days per one thousand employees * Starting from Japan			0.12	2030
	$A / B \times 1,000$ (%)	<ul style="list-style-type: none"> A: The number of employees who took extended leaves of absence, satisfying the following conditions (persons): <ol style="list-style-type: none"> Extended leave of absence of 30 or more consecutive calendar days Personal illness or injury leave, absence from work or leave of absence, except for leave with pay Applicable illness: Personal illness or injury B: Total number of employees (persons) 	• Employees of the Kao Group in Japan * To expand to all employees of the Kao Group		
Human capital development	Affirmative answer rate to a question on “Development Opportunities & Climate” on our employee engagement survey			75%	2030
	$A / B \times 100$ (%)	<ul style="list-style-type: none"> A: The number of affirmative answers to a question on “Development Opportunities & Climate” on our employee engagement survey (answers) B: The number of answers to a question on “Development Opportunities & Climate” on our employee engagement survey (answers) 	• Employees of the Kao Group		
	Affirmative answer rate to a question on “Engagement/Employer of Choice” on our employee engagement survey			75%	2030
	$A / B \times 100$ (%)	<ul style="list-style-type: none"> A: The number of affirmative answers to a question on “Engagement/Employer of Choice” on our employee engagement survey (answers) B: The number of answers to a question on “Engagement/Employer of Choice” on our employee engagement survey (answers) 	• Employees of the Kao Group		
Responsible chemicals management	% of chemical products and raw materials with disclosed information of benefit and safety to ensure safe usage for our customers			100%	2030
	$A / B \times 100$ (%)	<ul style="list-style-type: none"> A: The number of chemical substances for which risk assessments are done and safety assessment documents are made, and are disclosed on the website (substances) B: The number of Kao prioritized chemical substances selected from 2020 to 2030 according to production amounts, emissions amounts and public concern (substances) 	• Substances handled by the Kao Group		
	% of areas where impacts on health, environment and safety from chemicals are managed responsibly and sustainably considering their stages from raw materials procurements to disposal			100%	2030
	$\frac{(A_1 + A_2 + \dots + A_n) + \dots + (A_1 + A_2 + \dots + A_n) \times 100}{(B_1 + B_2 + \dots + B_n) + \dots + (B_1 + B_2 + \dots + B_n)}$	<ul style="list-style-type: none"> A: The number of items assessed by risk assessments for chemical substances (items) B: The number of target items of risk assessments for chemical substances (items) C: The number of factories (factories) D: The number of target items of risk assessments (1. Display of GHS at workplaces, 2. Maintenance of SDS, 3. Qualitative assessment, 4. Measures to reduce risks) 	• Factories owned by the Kao Group		

External evaluations and recognitions

Kao's various initiatives which aim to contribute to the realization of a sustainable society have earned high recognition.

SRI indexes and evaluations

<p>Member of</p> <p>Dow Jones Sustainability Indices</p> <p>Powered by the S&P Global CSA</p>	<p>2020 MSCI ESG Leaders Indexes Constituent</p>	 <p>included in ETHIBEL SUSTAINABILITY INDEX</p> <p>EXCELLENCE Global</p>	 <p>EURONEXT vigeoEiris</p> <p>INDICES WORLD 120</p>	 <p>S&P/JPX カーボン エフィシエント 指数</p>
 <p>FTSE4Good</p>  <p>FTSE Blossom Japan</p>	<p>2020 CONSTITUENT MSCI JAPAN ESG SELECT LEADERS INDEX</p> <p>2020 CONSTITUENT MSCI JAPAN EMPOWERING WOMEN INDEX (WIN)</p>	 <p>ECPI</p> <p>Sense in sustainability</p>	 <p>Bloomberg Gender-Equality Index 2021</p>	



→ SRI indexes and evaluations (updated as needed)
www.kao.com/global/en/sustainability/recognition/

External evaluations and recognitions

Activities and evaluations from external organizations

Commitment to society



- Support for the United Nations Global Compact
www.kao.com/global/en/sustainability/our-approach-to-klp/globalcompact/
- Declaration of Consumer-orientation
www.kao.com/jp/corporate/sustainability/our-approach-to-klp/customer-first/
(Japanese)

External evaluations and recognitions

Major recognitions

Environment

Date of award	Group recognized	Awards / details	Sponsoring organization
2020/01	PT. Kao Indonesia Chemicals	Blue grade proper (Environment Government audit 2020): Environmental management by fulfilling 100% of the audit criteria from the local government including prevention of air pollution (air emission control), prevention of water pollution and management of hazardous waste	Ministry of Environment and Forestry
2020/01	Kao Corporation	Kao was given the Executive Committee Chairman's Award at the 2nd EcoPro Awards. The company was highly evaluated for its useful RecyCreation activities, collecting used refill packs of soap, shampoo and other products, and reprocessing them into resin, aimed at town development and daily life.	Japan Environmental Management Association for Industry
2020/03	Kao Corporation	On February 28, 2020, the Odawara Office acquired certification from the Association for Business Innovation in Harmony with Nature and Community, as part of Kao Group environmental policy, promotion of activities that consider local biodiversity.	Association for Business Innovation in Harmony with Nature and Community
2020/04	Kao Corporation	The JIPS Award is presented annually to companies that have made outstanding efforts to release GPS Safety Summaries as a voluntary activity of chemical management. Kao released 18 of these summaries last year, the most in Japan, and received the JIPS Award Grand Prize in March 2020, following receipt of this award in the previous year. This is the third time that Kao has received the Grand Prize.	Japan Chemical Industry Association

Date of award	Group recognized	Awards / details	Sponsoring organization
2020/05	Kao Corporation Shanghai, Kao Chemical Corporation Shanghai	Water-saving company in Shanghai: Award of Excellent in water-saving activities	Shanghai Water Management Office
2020/08	Kao Corporation Shanghai	Green manufacturing factory: Award of Excellent in environmental protection, energy saving activities and waste reduction activities	Ministry of Industry and Information Technology
2020/09	Kao Industrial (Thailand)	Carbon Footprint of Organization (CFO) certificate: Achieving the calculation of CFO which is the volunteer for reduce GHGs from our operation for sustainability development	Thailand Greenhouse Gas Organization (TGO)
2020/12	Kao (Taiwan) Corporation	In 2020, our company received the Most Prestigious Sustainability Award—Foreign Corporates and came in second place at the Taiwan Corporate Sustainability Awards (TCSA), sponsored by the Taiwan Institute for Sustainable Energy. TCSA is one of Taiwan's largest and most prestigious CSR awards, and was established in 2008.	Taiwan Institute for Sustainable Energy
2020/12	Kao Industrial (Thailand)	AMATA Best Waste Management Award Level 3 (Platinum) (3 consecutive years): Good waste Management with Sustainability development	Amata City Industrial Estate with Industrial Estate Authority of Thailand (IEAT)

External evaluations and recognitions

Society

Date of award	Group recognized	Awards / details	Sponsoring organization
2020/01	Kao Corporation	Our company received the 2020 Commissioner of the Consumer Affairs Agency Commendation in Selection of Consumer-Oriented Companies for Best Practice. This commendation is given in recognition of companies that have made excellent efforts based on voluntary declaration of consumer-orientation. Kao received this award for a second consecutive year having received the Minister of State Commendation the previous fiscal year.	Consumer Affairs Agency
2020/02	Kao Industrial (Thailand)	Thailand labour Management Excellence Award (2 consecutive years): Award to the factory who passed the criteria of occupational Safety & Health Management of Ministry of Labour	Ministry of Labour
2020/03	Kao Corporation	Kao received the 2019 Industrial Science and Technology Policy and Environment Bureau Director-General's Award (Ministry of Economy, Trade and Industry), the highest award, at the Life Cycle Assessment Society of Japan (JLCA) Awards, in recognition of the company's activities, "eco together" with suppliers. Put into action with our suppliers, it includes activities that reduce burdens placed on the environment during the procurement of raw materials with a large-scale environmental impact and achieving a more precise LCA evaluation, which we were highly evaluated for.	Ministry of Economy, Trade and Industry
2020/05	Kao Corporation Shanghai	Shanghai health & safety contest Recognize the excellent safety knowledge of managers and employees	Shanghai health and safety bureau
2020/06	Kao Corporation	At the 59th Japan Packaging Competition, sponsored by the Japan Federation of Printing Industries, our Attack ZERO One Hand Type received the highest Ministry of Economy, Trade and Industry Award given to products deemed most socially and economically valuable. Highly evaluated from a consumer perspective for its ingenuity, anyone can easily weigh and pour it into the washing machine using one hand as well as its design allowing for easy hanging storage that doesn't take up extra space.	Japan Federation of Printing Industries
2020/06	Kao Chemical Corporation Shanghai	Chemical safety skill competition: Group award of good chemical safety skill in theory and practice	Shanghai Emergency Management Bureau, Jinshan Branch
2020/06	Kao Industrial (Thailand)	National occupational safety & health award (2 consecutive years): Award to the factory who passed the criteria of occupational Safety & Health Management of Ministry of Labour	Ministry of Labour
2020/09	Kao Corporation	At the Packaging Contest, Attack ZERO One Hand Type and Bioré u Whip Stamp Handwash won the WorldStar Award. Attack ZERO One Hand Type can be measured by the number of single hand pushes, and was highly evaluated for how stress-free and easy use it is, even for children and seniors. Bioré u Whip Stamp Handwash's container balances the fun of making cute, flower-shaped foam and Universal Design, enabling single hand use. It was highly evaluated for achieving hygienic habits with a structure that allows water to drain without pooling.	Sponsored by the World Packaging Organization

Date of award	Group recognized	Awards / details	Sponsoring organization
2020/12	Kao Corporation	We received the Gold Award at the 3rd Cancer Alliance Awards 2020 (founded by Satoko Kono and Daisuke Iwase) sponsored by private project, Cancer Alliance Division, tackling the issue of working while undergoing cancer treatment. This award came as a result of our highly evaluated efforts to promote the creation of a culture beyond our internal framework that better understands cancer, by incorporating cancer at the center of health and productivity management initiatives and systems that improve the health of Kao employees and their families.	Cancer Alliance Division (founders: Satoko Kono and Daisuke Iwase)

Governance


Date of award	Group recognized	Awards / details	Sponsoring organization
2020/02	Kao Corporation	Kao has been awarded the Gold Award in the Environmentally Sustainable Corporations section of the ESG Finance Awards (Minister of the Environment's Awards) organized by Japan's Ministry of the Environment. This award is a new program established by the Ministry of the Environment in order to promote the dissemination and growth of ESG finance. Kao was highly evaluated for introducing an ESG perspective to its management, with efforts to expand business and promote the provision of better products and services to consumers and society, as well as its active disclosure of business risks and opportunities.	Ministry of the Environment
2020/05	Kao Corporation	Kao won first place in six divisions in the Household, Cosmetics & Personal Care sector of the 2020 All-Japan Executive Team (best IR company ranking): Best CEOs, Best CFOs, Best IR Professionals, Best IR Team, Best IR Programs and Best ESG, and was chosen as Most Honored Company. This ranking is based on voting from institutional investors and analysts from all over the world. Japanese companies are selected by sector based on excellent IR activity. In 2020, votes were cast by approximately 350 investors and analysts in 189 institutions.	U.S. Financial magazine Institutional Investor
2020/05	Kao Corporation Shanghai	Shanghai health & safety contest :Recognize the excellent safety knowledge of managers and employees	Shanghai health and safety bureau
2020/09	Kao (Taiwan) Corporation	New Taipei City Industrial Safety Award: Workplace safety management received the 9th New Taipei City Industrial Safety Award: 職場安全管理榮獲新北市第九屆工安優良獎	新北市政府勞工局 Labor Affairs Department, New Taipei City Government

Independent assurance report 102-56



Independent Assurance Report

To the President and CEO of Kao Corporation

We were engaged by Kao Corporation (the "Company") to undertake a limited assurance engagement of the environmental and social performance indicators marked with  (the "Indicators") for the period from January 1, 2020 to December 31, 2020 included in its Kao Sustainability Data Book Kirei Lifestyle Plan Progress Report 2021 (the "Progress Report") for the fiscal year ended December 31, 2020.

The Company's Responsibility

The Company is responsible for the preparation of the Indicators in accordance with its own reporting criteria (the "Company's reporting criteria"), as described in the Progress Report.

Our Responsibility

Our responsibility is to express a limited assurance conclusion on the Indicators based on the procedures we have performed. We conducted our engagement in accordance with the 'International Standard on Assurance Engagements (ISAE) 3000, Assurance Engagements other than Audits or Reviews of Historical Financial Information' and the 'ISAE 3410, Assurance Engagements on Greenhouse Gas Statements' issued by the International Auditing and Assurance Standards Board. The limited assurance engagement consisted of making inquiries, primarily of persons responsible for the preparation of information presented in the Progress Report, and applying analytical and other procedures, and the procedures performed vary in nature from, and are less in extent than for, a reasonable assurance engagement. The level of assurance provided is thus not as high as that provided by a reasonable assurance engagement. Our assurance procedures included:

- Interviewing the Company's responsible personnel to obtain an understanding of its policy for preparing the Progress Report and reviewing the Company's reporting criteria.
- Inquiring about the design of the systems and methods used to collect and process the Indicators.
- Performing analytical procedures on the Indicators.
- Examining, on a test basis, evidence supporting the generation, aggregation and reporting of the Indicators in conformity with the Company's reporting criteria, and recalculating the Indicators.
- Making inquiries and reviewing materials including documented evidence of the Company's Wakayama Plant selected on the basis of a risk analysis, as alternative procedures to a site visit.
- Evaluating the overall presentation of the Indicators.

Conclusion


Based on the procedures performed, as described above, nothing has come to our attention that causes us to believe that the Indicators in the Progress Report are not prepared, in all material respects, in accordance with the Company's reporting criteria as described in the Progress Report.

Our Independence and Quality Control

We have complied with the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants, which includes independence and other requirements founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior. In accordance with International Standard on Quality Control 1, we maintain a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

KPMG AZSA Sustainability Co., Ltd.

KPMG AZSA Sustainability Co., Ltd.
Tokyo, Japan
June 14, 2021

With the aim of ensuring more transparent disclosure of data relating to environmental protection and data relating to health and safety, KPMG AZSA Sustainability Co., Ltd. provides independent assurance for the Kao Kirei Lifestyle Plan Progress Report 2021. Indicators on which assurance is provided are marked with a check .

Assured data

Category	Data	Pages
Responsibly sourced raw materials	Ratio of certified paper/pulp materials (paper/pulp used in Kao products [excludes some products])	P82
	Certified palm oil purchases (Kao Group)	P83
Decarbonization	Energy consumption (all sites)	P93
	CO ₂ emissions across the entire product lifecycle (Kao Group)	P93
	CO ₂ emissions across the entire product lifecycle (Kao Group in Japan)	P93
	GHG emissions (all sites)	P93
	Scope 1 CO ₂ emissions	P94
	Scope 2 CO ₂ emissions	P94
	Scope 3 CO ₂ emissions *1,4,11,12	P94
Zero waste	CO ₂ emission during distribution (Japan)	P100
	Amount of waste reused or recycled (all sites)	P112
Water conservation	Amount of generated waste and other unwanted materials (all sites)	P112
	Water consumption across the entire product lifecycle (Kao Group)	P126
	Water consumption during product use (Kao Group in Japan)	P126
	Water consumption (withdrawal) (all sites)	P126
	Water withdrawal amount by source	P126
	Wastewater discharge by destination	P126
Air & water pollution prevention	NOx emissions (all production sites)	P135
	Volatile organic compound (VOC) emissions (Kao Group in Japan)	P135
	COD pollution load (all production sites)	P135
Product lifecycle and environmental impact	Output: Material procurement: CO ₂ emissions Output: Development/Manufacturing: GHG emissions Output: Distribution/Sales (facilities and company cars): GHG emissions Output: Distribution (transportation): CO ₂ emissions Output: Use: CO ₂ emissions Output: Disposal/Recycling: CO ₂ emissions	P140
Employee wellbeing & safety	Lost time accidents frequency rate: Including both regular employees and temporary workers (Kao Group)	P214
	Lost time accidents frequency rate: Subcontractors (Kao Group)	P214
	Number of employees who experienced lost work days due to occupational diseases: Including both regular employees and temporary workers (Kao Group)	P215

Scope of Assurance

In general, we report the activities of the Kao Group (Kao Corporation and its subsidiaries). Exceptions to this scope have been clearly stated as graph's annotations and in the text.

GRI Standards table 102-55

This data book has been compiled with reference to the GRI Sustainability Reporting Standards.
Click on Relevant Sections in Data Book to display the relevant page.

General disclosures

100: Universal Standards				
GRI 102: General Disclosures 2016				
1. Organizational profile		Relevant Sections in Data Book (★ denotes an appendix)		
	102-1	Name of the organization	●Kao Group Overview (external link)	—
	102-2	Activities, brands, products, and services	●Kao Group Fields of Business (external link)	—
	102-3	Location of headquarters	●Kao Group Overview (external link)	—
	102-4	Location of operations	●Kao Group Overview (external link)	—
	102-5	Ownership and legal form	●Kao Group Overview (external link)	—
	102-6	Markets served	●Global Locations (external link)	—
	102-7	Scale of the organization	●Kao Group Overview (external link)	—
	102-8	Information on employees and other workers	●Human capital development: Framework ●Inclusive & diverse workplaces: Human capital data	P177 P197
	102-9	Supply chain	—	—
	102-10	Significant changes to the organization and its supply chain	—	—
	102-11	Precautionary Principle or approach	●Responsible chemicals management: Kao's creating value to address social issues ●Responsible chemicals management: Comprehensive Management System for Chemical Substances ●Responsible chemicals management: Mid- to long-term targets and performance ★Information security: Kao's creating value to address social issues ★Process safety and disaster prevention: Policies ★Process safety and disaster prevention: Emergency response drills to prepare for large-scale disasters ★Process safety and disaster prevention: Strengthening process safety and disaster prevention	P219 P222 P223 ★ ★ ★ ★
	102-12	External initiatives	●Kirei Lifestyle Plan—Kao's ESG Strategy: Contributions to the SDGs ●"Contributions to the SDGs" in each section ●Responsibly sourced raw materials: Kao vendor summits ●Decarbonization: Collaboration and engagement with stakeholders ●Decarbonization: Efforts in raw materials procurement ●Decarbonization: Examples of major collaboration projects with stakeholders ●Water conservation: Efforts in raw materials procurement ●Water conservation: Participation in China's Nationwide Cleanliness and Water-saving Initiatives—a water conservation campaign—for nine consecutive years ●Inclusive & diverse workplaces: Examples of collaboration with stakeholders ★Biodiversity: Kao's creating value to address social issues	P32 P86 P90 P95 P102 P127 P129 P195 ★
	102-13	Membership of associations	●Safer healthier products: Industry association activities / communication (the Japan Cosmetic Industry Association, the Japan Soap and Detergent Association and the Japan Chemical Industry Association) ●Responsibly sourced raw materials: Collaboration and engagement with stakeholders (SUSTAIN and JaSPON) ●Responsibly sourced raw materials: Initiatives toward sustainable procurement of palm oil and palm kernel oil (RSPO) ●Responsible chemicals management: Communication about chemicals with stakeholders (JIPS and LRI) ★Tax strategies: Collaboration with the Japan Chemical Industry Association (JCIA) ★Biodiversity: Compliance with international agreements	P59 P80 P83 P226 ★ ★

GRI Standards table 102-55

100: Universal Standards				
GRI 102: General Disclosures 2016				
2. Strategy		Relevant Sections in Data Book (★ denotes an appendix)		
	102-14	Statement from senior decision-maker	<ul style="list-style-type: none"> ●CEO Message ●Message by Dave Muenz 	P4 P5
	102-15	Key impacts, risks, and opportunities	<ul style="list-style-type: none"> ●COVID-19 Response ●Kirei Lifestyle Plan—Kao's ESG Strategy: Business growth through the realization of the Kirei Lifestyle ●Kirei Lifestyle Plan—Kao's ESG Strategy: Kao Group Mid-term Plan 2025 (K25) ●Kirei Lifestyle Plan—Kao's ESG Strategy: Performance in 2020 ●Kirei Lifestyle Plan—Kao's ESG Strategy: Changing business environment and Kao's response measures ●"Kao's creating value to address social issues" in each section ●Decarbonization: Scenario analysis ●Responsible chemicals management: Comprehensive Management System for Chemical Substances ★Risk and crisis management: Kao's creating value to address social issues ★Risk and crisis management: Framework ★Risk and crisis management: Mid- to long-term targets and performance ★Intellectual property: Our initiatives ★Process safety and disaster prevention: Emergency response drills to prepare for large-scale disasters 	P7 P12 P15 P29 P30 P103 P222 ★ ★ ★ ★ ★
3. Ethics and integrity				
	102-16	Values, principles, standards, and norms of behavior	<ul style="list-style-type: none"> ●Kao's Corporate Philosophy ●Kirei Lifestyle Plan—Kao's ESG Strategy ●Realization of the Kao Corporate Philosophy ●Effective corporate governance: Kao's creating value to address social issues / Policies 	P10 P11 P37 P144
	102-17	Mechanisms for advice and concerns about ethics	<ul style="list-style-type: none"> ●Effective corporate governance: Compliance hotlines 	P154
4. Governance				
	102-18	Governance structure	<ul style="list-style-type: none"> ●Kirei Lifestyle Plan—Kao's ESG Strategy: ESG promotion structure ★Corporate governance: Corporate governance structure ★Corporate governance: Directors and Board of Directors / Audit & Supervisory Board Members and Audit & Supervisory Board 	P18 ★ ★
	102-19	Delegating authority	<ul style="list-style-type: none"> ●Kirei Lifestyle Plan—Kao's ESG Strategy: ESG promotion structure 	P18
	102-20	Executive-level responsibility for economic, environmental, and social topics	<ul style="list-style-type: none"> ●Kirei Lifestyle Plan—Kao's ESG Strategy: ESG promotion structure ●Responsibly sourced raw materials: Framework ●Decarbonization: Framework ●Zero waste: Framework ●Water conservation: Framework ●Effective corporate governance: Framework ●Respecting human rights: Framework ●Human capital development: Framework ●Responsible chemicals management: Framework ★Risk and crisis management: Framework ★Responsible care activities: Framework ★Product quality management: Framework ★Information security: Framework ★Advanced digital technology strategy: Framework ★Intellectual property: Framework ★Process safety and disaster prevention: Framework 	P18 P81 P91 P109 P124 P146 P167 P177 P220 ★ ★ ★ ★ ★ ★ ★
	102-21	Consulting stakeholders on economic, environmental, and social topics	<ul style="list-style-type: none"> ●Kirei Lifestyle Plan—Kao's ESG Strategy: ESG promotion structure 	P18

GRI Standards table 102-55

100: Universal Standards				
GRI 102: General Disclosures 2016				
4. Governance		Relevant Sections in Data Book (★ denotes an appendix)		
	102-22	Composition of the highest governance body and its committees	★Corporate governance: Corporate governance structure ★Corporate governance: Attending members for meetings of the Board of Directors, the Audit & Supervisory Board and other committees ★Corporate governance: Initiatives relating to auditing	★ ★ ★
	102-23	Chair of the highest governance body	★Corporate governance: Corporate governance structure	★
	102-24	Nominating and selecting the highest governance body	★Corporate governance: Corporate governance structure	★
	102-25	Conflicts of interest	★Corporate governance: Board of Directors and Audit & Supervisory Board	★
	102-26	Role of highest governance body in setting purpose, values, and strategy	●Kirei Lifestyle Plan—Kao's ESG Strategy: ESG promotion structure ★Corporate governance: Corporate governance structure ★Corporate governance: Initiatives relating to auditing	P18 ★ ★
	102-27	Collective knowledge of highest governance body	●Kirei Lifestyle Plan—Kao's ESG Strategy: Roles, structure and frequency of meeting of each organization	P19
	102-28	Evaluating the highest governance body's performance	★Corporate governance: Evaluation of the effectiveness of the Board of Directors	★
	102-29	Identifying and managing economic, environmental, and social impacts	●Kirei Lifestyle Plan—Kao's ESG Strategy: ESG promotion structure ★Risk and crisis management: Framework	P18 ★
	102-30	Effectiveness of risk management processes	★Risk and crisis management: Policies ★Risk and crisis management: Framework ★Risk and crisis management: Performance in 2020	★ ★ ★
	102-31	Review of economic, environmental, and social topics	●Kirei Lifestyle Plan—Kao's ESG Strategy: ESG promotion structure	P18
	102-32	Highest governance body's role in sustainability reporting	—	—
	102-33	Communicating critical concerns	★Risk and crisis management: Framework	★
	102-34	Nature and total number of critical concerns	—	—
	102-35	Remuneration policies	★Corporate governance: Compensation system for Directors, Audit & Supervisory Board Members and Executive Officers	★
	102-36	Process for determining remuneration	★Corporate governance: Compensation system for Directors, Audit & Supervisory Board Members and Executive Officers	★
	102-37	Stakeholders' involvement in remuneration	★Corporate governance: Compensation system for Directors, Audit & Supervisory Board Members and Executive Officers	★
	102-38	Annual total compensation ratio	—	—
	102-39	Percentage increase in annual total compensation ratio	—	—

GRI Standards table 102-55

100: Universal Standards				
GRI 102: General Disclosures 2016				
5. Stakeholder engagement		Relevant Sections in Data Book (★ denotes an appendix)		
	102-40	List of stakeholder groups	●Stakeholder Engagement	P34
	102-41	Collective bargaining agreements	—	—
	102-42	Identifying and selecting stakeholders	—	—
	102-43	Approach to stakeholder engagement	●Kirei Lifestyle Plan—Kao's ESG Strategy: Employee engagement ●Stakeholder Engagement ●"Collaboration and engagement with stakeholders" in each section ●Improved quality of life: Support for women's empowerment through the Pink Ribbon Campaign ●Habits for cleanliness, beauty & health: Educational program to cultivate habits for cleanliness, beauty & health ●Universal product design: Initiatives to prevent ingestion accidents among the elderly ●Safer healthier products: Industry association activities / communication ●Sustainable lifestyle promotion: Disseminating information related to sustainable living ●Sustainable lifestyle promotion: Awareness-raising activities carried out with society, organizations and public institutions ●Responsibly sourced raw materials: Initiatives toward sustainable procurement of palm oil and palm kernel oil ●Responsibly sourced raw materials: Kao vendor summits ●Responsibly sourced raw materials: Surveying supplier satisfaction ●Decarbonization: Efforts in raw materials procurement ●Decarbonization: Examples of major collaboration projects with stakeholders ●Zero waste: Our initiatives ●Water conservation: Our initiatives ●Air & water pollution prevention: Initiatives to prevent water pollution ●Effective corporate governance: Evaluation activities / Sharing our insights on compliance with outside groups ●Human capital development: Implementation of the employee engagement survey, and drafting of action plans ●Inclusive & diverse workplaces: Examples of collaboration with stakeholders ●Employee wellbeing & safety: Examples of collaboration with stakeholders ●Responsible chemicals management: Communication about chemicals with stakeholders ★Biodiversity: Collaboration with other organizations ★Communication with consumers: Our initiatives ★Corporate citizenship activities: Support for cancer education through the Pink Ribbon Campaign	P25 P35 P46 P50 P56 P59 P66 P68 P83 P86 P86 P95 P102 P114 P127 P137 P155 P184 P195 P210 P225 ★ ★ ★
	102-44	Key topics and concerns raised	●Kirei Lifestyle Plan—Kao's ESG Strategy: Message from the ESG External Advisory Board ●Decarbonization: Stakeholder engagement ●Zero waste: Stakeholder engagement ●Water conservation: Stakeholder engagement ●Air & water pollution prevention: Stakeholder engagement ●Effective corporate governance: Stakeholder engagement ●Respecting human rights: Stakeholder engagement ●Human capital development: Dialogue with employees ●Responsible chemicals management: Stakeholder engagement	P20 P104 P121 P130 P139 P156 P173 P180 P231

GRI Standards table 102-55

100: Universal Standards			
GRI 102: General Disclosures 2016			
6. Reporting practice		Relevant Sections in Data Book (★ denotes an appendix)	
102-45	Entities included in the consolidated financial statements	—	—
102-46	Defining report content and topic Boundaries	—	—
102-47	List of material topics	●Kirei Lifestyle Plan—Kao's ESG Strategy: Kao's ESG Commitments and Actions	P14
102-48	Restatements of information	●Zero waste: Usage and reduction volume of plastic in refill and replacement categories	P113
102-49	Changes in reporting	—	—
102-50	Reporting period	●Editorial Policy ★Editorial Policy	P3 ★
102-51	Date of most recent report	●Editorial Policy ★Editorial Policy	P3 ★
102-52	Reporting cycle	●Editorial Policy ★Editorial Policy	P3 ★
102-53	Contact point for questions regarding the report		Back cover
102-54	Claims of reporting in accordance with the GRI Standards	— (This data book has been compiled with reference to the GRI Standards 2016, GRI 207: 2019 taxes, GRI 303: Water and Effluents 2018, GRI 306: Waste 2020 and GRI 403: Occupational Health and Safety 2018)	—
102-55	GRI content index	●GRI Standards table	P243
102-56	External assurance	●Editorial Policy ●Independent assurance report	P3 P242
GRI 103: Management Approach 2016			
103-1	Explanation of the material topic and its Boundary	●Kirei Lifestyle Plan—Kao's ESG Strategy: Mid- to long-term targets ●Kirei Lifestyle Plan—Kao's ESG Strategy: Impacts on society through the value chain ●The Management part in each section ●Kirei Lifestyle Plan KPI definitions	P27 P33 P232
103-2	The management approach and its components	●Kirei Lifestyle Plan—Kao's ESG Strategy: Selection process for the Kao Actions as material themes ●Kirei Lifestyle Plan—Kao's ESG Strategy: Mid- to long-term targets ●The Management part in each section ●Kirei Lifestyle Plan KPI definitions ★Results and issues regarding the Kao Sustainability Statement	P16 P27 P232 ★
103-3	Evaluation of the management approach	●Kirei Lifestyle Plan—Kao's ESG Strategy: Selection process for the Kao Actions as material themes ●Kirei Lifestyle Plan—Kao's ESG Strategy: Mid- to long-term targets ●The Management part in each section ●Kirei Lifestyle Plan KPI definitions ★Results and issues regarding the Kao Sustainability Statement	P16 P27 P232 ★

GRI Standards table 102-55

Materials

200: Economic topics					
Economic Performance			Relevant Sections in Data Book (★ denotes an appendix)		Indicators on which third-party assurance is provided (✓)
GRI 201: Economic Performance 2016	201-1	Direct economic value generated and distributed	—	—	
	201-2	Financial implications and other risks and opportunities due to climate change	● Decarbonization: Scenario analysis	P103	
	201-3	Defined benefit plan obligations and other retirement plans	—	—	
	201-4	Financial assistance received from government	—	—	
Market Presence					
GRI 202: Market Presence 2016	202-1	Ratios of standard entry level wage by gender compared to local minimum wage	—	—	
	202-2	Proportion of senior management hired from the local community	—	—	
Indirect Economic Impacts					
GRI 203: Indirect Economic Impacts 2016	203-1	Infrastructure investments and services supported	★ Corporate citizenship activities: Mid- to long-term targets and performance ★ Corporate citizenship activities: Performance in 2020 ★ Corporate citizenship activities: Our initiatives	★ ★ ★	
	203-2	Significant indirect economic impacts	—	—	
Procurement Practices					
GRI 204: Procurement Practices 2016	204-1	Proportion of spending on local suppliers	—	—	
Anti-corruption					
GRI 205: Anti-corruption 2016	205-1	Operations assessed for risks related to corruption	—	—	
	205-2	Communication and training about anti-corruption policies and procedures	● Effective corporate governance: Education and promotion ● Effective corporate governance: Activities to reduce compliance risks / Revision of the BCG Casebook and utilization of compliance-related rules	P145 P152	
	205-3	Confirmed incidents of corruption and actions taken	—(P154 Response to compliance violations, and legal violations in 2020: No applicable incidents)	—	
Anti-competitive Behavior					
GRI 206: Anti-competitive Behavior 2016	206-1	Legal actions for anti-competitive behavior, anti-trust, and monopoly practices	—(P154 Response to compliance violations, and legal violations in 2020: No applicable incidents)	—	
Tax					
GRI 207: Tax 2019	207-1	Approach to tax	★ Tax strategies: The Management part	★	
	207-2	Tax governance, control, and risk management	★ Tax strategies: The Management part	★	
	207-3	Stakeholder engagement and management of concerns related to tax	★ Tax strategies: Collaboration and engagement with stakeholders	★	
	207-4	Country-by-country reporting	★ Tax strategies: Performance report and tax payment record	★	
300: Environmental topics					
Materials			Relevant Sections in Data Book (★ denotes an appendix)		Indicators on which third-party assurance is provided (✓)
GRI 301: Materials 2016	301-1	Materials used by weight or volume	● Product lifecycle and environmental impact	P140	
	301-2	Recycled input materials used	● Sustainable lifestyle promotion: Use of recycled PET in PET bottles ● Zero waste: Performance in 2020 ● Zero waste: Measures taken in relation to our products / Initiatives targeting packaging	P65 P112 P114	
	301-3	Reclaimed products and their packaging materials	● Zero waste: Measures taken in relation to our products / Initiatives targeting packaging	P114	

GRI Standards table 102-55

300: Environmental topics					
Energy			Relevant Sections in Data Book (★ denotes an appendix)		Indicators on which third-party assurance is provided (✓)
GRI 302: Energy 2016	302-1	Energy consumption within the organization	<ul style="list-style-type: none"> Decarbonization: Mid- to long-term targets and performance Decarbonization: Performance in 2020 Product lifecycle and environmental impact 	P92 P93 P140	
	302-2	Energy consumption outside of the organization	—	—	
	302-3	Energy intensity	<ul style="list-style-type: none"> Decarbonization: Mid- to long-term targets and performance Decarbonization: Performance in 2020 	P92 P93	
	302-4	Reduction of energy consumption	<ul style="list-style-type: none"> Decarbonization: Mid- to long-term targets and performance Decarbonization: Performance in 2020 Decarbonization: Efforts in manufacturing (plants, offices, logistics centers) 	P92 P93 P97	
	302-5	Reductions in energy requirements of products and services	<ul style="list-style-type: none"> Decarbonization: Mid- to long-term targets and performance Decarbonization: Performance in 2020 	P92 P93	
Water					
GRI 303: Water and Effluents 2018	303-1	Interactions with water as a shared resource	<ul style="list-style-type: none"> Water conservation: Kao's creating value to address social issues Water conservation: Policies Water conservation: Mid- to long-term targets and performance Water conservation: Performance in 2020 	P122 P123 P125 P126	
	303-2	Management of water discharge-related impacts	<ul style="list-style-type: none"> Water conservation: Policies Water conservation: Mid- to long-term targets and performance Water conservation: Performance in 2020 Air & water pollution prevention: Policies Air & water pollution prevention: Performance in 2020 Air & water pollution prevention: Initiatives to prevent water pollution 	P123 P125 P126 P132 P135 P137	
	303-3	Water withdrawal	<ul style="list-style-type: none"> Water conservation: Mid- to long-term targets and performance Water conservation: Performance in 2020 Product lifecycle and environmental impact 	P125 P126 P140	✓
	303-4	Water discharge	<ul style="list-style-type: none"> Water conservation: Mid- to long-term targets and performance Water conservation: Performance in 2020 Air & water pollution prevention: Performance in 2020 Product lifecycle and environmental impact 	P125 P126 P135 P140	✓
	303-5	Water consumption	<ul style="list-style-type: none"> Water conservation: Mid- to long-term targets and performance Water conservation: Performance in 2020 Product lifecycle and environmental impact 	P125 P126 P140	✓
Biodiversity					
GRI 304: Biodiversity 2016	304-1	Operational sites owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas	★ Biodiversity: Business activities with consideration for the local ecosystem	★	
	304-2	Significant impacts of activities, products, and services on biodiversity	★ Biodiversity: Understanding relationships between business and biodiversity ★ Biodiversity: Business activities with consideration for the local ecosystem	★ ★	
	304-3	Habitats protected or restored	★ Biodiversity: Business activities with consideration for the local ecosystem ★ Corporate citizenship activities: FURUSATO Environment Conservation Project in Northern Thailand ★ Corporate citizenship activities: Kao Creating Forests for Everyone program	★ ★ ★	
	304-4	IUCN Red List species and national conservation list species with habitats in areas affected by operations	—	—	
Emissions					
GRI 305: Emissions 2016	305-1	Direct (Scope 1) GHG emissions	<ul style="list-style-type: none"> Decarbonization: Mid- to long-term targets and performance Decarbonization: Performance in 2020 Product lifecycle and environmental impact 	P92 P93 P140	✓ ✓

GRI Standards table 102-55

300: Environmental topics					
Emissions			Relevant Sections in Data Book (★ denotes an appendix)		Indicators on which third-party assurance is provided (✓)
	305-2	Energy indirect (Scope 2) GHG emissions	<ul style="list-style-type: none"> Decarbonization: Mid- to long-term targets and performance Decarbonization: Performance in 2020 Product lifecycle and environmental impact 	P92 P93 P140	<input checked="" type="checkbox"/> <input checked="" type="checkbox"/>
	305-3	Other indirect (Scope 3) GHG emissions	<ul style="list-style-type: none"> Decarbonization: Mid- to long-term targets and performance Decarbonization: Performance in 2020 Decarbonization: Efforts in distribution Decarbonization: Efforts during use Decarbonization: Efforts in disposal and recycling Product lifecycle and environmental impact 	P92 P94 P100 P101 P102 P140	<input checked="" type="checkbox"/> (1,4,11,12) <input checked="" type="checkbox"/>
	305-4	GHG emissions intensity	<ul style="list-style-type: none"> Decarbonization: Mid- to long-term targets and performance Decarbonization: Performance in 2020 	P92 P93	
	305-5	Reduction of GHG emissions	<ul style="list-style-type: none"> Decarbonization: Mid- to long-term targets and performance Decarbonization: Performance in 2020 	P92 P93	<input checked="" type="checkbox"/>
	305-6	Emissions of ozone-depleting substances (ODS)	<ul style="list-style-type: none"> Decarbonization: 3. Reducing the volume of leaked refrigerants and other greenhouse gases 	P98	
	305-7	Nitrogen oxides (NOx), sulfur oxides (SOx), and other significant air emissions	<ul style="list-style-type: none"> Air & water pollution prevention: Performance in 2020 Product lifecycle and environmental impact 	P135 P140	<input checked="" type="checkbox"/>
Effluents and Waste					
GRI 306: Waste 2020	306-1	Waste generation and significant waste-related impacts	<ul style="list-style-type: none"> Sustainable lifestyle promotion: Kao's creating value to address social issues Zero waste: Kao's creating value to address social issues Zero waste: Policies Zero waste: Performance in 2020 	P61 P105 P106 P112	
	306-2	Management of significant waste-related impacts	<ul style="list-style-type: none"> Sustainable lifestyle promotion: Policies Sustainable lifestyle promotion: Mid- to long-term targets and performance Sustainable lifestyle promotion: Solving problems through <i>Yoki-Monozukuri</i> manufacturing and through products Purpose driven brands: Brands launched in 2020 that epitomize the Kirei Lifestyle Zero waste: Policies Zero waste: Framework Zero waste: Mid- to long-term targets and performance Zero waste: Performance in 2020 Zero waste: Our initiatives 	P62 P63 P64 P72 P106 P109 P111 P112 P114	
	306-3	Waste generated	<ul style="list-style-type: none"> Zero waste: Performance in 2020 	P112	
	306-4	Waste diverted from disposal	<ul style="list-style-type: none"> Zero waste: Performance in 2020 	P112	
	306-5	Waste directed to disposal	—	—	
Environmental Compliance					
GRI 307: Environmental Compliance 2016	307-1	Non-compliance with environmental laws and regulations	—(P135 Compliance with environmental legislation: No applicable incidents)	—	
Supplier Environmental Assessment					
GRI 308: Supplier Environmental Assessment 2016	308-1	New suppliers that were screened using environmental criteria	—	—	
	308-2	Negative environmental impacts in the supply chain and actions taken	<ul style="list-style-type: none"> Responsibly sourced raw materials: Initiatives toward sustainable procurement of palm oil and palm kernel oil Responsibly sourced raw materials: Using Sedex in supplier monitoring Decarbonization: Efforts in raw materials procurement Zero waste: Collaboration with stakeholders based on "eco together" Water conservation: Efforts in raw materials procurement 	P83 P85 P95 P120 P127	

GRI Standards table 102-55

400: Social topics					
Employment			Relevant Sections in Data Book (★ denotes an appendix)		Indicators on which third-party assurance is provided (✓)
GRI 401: Employment 2016	401-1	New employee hires and employee turnover	● Inclusive & diverse workplaces: Human capital data	P197	
	401-2	Benefits provided to full-time employees that are not provided to temporary or part-time employees	—	—	
	401-3	Parental leave	● Inclusive & diverse workplaces: Main systems for supporting diversified workstyles (Kao Corporation) ● Inclusive & diverse workplaces: Employment system utilization status (Kao Corporation)	P196 P198	
Labor/Management Relations					
GRI 402: Labor/Management Relations 2016	402-1	Minimum notice periods regarding operational changes	—	—	
Occupational Health and Safety					
GRI 403: Occupational Health and Safety 2018	403-1	Occupational health and safety management system	● Employee wellbeing & safety: Framework ★ Responsible care activities: Utilization of environmental and safety database ★ Responsible care activities: Status of international management system certification ★ Process safety and disaster prevention: Framework	P213 ★ ★ ★	
	403-2	Hazard identification, risk assessment, and incident investigation	● Employee wellbeing & safety: Mid- to long-term targets and performance ● Employee wellbeing & safety: Status of occupational accident occurrences / Risk assessment of chemical substances ● Employee wellbeing & safety: Creating a pleasant working environment for employees ★ Responsible care activities: Implementation status of the RC Promotion Committee Secretariat Audit ★ Responsible care activities: Status of international management system certification ★ Process safety and disaster prevention: Strengthening process safety and disaster prevention / Formulating the Kao Grand Design for Process Safety / High-pressure gas safety	P213 P217 P218 ★ ★ ★	
	403-3	Occupational health services	—	—	
	403-4	Worker participation, consultation, and communication on occupational health and safety	● Employee wellbeing & safety: Mid- to long-term targets and performance ● Employee wellbeing & safety: Expansion of the “no accidents with lost work days award system” improving safety awareness ● Employee wellbeing & safety: Sharing safety messages globally ★ Responsible care activities: Education about RC activities	P213 P217 P218 ★	
	403-5	Worker training on occupational health and safety	● Employee wellbeing & safety: Education and promotion ★ Responsible care activities: Education and promotion ★ Responsible care activities: Standardization of RC activities ★ Responsible care activities: Education about RC activities ★ Process safety and disaster prevention: Education and promotion ★ Process safety and disaster prevention: Emergency response drills to prepare for large-scale disasters ★ Process safety and disaster prevention: Process safety and disaster prevention educational programs	P213 ★ ★ ★ ★ ★ ★	
	403-6	Promotion of worker health	● Employee wellbeing & safety: The Employee wellbeing part	P199	
	403-7	Prevention and mitigation of occupational health and safety impacts directly linked by business relationships	● Decarbonization: Efforts in manufacturing (plants, offices, logistics centers) / Adaptation	P99	
	403-8	Workers covered by an occupational health and safety management system	—	—	
	403-9	Work-related injuries	● Employee wellbeing & safety: Mid- to long-term targets and performance ● Employee wellbeing & safety: Performance in 2020 ★ Process safety and disaster prevention: Performance in 2020	P213 P214 ★	✓ (Partial data)
	403-10	Work-related ill health	● Employee wellbeing & safety: Mid- to long-term targets and performance ● Employee wellbeing & safety: Performance in 2020	P213 P215	✓ (Partial data)

GRI Standards table 102-55

400: Social topics					
Training and Education			Relevant Sections in Data Book (★ denotes an appendix)		Indicators on which third-party assurance is provided (✓)
GRI 404: Training and Education 2016	404-1	Average hours of training per year per employee	● Human capital development: Performance in 2020	P180	
	404-2	Programs for upgrading employee skills and transition assistance programs	● Kirei Lifestyle Plan—Kao's ESG Strategy: Employee engagement ● "Education and promotion" in each section ● Realization of the Kao Corporate Philosophy: Toward achieving our objectives ● Universal product design: Promoting employee UD understanding ● Responsibly sourced raw materials: Examples of education and promotion ● Zero waste: Spreading internal awareness of zero waste ● Effective corporate governance: Performance in 2020 ● Effective corporate governance: Compliance education ● Human capital development ● Inclusive & diverse workplaces ● Responsible chemicals management: Internal education on chemicals ★ Product quality management: Strengthening of quality management education programs ★ Information security: Holding of the 27th TS & Personal Information Protection Promotion Meeting	P25 P41 P56 P86 P119 P150 P153 P174 P186 P225 ★ ★	
	404-3	Percentage of employees receiving regular performance and career development reviews	● Human capital development: Human capital development programs	P182	
Diversity and Equal Opportunity					
GRI 405: Diversity and Equal Opportunity 2016	405-1	Diversity of governance bodies and employees	● Inclusive & diverse workplaces: Promoting better understanding of disability and promoting the employment of persons with disabilities ● Inclusive & diverse workplaces: Fostering active participation by senior human capital ● Inclusive & diverse workplaces: Human capital data	P191 P192 P197	
	405-2	Ratio of basic salary and remuneration of women to men	—	—	
Non-discrimination					
GRI 406: Non-discrimination 2016	406-1	Incidents of discrimination and corrective actions taken	—	—	
Freedom of Association and Collective Bargaining					
GRI 407: Freedom of Association and Collective Bargaining 2016	407-1	Operations and suppliers in which the right to freedom of association and collective bargaining may be at risk	—	—	
Child Labor					
GRI 408: Child Labor 2016	408-1	Operations and suppliers at significant risk for incidents of child labor	—	—	
Forced or Compulsory Labor					
GRI 409: Forced or Compulsory Labor 2016	409-1	Operations and suppliers at significant risk for incidents of forced or compulsory labor	—	—	
Security Practices					
GRI 410: Security Practices 2016	410-1	Security personnel trained in human rights policies or procedures	—	—	
Rights of Indigenous Peoples					
GRI 411: Rights of Indigenous Peoples 2016	411-1	Incidents of violations involving rights of indigenous peoples	—	—	

GRI Standards table 102-55

400: Social topics					
Human Rights Assessment			Relevant Sections in Data Book (★ denotes an appendix)		Indicators on which third-party assurance is provided (✓)
GRI 412: Human Rights Assessment 2016	412-1	Operations that have been subject to human rights reviews or impact assessments	<ul style="list-style-type: none"> ● Respecting human rights: Mid- to long-term targets and performance ● Respecting human rights: Performance in 2020 ● Respecting human rights: Human rights due diligence process 	P168 P169 P171	
	412-2	Employee training on human rights policies or procedures	<ul style="list-style-type: none"> ● Respecting human rights: Mid- to long-term targets and performance ● Respecting human rights: Performance in 2020 ● Respecting human rights: Human rights due diligence process ● Respecting human rights: Internal human rights education 	P168 P169 P171 P172	
	412-3	Significant investment agreements and contracts that include human rights clauses or that underwent human rights screening	<ul style="list-style-type: none"> ● Respecting human rights: Mid- to long-term targets and performance ● Respecting human rights: Performance in 2020 ● Respecting human rights: Human rights due diligence process 	P168 P169 P171	
Local Communities					
GRI 413: Local Communities 2016	413-1	Operations with local community engagement, impact assessments, and development programs	<ul style="list-style-type: none"> ● Responsible chemicals management: Communication about chemicals with stakeholders ★ Corporate citizenship activities: Support for school education through the provision of educational materials ★ Corporate citizenship activities: Support for school education through plant and museum tours ★ Corporate citizenship activities: The China water conservation campaign “Youth Initiatives for Cleanliness and Beauty” 	P225 ★ ★ ★	
	413-2	Operations with significant actual and potential negative impacts on local communities	—	—	
Supplier Social Assessment					
GRI 414: Supplier Social Assessment 2016	414-1	New suppliers that were screened using social criteria	<ul style="list-style-type: none"> ● Respecting human rights: Human rights due diligence process 	P171	
	414-2	Negative social impacts in the supply chain and actions taken	<ul style="list-style-type: none"> ● Responsibly sourced raw materials: Initiatives toward sustainable procurement of palm oil and palm kernel oil ● Responsibly sourced raw materials: Using Sedex in supplier monitoring ● Respecting human rights: Human rights due diligence process 	P83 P85 P171	
Public Policy					
GRI 415: Public Policy 2016	415-1	Political contributions	—(P152 Revision of the BCG Casebook and utilization of compliance-related rules: Report confirming that political donations have not been made)	—	
Customer Health and Safety					
GRI 416: Customer Health and Safety 2016	416-1	Assessment of the health and safety impacts of product and service categories	<ul style="list-style-type: none"> ● Universal product design: Mid- to long-term targets and performance ● Universal product design: Performance in 2020 ● Safer healthier products: Mid- to long-term targets and performance ● Safer healthier products: Safe and reliable ingredient use and information disclosure ● Purpose driven brands: Brands launched in 2020 that epitomize the Kirei Lifestyle ● Transformative innovation: Mid- to long-term targets and performance ★ Product quality management: Safety management across the product lifecycle ★ Product quality management: Company-wide consumer- and customer-driven quality management activities ★ Product quality management: Verifying quality management activities through audits and self-checks 	P53 P54 P58 P59 P72 P76 ★ ★ ★	
	416-2	Incidents of non-compliance concerning the health and safety impacts of products and services	— (“Product recall over the last 4 years” section of the Product quality management appendix: Report noting that no product recalls have been made within the past four years)	★	

GRI Standards table 102-55

400: Social topics					
Marketing and Labeling			Relevant Sections in Data Book (★ denotes an appendix)		Indicators on which third-party assurance is provided (✓)
GRI 417: Marketing and Labeling 2016	417-1	Requirements for product and service information and labeling	<ul style="list-style-type: none"> ● Universal product design: Mid- to long-term targets and performance ● Universal product design: Performance in 2020 ● Universal product design: UD considerations in relation to our products launched in 2020 ● Universal product design: Initiatives to prevent ingestion accidents among the elderly ● Safer healthier products: Safe and reliable ingredient use and information disclosure ● Product lifecycle and environmental impact: Expansion of the range of products that display the “eco together” logo ● Full transparency: Performance in 2020 ● Full transparency: Considerations in the product catalog website and individual product websites ● Full transparency: Disclosure of Fragrance Policy and names of fragrance ingredients / Disclosure of policies relating to ingredients regarded as important by society / Supply chain transparency / Disclosure of the benefits and safety of chemical substances ★ Communication with consumers: Framework ★ Communication with consumers: Mid- to long-term targets and performance ★ Communication with consumers: Performance in 2020 ★ Communication with consumers: The Kao Plaza community site for loyal Kao users ★ Corporate citizenship activities: Barrier-free access to information 	P53 P54 P55 P56 P59 P141 P160 P161 P162 ★ ★ ★ ★ ★	
	417-2	Incidents of non-compliance concerning product and service information and labeling	—	—	
	417-3	Incidents of non-compliance concerning marketing communications	—	—	
Customer Privacy					
GRI 418: Customer Privacy 2016	418-1	Substantiated complaints concerning breaches of customer privacy and losses of customer data	—	—	
Socioeconomic Compliance					
GRI 419: Socioeconomic Compliance 2016	419-1	Non-compliance with laws and regulations in the social and economic area	<ul style="list-style-type: none"> ● Effective corporate governance: Response to compliance violations, and legal violations in 2020 	P154	

ISO 26000 table

Click on Relevant Sections in Data Book to display the relevant page.

Core subjects and issues	Relevant Sections in Data Book (★ denotes an appendix)	
6.2 Organizational governance	● Kirei Lifestyle Plan—Kao's ESG Strategy ★ Corporate governance	P11 ★
6.3 Human rights	● Respecting human rights ● Kao Business Conduct Guidelines (external link)	P164 —
6.3.3 Due diligence	● Kirei Lifestyle Plan—Kao's ESG Strategy ● Responsibly sourced raw materials ● Effective corporate governance ● Respecting human rights ● Employee wellbeing & safety	P11 P79 P144 P164 P199
6.3.4 Human rights risk situations	● Respecting human rights ● Inclusive & diverse workplaces	P164 P186
6.3.5 Avoidance of complicity	● Responsibly sourced raw materials ● Respecting human rights ● Employee wellbeing & safety	P79 P164 P199
6.3.6 Resolving grievances	● Effective corporate governance ★ Communication with consumers	P144 ★
6.3.7 Discrimination and vulnerable group	● Employee wellbeing & safety ● Corporate citizenship activities	P199 ★
6.3.8 Civil and political rights	● Effective corporate governance ● Human capital development	P144 P174
6.3.9 Economic, social, and cultural rights	● Effective corporate governance ● Employee wellbeing & safety ★ Corporate citizenship activities	P144 P199 ★
6.3.10 Fundamental principles and rights at work	● Effective corporate governance ● Human capital development	P144 P174
6.4 Labour practices		
6.4.3 Employment and employment relationships	● Effective corporate governance ● Human capital development ● Inclusive & diverse workplaces ● Employee wellbeing & safety	P144 P174 P186 P199

Core subjects and issues	Relevant Sections in Data Book (★ denotes an appendix)	
6.4.4 Conditions of work and social protection	● Human capital development	P174
6.4.5 Social dialogue	● Human capital development	P174
6.4.6 Health and safety at work	● Employee wellbeing & safety ★ Responsible care activities ★ Process safety and disaster prevention	P199 ★ ★
6.4.7 Human development and training in the workplaces	● Human capital development	P174
6.5 The environment		
6.5.3 Prevention of pollution	● Kirei Lifestyle Plan—Kao's ESG Strategy ● Making the world healthier & cleaner ● Responsible chemicals management	P11 P87 P219
6.5.4 Sustainable resource use	● Kirei Lifestyle Plan—Kao's ESG Strategy ● Responsibly sourced raw materials ● Making the world healthier & cleaner	P11 P79 P87
6.5.5 Climate change mitigation and adaptation	● Kirei Lifestyle Plan—Kao's ESG Strategy ● Making the world healthier & cleaner	P11 P87
6.5.6 Protection of the environment, biodiversity and restoration of natural habitats	● Kirei Lifestyle Plan—Kao's ESG Strategy ● Responsibly sourced raw materials ● Making the world healthier & cleaner ★ Biodiversity	P11 P79 P87 ★
6.6 Fair operating practices		
6.6.3 Anti-corruption	● Effective corporate governance ★ Corporate governance	P144 ★
6.6.4 Responsible political involvement	● Effective corporate governance	P144

ISO 26000 table

Core subjects and issues	Relevant Sections in Data Book (★ denotes an appendix)	
6.6.5 Fair competition	● Effective corporate governance ★ Corporate governance	P144 ★
6.6.6 Promoting social responsibility in the value chain	● Kirei Lifestyle Plan—Kao's ESG Strategy ● Responsibly sourced raw materials ● Effective corporate governance ★ Corporate governance ★ Communication with consumers	P11 P79 P144 ★ ★
6.6.7 Respect for property rights	● Effective corporate governance ★ Intellectual property	P144 ★
6.7 Consumer issues		
6.7.3 Fair marketing, factual and unbiased information and fair contractual practices	● Responsibly sourced raw materials ★ Communication with consumers	P79 ★
6.7.4 Protecting consumers' health and safety	★ Product quality management ★ Communication with consumers	★ ★
6.7.5 Sustainable consumption	● Making the world healthier & cleaner ● Zero waste ★ Communication with consumers	P87 P105 ★
6.7.6 Consumer service, support, and complaint and dispute resolution	★ Product quality management ★ Communication with consumers	★ ★
6.7.7 Consumer data protection and privacy	● Effective corporate governance ★ Information security	P144 ★
6.7.8 Access to essential services	★ Communication with consumers	★
6.7.9 Education and awareness	● Making the world healthier & cleaner ● Universal product design ★ Product quality management ★ Communication with consumers ★ Corporate citizenship activities	P87 P51 ★ ★ ★

Core subjects and issues	Relevant Sections in Data Book (★ denotes an appendix)	
6.8 Community involvement and development		
6.8.3 Community involvement	● Kirei Lifestyle Plan—Kao's ESG Strategy ● Making my everyday more beautiful ● Making thoughtful choices for society ● Making the world healthier & cleaner ★ Biodiversity	P11 P42 P60 P87 ★
6.8.4 Education and culture	● Making my everyday more beautiful ● Habits for cleanliness, beauty & health ● Sustainable lifestyle promotion ★ Biodiversity ★ Corporate citizenship activities	P42 P48 P61 ★ ★
6.8.5 Employment creation and skills development	★ Corporate citizenship activities	★
6.8.6 Technology development and access	● Making my everyday more beautiful ● Making thoughtful choices for society ● Making the world healthier & cleaner	P42 P60 P87
6.8.7 Wealth and income creation	● Making my everyday more beautiful ● Making thoughtful choices for society ● Walking the right path	P42 P60 P143
6.8.8 Health	● Employee wellbeing & safety ★ Corporate citizenship activities	P199 ★
6.8.9 Social investment	● Making my everyday more beautiful ● Making thoughtful choices for society ● Making the world healthier & cleaner ● Walking the right path	P42 P60 P87 P143

TCFD Index

This report has been compiled with reference to the recommendations for disclosure given by the Task Force on Climate-related Financial Disclosures (TCFD).
Click on Relevant Sections in Data Book to display the relevant page.

Governance

Disclose the organization's governance pertaining to climate-related risks and opportunities.		
Recommended disclosure content	Relevant Sections in Data Book (★ denotes an appendix)	
a) Framework of the Board of Directors' oversight of climate-related risks and opportunities	<ul style="list-style-type: none"> ● Decarbonization: Framework ● Water conservation: Framework ★ Risk and crisis management: Framework 	P91 P124 ★
b) The role of management in assessing and managing climate-related risks and opportunities	<ul style="list-style-type: none"> ● Decarbonization: Framework ● Water conservation: Framework ★ Risk and crisis management: Framework 	P91 P124 ★

Strategy

Recommendation: Disclose the actual or latent impact on the business, strategy, and financial planning of climate-related risks and opportunities if such information is important.		
Recommended disclosure content	Relevant Sections in Data Book (★ denotes an appendix)	
a) Climate-related risks and opportunities the organization has identified over the short-, mid- and long-term	<ul style="list-style-type: none"> ● Decarbonization: Risks and opportunities related to realization of What Kao Aims to Be by 2030 ● Water conservation: Risks and opportunities related to realization of What Kao Aims to Be by 2030 ★ Risk and crisis management: Performance in 2020 	P89 P123 ★
b) Impact of climate-related risks and opportunities on the organization's business, strategy and financial planning	<ul style="list-style-type: none"> ● Decarbonization: Risks and opportunities related to realization of What Kao Aims to Be by 2030 ● Decarbonization: Mid- to long-term targets and performance ● Water conservation: Risks and opportunities related to realization of What Kao Aims to Be by 2030 ● Water conservation: Mid- to long-term targets and performance ★ Risk and crisis management: Performance in 2020 	P89 P92 P123 P125 ★
c) Resilience of the organization's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario	<ul style="list-style-type: none"> ● Decarbonization: Risks and opportunities related to realization of What Kao Aims to Be by 2030 ● Decarbonization: Scenario analysis ● Water conservation: Risks and opportunities related to realization of What Kao Aims to Be by 2030 	P89 P103 P123

Risk management

Recommendation: Disclose how the organization is identifying, evaluating, and controlling climate-related risks.		
Recommended disclosure content	Relevant Sections in Data Book (★ denotes an appendix)	
a) Organization's processes for identifying and assessing climate-related risks	<ul style="list-style-type: none"> ● Decarbonization: Framework ● Decarbonization: Scenario analysis ● Water conservation: Framework ★ Risk and crisis management: Policies ★ Risk and crisis management: Framework ★ Risk and crisis management: Performance in 2020 	P91 P103 P124 ★ ★ ★
b) Organization's processes for managing climate-related risks	<ul style="list-style-type: none"> ● Decarbonization: Framework ● Water conservation: Framework ★ Risk and crisis management: Policies ★ Risk and crisis management: Framework ★ Risk and crisis management: Performance in 2020 	P91 P124 ★ ★ ★
c) How processes for identifying, assessing, and managing climate-related risks are integrated into the organization's overall risk management	<ul style="list-style-type: none"> ● Decarbonization: Framework ● Water conservation: Framework ★ Risk and crisis management: Policies ★ Risk and crisis management: Framework 	P91 P124 ★ ★

Metrics and targets

Recommendation: Disclose indicators and targets used in the evaluation and control of climate-related risks and opportunities if such information is important.		
Recommended disclosure content	Relevant Sections in Data Book (★ denotes an appendix)	
a) Metrics used by the organization to assess climate-related risks and opportunities in line with its strategy and risk management process	<ul style="list-style-type: none"> ● Kirei Lifestyle Plan—Kao's ESG Strategy: Mid- to long-term targets—Making the world healthier & cleaner ● Decarbonization: Mid- to long-term targets and performance ● Water conservation: Mid- to long-term targets and performance 	P28 P92 P125
b) Scope 1, Scope 2, and if appropriate, Scope 3 greenhouse gas (GHG) emissions and related risks	<ul style="list-style-type: none"> ● Kirei Lifestyle Plan—Kao's ESG Strategy: Mid- to long-term targets—Making the world healthier & cleaner ● Decarbonization: Scope 1, 2, and 3 CO₂ emissions 	P28 P94
c) Targets used by the organization to manage climate-related risks and opportunities and performance against targets	<ul style="list-style-type: none"> ● Kirei Lifestyle Plan—Kao's ESG Strategy: Mid- to long-term targets—Making the world healthier & cleaner ● Decarbonization: Mid- to long-term targets and performance ● Water conservation: Mid- to long-term targets and performance 	P28 P92 P125



Enriching lives, in harmony with nature.

Kao Corporation

14-10, Nihonbashi Kayabacho 1-chome, Chuo-ku, Tokyo
103-8210, Japan

Published in June 2021