

April 13, 2022

Progress of Helping Oil Palm Smallholders in Indonesia

From October 2020, Kao Corporation (CEO: Yoshihiro Hasebe) has been working together with two companies, Apical Group (President: Dato' Yeo How), a global palm oil processor and exporter, and Asian Agri (Managing Director: Kelvin Tio), a plantation and palm oil company, to build a sustainable supply chain for palm oil, and through the “SMILE” (SMallholder Inclusion for better Livelihood & Empowerment) program, improve the productivity of oil palm smallholders in Indonesia, and support the acquisition of RSPO^{*1} certification. Also, Kao is conducting a survey separately from SMILE, targeting oil palm smallholders in Indonesia, in order to establish a grievance mechanism in the summer of 2022. Palm oil is the natural asset that Kao is most involved with and Kao is working to solve essential challenges of palm oil from social and environmental standpoints. The progress report is as follows:

*1 Roundtable on Sustainable Palm Oil



Smallholders on an oil palm plantation in Jambi Province harvesting oil palm

News Release (October 14, 2020)

Kao, Apical and Asian Agri Launch ‘SMILE’ Program to Help Oil Palm Smallholders Improve Yields, Acquire Certifications, and Secure Premiums

<https://www.kao.com/global/en/news/sustainability/2020/20201014-001/>

Overview and progress of oil palm smallholders in Indonesia support program SMILE

● Description

During visitations to support smallholders, a team from Asian Agri and Kao Indonesia Chemicals will implement the following four points:

- (1) Knowledge sharing on sustainable production and productivity improvement
- (2) Support for acquiring RSPO Certification
- (3) Education on safe work, provision of safety equipment such as helmets and gloves, and the installation of fire extinguishers
- (4) Free distribution of the spreading agent Adjuvant series^{*2} and guidance on how to use it

^{*2} A very efficient agricultural spreading agent developed by Kao that is derived from plant materials and helps spread the pesticides when it is sprayed on plants.

● **Implementation period**

From 2020 through 2030, a total of 11 years

● **Implementation location**

The provinces of North Sumatra, Riau, Jambi in Indonesia

● **Target values**

Oil palm smallholders: around 5,000 (plantation size: around 18,000 hectares)

Phase	Period	Number of smallholders	Plantation Size
1	2021–2025	781	2,376 ha
2	2022–2027	2,759	8,831 ha
3	2025–2030	1,446	6,672 ha

● **Progress**

In addition to conducting research, Asian Agri and Kao Indonesia Chemicals employees are providing education on sustainable production and how to improve the yield of smallholders. To reach the initiative's 2030 targets, the plan will be carried out in 3 phases. Almost 600 smallholders in Phase 1 are scheduled to obtain RSPO Certification by the end of 2022. Kao plans to purchase all the RSPO Credits^{*3} sold by certified oil palm smallholders.

^{*3} By purchasing credits issued according to the amount of palm oil produced and registered by the plantation approved by the RSPO, an amount of certified palm oil equal to the number of credits is considered to have been purchased.

1. Survey for sustainable production and productivity improvement

- Agricultural land risk survey

After accurately measuring the location (latitude/longitude) of the plantation area, to ensure that the plantation is legally located (not on national parks, forest reserves, conservation areas, etc.).

- Survey of present plantation conditions

To ensure the current oil palm productivity and work safety on the plantation, and to decide educational/training programs needed in order to obtain RSPO Certification.



An Asian Agri's employee (left) and a smallholder (right), North Sumatra, - August 2021.

They are measuring the latitude and longitude of the plantation area.

2. Education for oil palm smallholders

- Training on plantation management

Best management practices (harvesting, fertilization, optimal herbicide dosage, income and expenditure management, manual preparation, document management, etc.).

- Training on RSPO principles and standards, High Conservation Value areas

RSPO principles and criteria (including NDPE^{*4} and FPIC^{*5}) to obtain RSPO Certification referring to RISS^{*6}, and HCV areas^{*7} such as riparian, peatland areas, etc.

- Training on health and occupational safety

Preliminary response needed in case of injury during work, etc.

- Training on fire management

Fire prevention, monitoring, how to use a fire extinguisher, etc.

^{*4} No Deforestation, No Peat and No Exploitation

^{*5} Free, Prior and Informed Consent

^{*6} RSPO Independent Smallholder Standard

^{*7} High Conservation Value



Theory and practical training conducted by the Asian Agri's employees in North Sumatra

Training on best management practices (left) and training on health and occupational safety (right) held in September 2021

3. Free distribution of the spreading agent Adjuvant series to plantations and guidance on how to use it

For the purpose of improving plantation productivity, improving profit by reducing the amount of agricultural chemicals used, and reducing the environmental impact, Kao is supplying free-of-charge and providing guidance on how to use Adjuvant series, an agent which helps sprayed agricultural chemicals to spread on the surface of leaves. From February 2022, tests were conducted to confirm the optimum spraying pattern on 0.15 hectares of land in North Sumatra. Multiple spray patterns, such as changing the types of herbicides to be combined, are being investigated and the conditions are checked regularly. Through this four-month field test, Kao will select and disseminate the best spraying pattern to the farms in order, and will also provide guidance on its usage, such as how to mix herbicides with the Adjuvant series.



Spray test of the Adjuvant series conducted in February 2022 by an Asian Agri and Kao Indonesia Chemicals employees in North Sumatra

Overview and progress of the oil palm smallholder survey

In the summer of 2022, a grievance mechanism will be established for oil palm smallholders participating in SMILE. In order to prepare for expected requests and response methods, Kao is conducting a survey to better understand the current situation of oil palm smallholders who are not SMILE participants. The results of the survey will be used for SMILE support activities.

● Description

In addition to sustainable production and productivity improvement, and to improve living conditions, Kao conducted and analyzed surveys regarding the existence of effective support and areas that can be improved in collaboration with the Caux Round Table Japan (CRT Japan Committee^{*8}) and the Oil Palm Smallholders Union (SPKS^{*9}) in Indonesia.

^{*8} Established a comprehensive initiative support program in partnership with global initiative organizations that focuses on the implementation of the United Nations Guiding Principles for Business and Human Rights in companies.

^{*9} Serikat Petani Kelapa Sawit. An Indonesian oil palm smallholders' union established in 2006. Currently, it has a network of 8,000 oil palm smallholders in seven regions of Indonesia. SPKS promotes sustainable oil palm production through data collection and mapping for small oil palm plantations, plantation organization, productivity training, and certification support such as ISPO (Indonesian Sustainable Palm Oil) and RSPO.

- **Implementation period**

From April 2021 to October 2022

- **Implementation location**

The provinces of Riau, North Sumatra, Jambi, South Sumatra in Indonesia (in order of implementation)

- **Target values**

Target oil palm smallholders: 700 estates

Note: Since the purpose is not to measure the effect of oil palm smallholders support program SMILE but to grasp the current situation of oil palm smallholders, selected smallholders will be ones that are not currently covered by SMILE.

- **Progress**

In collaboration with the CRT Japan Committee, a total of 78 questions were created. Surveys were conducted face-to-face with smallholders on site by SPKS in Riau (200 estates) from April to May 2021, North Sumatra (200 estates) from July to August 2021, and Jambi (100 estates) from December 2021 to January 2022.

Question list

- **Smallholders profile**

Household composition, school attendance, total income, ratio of palm oil income to other sources of income, etc.

- **Health and hygiene**

Hand hygiene practice status, domestic water supply system, indoor restroom installation, etc.

- **Agricultural land**

Presence or absence of conflicts around agricultural land, agricultural land area and RSPO Certification acquisition status, the starting year of oil palm production, palm tree age, fruit harvest status, etc.

- **Labor and occupational health and safety**

Wage payment status, workplace safety management status, etc.

- **Productivity and market access**

Procurement methods for seedlings and fertilizers, sales destinations for oil palm fruits, challenges related to productivity improvement and acquisition of RSPO Certification, etc.

In the first survey done in Riau, household income was less than 360,000 yen per year (low-income group in Indonesia), the most common highest educational level was elementary school, and about 55% of the agricultural land area was between 2 and 5 hectares. Most smallholders began production between the years of 1995 to 2000. The average annual yield was 12 tons/hectare (about 25 tons/hectare in the case of major plantations), and the profitability per unit was low, so it is necessary to improve the level of agricultural technology. Challenges for improving productivity included high

prices for fertilizers and pesticides, and high cost for land management. Replanting complications included insufficient funds and difficulty in obtaining new plants. Regarding RSPO Certification, due to reasons such as insufficient information or not knowing how to obtain certification, not all smallholders are certified.



Survey conducted by the Oil Palm Smallholders Union in Riau in April 2021

In April 2019, the Kao Group established the Kirei Lifestyle Plan, an ESG strategy. One of the plan's leadership actions is to contribute to "Responsibly sourced raw materials" and the oil palm smallholders in Indonesia support program is a part of this contribution. From 2021, Kao launched its Mid-term Plan 2025 (K25), which declares "Sustainability as the only path" as its vision. We aim to be a total life care company that cares for all lives and saves future lives. Kao will continue to bring an ESG perspective into management and aims to drive business growth and better serve consumers and society through its enhanced products and services while maintaining and practicing high ethical awareness with the purpose of creating a Kirei life for all—providing care and enrichment for the life of all people and the planet.

About the Kirei Lifestyle Plan

Over the past 130 years, Kao has worked to improve people's lives and help them realize more sustainable lifestyles—a Kirei Lifestyle. The Japanese word 'kirei' describes something that is clean, well-ordered and beautiful, all at the same time. The Kao Group established its ESG strategy, the Kirei Lifestyle Plan in April 2019, which is designed to deliver the vision of a gentler and more sustainable way of living. By 2030, Kao aims to empower at least 1 billion people, to enjoy more beautiful lives and have 100% of its products leave a full lifecycle environmental footprint that science says our natural world can safely absorb.

For more information please, click <https://www.kao.com/global/en/sustainability/>

About Kao

Kao creates high-value-added products that enrich the lives of consumers around the world. Through its portfolio of over 20 leading brands such as *Attack*, *Bioré*, *Goldwell*, *Jergens*, *John Frieda*, *Kanebo*, *Laurier*, *Merries*, and *Molton Brown*, Kao is part of the everyday lives of people in Asia, Oceania, North America, and Europe. Combined with its chemical division, which contributes to a wide range

of industries, Kao generates about 1,420 billion yen in annual sales. Kao employs about 33,500 people worldwide and has 135 years of history in innovation. Please visit the Kao Group website for updated information.

<https://www.kao.com/global/en/>

Media inquiries should be directed to:

Corporate Strategy

Kao Corporation

Tel.: +81-3-3660-7043

<Related Information>

■Kao launches new ESG Strategy “Kirei Lifestyle Plan” to support consumer lifestyle changes

<https://www.kao.com/global/en/news/sustainability/2019/20190422-001/>

■Kao’s New Challenges for the Future: Accelerating Purposeful Business Commitment with ESG

<https://www.kao.com/global/en/news/business-finance/2019/20190926-001/>

■Kao Sustainability website

<https://www.kao.com/global/en/sustainability/>