

F0. Introduction

F0.1

(F0.1) Give a general description of and introduction to your organization.

Kao. The Company is a Japan-based company that operates through two business segments: Consumer Product and Chemical. The Consumer Product segment has three divisions. The Cosmetic Business provides cosmetics such as lotion, foundation and lipstick. The Skin Care and hair Care Business offers premium skincare products such as face washes, as well as premium hair care products including shampoos, hair styling products and hair colouring products, among others. The Human Health Care Business provides food and beverage products such as drinks ; sanitary products including hygiene products and paper diapers, as well as personal health products such as bath additives. The Fabric and Home Care Business offers fabric care products including detergents for apparel use, and home care products including detergents for kitchen use. The Chemical Business provides oil and fat products such as fatty acids; functional materials products such as surface acting agents and additives for plastic use, as well as specialty chemical products such as essences, among others.

The Cosmetic Business accounted for 18.5% of total turnover in fiscal 2018; The Skin Care and hair Care Business,22.6%; The Human Health Care Business,17.8%; The Fabric and Home Care Business, 22.8%; and The Chemical Business,18.3%. The Company reported JPY 1,508.0b in revenues and 33,664 permanent employees at December 31,2018.

F0.2

(F0.2) State the start and end date of the year for which you are reporting data.

	Start Date	End Date
Reporting year	January 1 2018	December 31 2018

F0.3

(F0.3) Select the currency used for all financial information disclosed throughout your response.

JPY

F0.4

(F0.4) Select the stage(s) of the value chain which best represents your organization’s area of operation pertaining to forest risk commodities.

	Stage of the value chain
Timber	Manufacturing
Palm Oil	Manufacturing
Cattle Products	Please select
Soy	Please select
Other - Rubber	Please select
Other	Please select

F0.5

(F0.5) Do you produce, use, or sell materials or products that contain any of the forest risk commodities?

	Produce/use/sell	Disclosing	Explanation if produce/use/sell but not disclosing
Timber	Yes	Yes	<Not Applicable>
Palm Oil	Yes	Yes	<Not Applicable>
Cattle Products	No	<Not Applicable>	<Not Applicable>
Soy	No	<Not Applicable>	<Not Applicable>
Other - Rubber	No	<Not Applicable>	<Not Applicable>
Other	No	<Not Applicable>	<Not Applicable>

F0.6

(F0.6) Are there any parts of your direct operations not included in your disclosure?

No

F0.7

(F0.7) Are there any parts of your supply chain not included in your disclosure?

No

F1. Current state

F1.1

(F1.1) How does your organization produce, use, or sell your disclosed commodity(ies)?

Forest risk commodity

Timber

Activity

Using as input into product manufacturing

Form of commodity

Pulp

Paper

Boards, plywood, engineered wood

Primary packaging

Secondary packaging

Tertiary packaging

Source

Trader/broker/commodity market

Contracted suppliers (manufacturers)

Country/Region of origin

Canada

China

Germany

Japan

New Zealand

Taiwan, Greater China

Thailand

United Kingdom of Great Britain and Northern Ireland

United States of America

% of procurement spend

6-10%

Comment

Kao purchases pulp for use mainly in our hygiene products, and paper for the packaging of our broad consumer products. We also use plain paper copier at our offices.

Forest risk commodity

Palm Oil

Activity

Using as input into product manufacturing

Form of commodity

Crude palm oil (CPO)

Crude palm kernel oil (CPKO)

Palm oil derivatives

Palm kernel oil derivatives

Source

Contracted suppliers (manufacturers)

Country/Region of origin

Indonesia

Japan

Malaysia

Philippines

% of procurement spend

11-20%

Comment

Kao purchases crude palm oil, crude palm kernel oil, palm oil derivatives and palm kernel oil derivatives for use in our Consumer goods and Chemical products including Fatty Acid.

F1.1a

(F1.1a) Indicate from which State/region(s) and municipality(ies) your disclosed commodity(ies) originate.

Forest risk commodity

Palm Oil

Country/Region of origin

Indonesia

State/Region

Specify state/region (Riau)

Municipality

Specify municipality (1) (Dumai)

Please explain

The oil we purchase from the relevant supplier can be traced back to the palm oil mill.

Forest risk commodity

Palm Oil

Country/Region of origin

Indonesia

State/Region

Specify state/region (Belawan)

Municipality

Specify municipality (1) (Medan)

Please explain

The oil we purchase from the relevant supplier can be traced back to the palm oil mill.

Forest risk commodity

Palm Oil

Country/Region of origin

Malaysia

State/Region

Specify state/region (Sabah)

Municipality

Specify municipality (1) (Sandakan)

Please explain

The oil we purchase from the relevant supplier can be traced back to the palm oil mill.

Forest risk commodity

Palm Oil

Country/Region of origin

Malaysia

State/Region

Specify state/region (Selangor Darul Ehsan)

Municipality

Specify municipality (1) (Dengkil)

Please explain

The oil we purchase from the relevant supplier can be traced back to the palm oil mill.

F1.2

(F1.2) Indicate the percentage of your organization's revenue that was dependent on your disclosed forest risk commodity(ies) in the reporting year.

	% of revenue dependent on commodity	Comment
Timber	81-90%	Most of our hygiene products use pulp and papers as major materials. And most of our consumer products use packaging material such as corrugated carton and/or paper box. These products account for around 82% of our total revenue.
Palm Oil	81-90%	We purchase Palm and Palm Kernel oil and their derivatives for many of our consumer products and chemical products for industrial use. Although the content ratio of such commodities per product is limited for our consumer products, they are widely applied as more than 80% of our total revenue is dependent on the products containing palm and palm (kernel) oil derivatives.
Cattle products	<Not Applicable>	<Not Applicable>
Soy	<Not Applicable>	<Not Applicable>
Other - Rubber	<Not Applicable>	<Not Applicable>
Other	<Not Applicable>	<Not Applicable>

F1.3

(F1.3) Do you own or manage land used for the production of your disclosed commodity(ies)?

Forest risk commodity

Timber

Own and/or manage land?

Don't own or manage land

Type of control

<Not Applicable>

Description of type of control

<Not Applicable>

Country/Region

<Not Applicable>

Land type

<Not Applicable>

Size (Hectares)

<Not Applicable>

Do you have a system in place to monitor forests-related risks?

<Not Applicable>

Type of monitoring system

<Not Applicable>

Description of monitoring system

<Not Applicable>

Recent infraction(s)

<Not Applicable>

Explanation of infraction

<Not Applicable>

Forest risk commodity

Palm Oil

Own and/or manage land?

Don't own or manage land

Type of control

<Not Applicable>

Description of type of control

<Not Applicable>

Country/Region

<Not Applicable>

Land type

<Not Applicable>

Size (Hectares)

<Not Applicable>

Do you have a system in place to monitor forests-related risks?

<Not Applicable>

Type of monitoring system

<Not Applicable>

Description of monitoring system

<Not Applicable>

Recent infraction(s)

<Not Applicable>

Explanation of infraction

<Not Applicable>

F1.5

(F1.5) Does your organization collect production and/or consumption data for your disclosed commodity(ies)?

	Data availability/Disclosure
Timber	Consumption data available, disclosing
Palm Oil	Consumption data available, disclosing
Cattle products	<Not Applicable>
Soy	<Not Applicable>
Other - Rubber	<Not Applicable>
Other	<Not Applicable>

F1.5a

(F1.5a) Disclose your production and/or consumption data.

Forest risk commodity

Timber

Data type

Consumption data

Volume

274000

Metric

Metric tons

Data coverage

Full commodity production/consumption

Please explain

We use our in-house backbone systems to centrally manage global consumption data.

Forest risk commodity

Palm Oil

Data type

Consumption data

Volume

421000

Metric

Metric tons

Data coverage

Full commodity production/consumption

Please explain

We use our in-house backbone systems to centrally manage global consumption data.

F1.6

(F1.6) Have you identified sufficient sources of sustainable materials to meet your current operational needs? If yes, what are you doing to ensure the security/continuity of this supply?

Timber

Sustainable source identified

Yes

Primary action to ensure supply

Engaging in capacity building activities in the value chain

Please explain

As for paper and pulp, Kao aims to procure 100% recycled paper or certified paper considering sustainability by 2020. To this end, Kao has asked pulp and paper suppliers to provide certified paper in consideration of sustainability since 2013. At the time, few suppliers were able to provide certified paper and the introduction rate was as low as 3%. The rate reached 86% in 2018 by conveying Kao's procurement policy and encouraging suppliers to achieve CoC certification provided by organizations including FSC. For suppliers which are not able to achieve CoC certification swiftly, Kao has started activities to check traceability to paper and pulp suppliers and zero deforestation using WWF Japan's "Check list for forest products supply." This is an alternative way to purchasing certified paper however this is also an effective measure to realize earlier check of traceability and sustainability. Through these activities, the rate of paper and pulp to have ensured their traceability and sustainability as well as procurement of certified products reached nearly 100% by the end of 2018 and the initial target was accomplished. As a result of Kao's engagement, suppliers' capability to provide sustainable raw materials has improved, and the improvement has made it possible to be expected continuous business transactions and raw materials procurement going forward. As a next step, Kao aims at 100% certified paper by 2025 (which is a target in Kirei Lifestyle Plan).

Palm Oil

Sustainable source identified

Yes

Primary action to ensure supply

Supplier improvement plans to increase capacity of supply

Please explain

Kao intends to 100% traceable palm oil procurement capable of tracking to producing sites by 2020. In order to achieve this goal, a target of replacing with RSPO-certified had been set out. However, the environmental NGO pointed out that certified oil was not supplied enough in the market, and that even certified oil was provided, it was not well considered human rights and zero deforestation. Therefore, Kao has checked traceability of palm oil and zero deforestation since 2014 on its own through the following methods. 1) Obtaining information on palm kernel mills and palm oil mills from Tier-1 suppliers and mapping them 2) Implementation of third party's verifications on the information 3) Implementation of third party's verifications on the supply chain of palm kernel mills 4) Mapping risks of palm oil mills (Satellite images, maps of governments and vegetation, etc.) Based on the mapping, we identified palm oil mills using palm fruit provided by farms possibly causing deforestation and made visits there. Traceability to farms has been clarified and farms with high risks have been identified through our visit. Kao asked the mills to review the business transactions with such farms and is monitoring their responses. Sustainable management of farms is realized in an effective way through the engagement with the identified farms with high risks. In the above mentioned activities, long term relations with suppliers capable of providing sustainable palms are being built. All traceability to farms owned by Tier-1 suppliers will be confirmed by 2020 and to small-scale farms will be checked by 2030 as confirming traceability to small-scale farms by 2020 is difficult (this is a target in Kirei Lifestyle Plan).

F1.7

(F1.7) Has your organization experienced any detrimental forests-related impacts?

No

F2. Procedures

F2.1

(F2.1) Does your organization undertake a forests-related risk assessment?

Yes, forests-related risks are assessed

F2.1a

(F2.1a) Select the options that best describe your procedures for identifying and assessing forests-related risks.

Timber

Value chain stage

Direct operations
Supply chain

Coverage

Full

Risk assessment procedure

Assessed as part of an established enterprise risk management framework

Frequency of assessment

Annually

How far into the future are risks considered?

> 6 years

Tools and methods used to identify and assess risks

Internal company methods
External consultants
Other, please specify (WWF Japan's Responsible Purchasing Checklist for Forest Products)

Please explain

As part of our risk assessment for the consistent continuation of our business, Kao is now identifying the places of origin of all supplied pulp. The existing tools do not provide sufficient information for tracing places of origin. Therefore, we have developed internal company methods to achieve our objectives, including a risk assessment for deforestation for each procurement source (place of origin). Our internal company method specifies the procedures for the preferred procurement of certified pulp with clearly identified places of origin. For uncertified pulp, WWF Japan's Responsible Purchasing Checklist for Forest Products is used to evaluate the sustainability of their places of origin, based on suggestions by third-party consultants. This checklist tool allows us to independently check wood feedstock for its impact on deforestation, and its effect on society. Kao uses this tool because it is reliable, it was created objectively, and it allows us to comprehensively evaluate Kao's global suppliers using consistent benchmarks. For example, Kao identifies certified forest products, including FSC, as low-risk commodities that have been screened regarding deforestation risks, and chooses preferred suppliers that can supply those certified products. For suppliers of uncertified products, investigations are conducted using the WWF Japan checklist. Based on the checklist results, we assess any risks arising from raw materials supplied to Kao in our annual review after evaluating copies of logging permissions and environmental assessments. We plan to remit the WWF Japan checklist every three years. The risk assessment results will be used not only for supplier risk identification, but also for nominating locations to be audited and suppliers to be educated.

Palm Oil

Value chain stage

Direct operations
Supply chain

Coverage

Full

Risk assessment procedure

Assessed as part of an established enterprise risk management framework

Frequency of assessment

Annually

How far into the future are risks considered?

> 6 years

Tools and methods used to identify and assess risks

Internal company methods
External consultants
Other, please specify (Blunumber, SUSTAIN)

Please explain

As part of our risk assessment for the consistent continuation of our business, Kao now identifies the places of origin of all supplied palm oil. The available tools do not provide sufficient information for tracing the places of origin. Therefore, we have developed internal company methods, and we use them to evaluate traceability up to the mills. (1) Obtain information on palm oil mills from Tier-1 suppliers (2) Use risk-mapping to identify farms around the mills, and mills with higher potential risks for deforestation (3) Visit those mills to verify their conditions and request improvements The activities in (2) and (3) above are conducted in cooperation with third-party consultants. We had identified 89 high-risk palm oil mills by 2018. We conducted verification of seven high-risk palm oil mills in 2018. We participate in Blunumber and SUSTAIN (Sustainability Assurance & Innovation Alliance) to confirm the traceability of small farms.

F2.1b

(F2.1b) Which of the following issues are considered in your organization's forests-related risk assessment(s)?

Availability of forest risk commodities

Relevance & inclusion

Relevant, always included

Please explain

A large quantity of palm kernel oil is used for activators contained in detergents, one of Kao's key products. Timber is used for paper diapers and packing materials. Therefore, procurement of those raw materials is extremely vital for Kao. Through close cooperation with Tier-1 suppliers, our procurement managers collect information on the availability of palm oil and paper/pulp, and accumulate this information as internal knowledge. By using such information, the Procurement Division performs risk management for the availability of forest-risk commodities, under the Risk and Crisis Management Committee.

Quality of forest risk commodities

Relevance & inclusion

Relevant, always included

Please explain

A large quantity of palm kernel oil is used for activators contained in detergents, one of Kao's key products. Timber is used for paper diapers and packing materials. Therefore, the quality of those procured raw materials is extremely vital for Kao. The Procurement Division performs risk management for the quality of forest-risk commodities, under the Quality Management Committee. The Procurement Division uses in-house criteria to identify suppliers with particularly serious quality non conformance. The Division holds a quality improvement meeting with such suppliers, where suppliers and Kao aim to improve quality through an exchange of opinions.

Impact of activity on the status of ecosystems and habitats

Relevance & inclusion

Relevant, always included

Please explain

Kao has put "fundamental procurement policy" in place, which stipulates environmental conservation shall be taken into account in procurement. Kao also upholds advanced initiatives for social issues in mid-long term management plan, K20. Kao's one of major products, detergent uses a large amount of palm kernel oil in its activator and diapers and packaging materials are made up of timber. Thus, if Forest risk commodities are produced through illegal logging, they will lead to worsening the status of ecosystems and habitats. This is a violation against the company's policy and a critical procurement risk for its businesses. This issue affects the entire value chain. Therefore, this issue is being managed by the procurement division which is under the risk management committee. To grasp this issue, impact on ecosystem such as on forests needs to be clarified while checking traceability to producing sites. To this end, in palm oil, we possess a map showing vegetation including palm oil mills and farms which supply palm to mills and use of lands in collaboration with NGOs. If an NGO finds high risk in a mill, on-site investigation will be conducted and improvement will be required and monitored in its process. In paper and pulp, impact of operations in forests on ecosystem and habitats of flora and fauna is being monitored by using 'WWF Japan's Responsible Purchasing Checklist for Forest Products'.

Regulation

Relevance & inclusion

Relevant, always included

Please explain

A large quantity of palm kernel oil is used for activators contained in detergents, one of Kao's key products. Timber is used for paper diapers and packing materials. When a new regulation is introduced on the procurement of these materials, procurement may become more difficult, or the costs might go up. By closely cooperating with Tier-1 suppliers and NGOs, our procurement managers collect information on new regulations regarding palm oil and paper/pulp, and accumulate this information as internal knowledge. By using such information, the Procurement Division performs risk management related to new regulations affecting forest-risk commodities, under the Risk and Crisis Management Committee.

Climate change

Relevance & inclusion

Relevant, always included

Please explain

A large quantity of palm kernel oil is used for activators contained in detergents, one of Kao's key products. Timber is used for paper diapers and packing materials. These forest-related commodities are critical for Kao's businesses and are significantly affected by climate change. Temperature rise by global warming and water shortage and torrential rain caused by climate change have impact on raising forest-related commodities and have potential risks of an interruption to the supply chain and higher prices in procurement. Kao's ESG steering committee launched a TCFD Adhoc group in 2019 attended by the business units and procurement division and quantitative assessments on the risks in several scenarios on climate are to be made. The results will be shared within the business units and procurement division. The information will be used in product planning for reducing products using forest-related commodities in the business units and in selecting new suppliers in the procurement division.

Impact on water security

Relevance & inclusion

Relevant, always included

Please explain

A large quantity of palm kernel oil is used for activators contained in detergents, one of Kao's key products. Timber is used for paper diapers and packing materials. These forest-related commodities which are important for Kao's businesses are significantly affected by water security. Risks of procurement are recognized that water shortage and torrential rain affect raising forest-related commodities and cause suspension of the supply change and price hike. Kao's ESG steering committee has launched a TCFD Adhoc group in 2019, attended by the business units and procurement division and is to make assessments on water security in several climate scenarios and carry out quantitative assessments on risks. The results will be shared within the business units and procurement division. The information will be used to cut forest-related commodities consumption in the business units and select new suppliers in the procurement division.

Tariffs or price increases

Relevance & inclusion

Relevant, always included

Please explain

A large quantity of palm kernel oil is used for activators contained in detergents, one of Kao's key products. Timber is used for paper diapers and packing materials. Therefore, any new tariffs on forest-risk commodities, or increases in their prices, will drive the procurement costs up. By closely cooperating with Tier-1 suppliers, our procurement managers collect information on price forecasts regarding palm oil and paper/pulp. In addition, they constantly watch market price trends in palm oil, and accumulate this information as internal knowledge. By using such information, the Procurement Division identifies and manages situations related to tariffs and prices for forest-risk commodities, under the Risk and Crisis Management Committee.

Loss of markets

Relevance & inclusion

Relevant, always included

Please explain

A large quantity of palm kernel oil is used for activators contained in detergents, one of Kao's key products. Timber is used for paper diapers and packing materials. If Kao uses forest-risk commodities obtained through illegal logging, its brand reputation may be damaged and we may risk being rejected by the market. We accumulate both historical and the latest information on loss of markets, including case studies on other companies. By using such information, the Procurement Division identifies and manages illegal logging situations related to forest-risk commodities, under the Risk and Crisis Management Committee.

Brand damage related to forest risk commodities

Relevance & inclusion

Relevant, always included

Please explain

A large quantity of palm kernel oil is used for activators contained in detergents, one of Kao's key products. Timber is used for paper diapers and packing materials. If Kao uses forest-risk commodities obtained through illegal logging, its brand reputation may be damaged and we may risk being rejected by the market. We accumulate the both historical and the latest information related to brand damage, including case studies on other companies. By using such information, the Procurement Division identifies and manages illegal logging situations related to forest-risk commodities, under the Risk and Crisis Management Committee.

Corruption

Relevance & inclusion

Relevant, always included

Please explain

Malaysia and Indonesia, countries from which Kao procures its palm oil, are recognized as high-risk regarding forest-related corruption. On the other hand, international regulations against corruption, including the UK Bribery Act and the USA Foreign Corrupt Practices Act, have become stricter than ever, and the Global Compact that Kao endorses identifies corruption prevention as one of its principles. In deploying its business globally, Kao recognizes corruption as a challenge concerning the entire value chain. Through the Kao Guidelines for Supplier's Assessment, we require our suppliers to eliminate corruption. The Procurement Division identifies and manages corruption situations related to forest-risk commodities under the Risk Management Committee. As a tool to confirm compliance with the Kao Guidelines for Supplier's Assessment, we use Sedex. If a bribery risk is identified through a Sedex survey, first we investigate the report by conducting an on-site audit, etc. and request the supplier to make improvements. Depending on how serious the problem is, we may immediately suspend transactions or request the supplier to make improvements, with a deadline for compliance. If the supplier has shown no improvement by that deadline, we will suspend transactions with the supplier.

Social impacts

Relevance & inclusion

Relevant, always included

Please explain

A large quantity of palm kernel oil is used for activators contained in detergents, one of Kao's key products, while timber is used for paper diapers and packing materials. In the regions where we procure palm oil and timber as raw materials for our key products, the deterioration of social circumstances related to the forests poses risks to the availability of forest-risk commodity supplies. This deterioration includes forced relocation of the residents, illegal labor, and conflicts with local residents. In particular, Indonesia and Malaysia, from where Kao procures palm oil, have experienced frequent conflicts with local residents during forest development. These regions pose critical risks to us by making stable procurement of raw materials more difficult. Kao recognizes that the social impact related to forest-risk commodities is a challenge concerning the entire value chain. The Procurement Division identifies and manages social situations under the Risk Management Committee. Kao collects information on incidents such as forced relocation of residents, illegal labor, and conflicts with local residents as examples of social impact. We stipulate procurement of forest commodities with low social impact in the Kao Guidelines for Supplier's Assessment, and as part of this effort, we promote procurement of RSPO-certified products.

Other, please specify

Relevance & inclusion

Please select

Please explain

F2.1c

(F2.1c) Which of the following stakeholders are considered in your organization's forests-related risk assessments?

Customers

Relevance & inclusion

Relevant, always included

Please explain

Some chemical business customers require us to provide RSPO-certified oil. If Kao cannot provide RSPO-certified oil, we risk losing business opportunities. In response to requests from customers in the chemical business in 2018, the sales volume RSPO-certified products increased by 48% from 2017. Using internal information that we obtained through engagement with customers enables us to evaluate the customer awareness of sustainable palm oil. This information comes from evidence of expanding demand as noted above, as well as by communicating directly with customers who ask that we supply them with RSPO-certified oil. Kao is now working on obtaining RSPO SCCS certification in our own plants (We completed the initial plan of obtaining the certification at 35 Kao Group plants and offices in 2018).

Employees

Relevance & inclusion

Relevant, always included

Please explain

Kao uses palm kernel oil for activators contained in detergents, one of Kao's key products, and timber for paper diapers and packing materials. We state in our procurement policy that zero-deforestation is a part of our procurement process for those forest risk-commodities. Adverse effects could arise if we fail to state this progressive policy, including increases in employee turnover and difficulties in recruiting new employees. Kao communicates its zero-deforestation policy through its training opportunities for its employees, and through its corporate introduction activities to students. The Procurement Division conducted an e-learning program targeted for all global procurement division members (100% attendance as of June 2019). The themes of the program are all related to ESG activities, namely forest sustainability, traceability to places of origin, and human rights issues. We evaluate the level of employee awareness about forest-related issues based on their performance in the program's lecture courses.

Investors

Relevance & inclusion

Relevant, always included

Please explain

Kao uses palm kernel oil for activators contained in detergents, one of Kao's key products, and timber for paper diapers and packing materials. Adverse effects could arise if we fail to state such progressive policies, including our zero-deforestation policy, and we may risk losing support from our investors. As part of our engagement with investors, Kao explains its policies and activities for zero-deforestation through its sustainability data books. Also, we occasionally discuss matters with our investors directly through various opportunities, including interviews, company tours and corporate explanation sessions. For instance, in 2018 we visited 13 institutional investors and explained Kao's policies and initiatives. The investors provided feedback suggesting that we should express the relationship between the increased cost of environmental measures, such as procurement of certified products, and the economic effect in numerical form. Feedback such as this from investors indicates that awareness of forest-related risks is increasing.

Local communities

Relevance & inclusion

Relevant, always included

Please explain

Kao uses palm kernel oil for activators contained in detergents, one of Kao's key products. Many regions in Indonesia and Malaysia, where Kao procures its palm oil, have experienced frequent conflicts with local residents regarding land development. Thus, these regions pose potential risks associated with social issues. Using the risk-mapping approach for palm oil procurement as addressed in F2.1a to assess the adverse effects that palm oil mills may cause to the environment and human rights in those surroundings, we have identified farms near the mills, and mills themselves, with higher potential risk of deforestation. We visited those regions to understand the full situation and make requests for improvements. We also participated in the stakeholder engagement (SHE) program held by the Caux Round Table (CRT Japan) in Malaysia and Indonesia, in which we visited local small-scale oil palm farms to speak with farm owners, etc. Obtaining information on potential risks such as conflicts related to land development through such conversations helped in evaluating risks associated with local residents. In addition, we gained knowledge about situations at farms, the small-scale farming support businesses promoted by local administrations, and improvements in product appeal that derive from obtaining certification.

NGOs

Relevance & inclusion

Relevant, always included

Please explain

Kao uses palm kernel oil for activators contained in detergents, one of Kao's key products, and timber for paper diapers and packing materials. Some NGOs occasionally take radical action against the procurement of forest commodities, resulting in risks to Kao. We monitor these NGO actions and, when there is a high likelihood of being subjected to negative campaigns, take appropriate measures such as initiating discussions with these NGOs. For example, since 2013, we have regularly engaged in discussions with the international NGO Greenpeace, which has requested the introduction of zero-deforestation policies for forest conservation in Indonesia. And in 2014, Kao introduced its Sustainable Palm Oil Procurement Guidelines that emphasize biodiversity conservation and support zero-deforestation in palm oil procurement. We also participated in the stakeholder engagement (SHE) program held by the Caux Round Table (CRT Japan) in Malaysia and Indonesia, in which we participated in conversation meetings with local NGOs involved with environmental and human rights issues. We can evaluate risks associated with NGOs by obtaining information through conversations with them on potential risks such as negative perceptions and campaigns. In addition, we gained knowledge about situations at palm farms, problems, and efforts to solve such issues, etc.

Other forest risk commodity users/producers at a local level

Relevance & inclusion

Relevant, always included

Please explain

Kao uses palm kernel oil for activators contained in detergents, one of Kao's key products. Palm farms represent many potential risks. Kao joined Bluenumbers in 2017 and SUSTAIN in 2018 to verify whether palm farms are risk-free, including no illegal logging. We use information on palm farms obtained during engagement through these initiatives to understand, evaluate, and reduce risks. We also participated in the stakeholder engagement (SHE) program held by the Caux Round Table (CRT Japan) in Malaysia and Indonesia, in which we visited local small-scale oil palm farms to speak with farm owners, etc. By obtaining information on potential risks such as conflicts related to land development through conversations like these, we can evaluate risks associated with local residents. In addition, we obtained knowledge about conditions at farms, the small-scale farming support businesses promoted by local administrations, and improvement of product appeal gained by obtaining certification.

Regulators

Relevance & inclusion

Relevant, always included

Please explain

A large quantity of palm kernel oil is used for activators contained in detergents, one of Kao's key products. Timber is used for paper diapers and packing materials. When a new regulation is introduced that related to procuring these materials, procurement may become more difficult, or the costs might rise. The Procurement Division traces regulator trends in introducing new regulations on forest commodities, overseen by the Risk Management Committee.

Suppliers

Relevance & inclusion

Relevant, always included

Please explain

Kao uses palm kernel oil for activators contained in detergents, one of our key product ranges. Because Kao has declared zero-deforestation as one of its corporate policies, if any of our palm oil suppliers procures oil from a farm involved in deforestation, we are no longer permitted to procure palm oil from that supplier. This may affect our product supply. Also, knowledge that we procured palm oil from that supplier will adversely affect our reputation. To prevent such situations from occurring, Kao regularly performs risk assessments on each palm oil mill in collaboration with our suppliers. We cooperated with third-party agencies to check the conditions of land use within 50 km of each palm oil mill location, and identified mills receiving palm fruit from farms possibly associated with deforestation (89 mills). We visited the identified mills to verify that they do not procure from farms associated with deforestation, or discussed how they can make improvements (8 mills).

Other stakeholders, please specify

Relevance & inclusion

Please select

Please explain

F3. Risks and opportunities

F3.1

(F3.1) Have you identified any inherent forests-related risks with the potential to have a substantive financial or strategic impact on your business?

	Risk identified?
Timber	Yes
Palm Oil	Yes
Cattle Products	<Not Applicable>
Soy	<Not Applicable>
Other - Rubber	<Not Applicable>
Other	<Not Applicable>

F3.1a

(F3.1a) How does your organization define substantive impact on your business?

-A definition of substantive financial impact: Items managed by the Risk and Crisis Management Committee that may seriously impact the financial status and operating results

-Evaluation standards and indexes for identifying changes in the impact: Forecast increase in spending by Kao (increase in purchased ingredient costs and other additional costs to be incurred) and a drop in sales

-Evaluation standards, thresholds and variation indicating changes in the impact: Cases that have at least a one billion yen impact on operating results

-Is the definition being applied: Kao applies this risk definition to both the direct operation and the supply chain.

F3.1b

(F3.1b) For your disclosed forest risk commodity(ies), provide details of risks identified with the potential to have a substantive financial or strategic impact on your business, and your response to those risks.

Forest risk commodity

Timber

Type of risk

Reputational and markets

Geographical scale

Global

Where in your value chain does the risk driver occur?

Supply chain

Primary risk driver

Increased stakeholder concern or negative stakeholder feedback

Primary potential impact

Brand damage

Company-specific description

Kao markets disposable diaper products throughout Asia and the growth in sales of these products is one of Kao's growth drivers. These products use pulp, and if a negative campaign for pulp is waged, there will be a risk that the product's image may suffer, the market may shrink or sales may decrease. Such situations will lead to reduced operations at Kao plants, resulting in an increase in fixed costs over sales. Kao distributes its disposable diapers, "Merries," in Asian countries, and the sales of "Merries" exceed 100 billion yen. "Merries" is one of Kao's future growth drivers. Since this product uses pulp, if a negative campaign is launched against pulp, the corporate and product brand image will be damaged, posing a risk of market shrinkage and reduced sales. In fact, there has been a negative campaign by an environmental NGO claiming that paper packages used by a food manufacturer are supporting deforestation. Even when it is a lumber company that is actually destroying the forest, it is often the food manufacturers and household goods manufacturers using such lumber as a raw material that become the targets of a negative campaign. Such a situation will cause a fall in production at Kao plants and increase the fixed cost burden on sales.

Timeframe

1-3 years

Magnitude of potential impact

High

Likelihood

Likely

Are you able to provide a potential financial impact figure?

Yes, a single figure estimate

Potential financial impact (currency)

5000000000

Potential financial impact figure - minimum (currency)

<Not Applicable>

Potential financial impact figure - maximum (currency)

<Not Applicable>

Explanation of financial impact figure

The sales of Kao disposable diaper, "Merries," are over 100 billion yen. If reputational and other risks for the product manifest themselves whereby reducing sales by 5%, it would have a negative impact of 5 billion yen or more. Although such risks have yet to surface, we are aware that they may manifest themselves in one to three years as the recognition of Forest Stewardship Council (FSC) certification improves.

Primary response to risk

Engagement with suppliers

Description of response

Kao aims to implement by 2020 the procurement of only raw materials that can be traced back to their places of origin, based on the Sustainable Pulp and Paper Procurement Guidelines. These materials include those with FSC certifications. This objective is shared with each of our suppliers. To achieve this objective, we continuously requested our paper/pulp suppliers to supply us with certified materials, including the FSC certifications. As a result of this activity, the procurement rate for certified products reached 86% in 2018. For cases where certified products cannot be obtained, we confirmed traceability for nearly 100% of such cases, including traceability to places of origin by using the World Wide Fund for Nature (WWF) Japan's Responsible Purchasing Checklist. Thus, we can state that we now properly avoid risks through these activities. In Japan, our key market, Kao is now recognized as a leading company in addressing forest commodity risks. We introduced our case as a speaker at CDP forest seminars.

Cost of response

1000000

Explanation of cost of response

The cost for management work occurs every year, and the cost is calculated from the labor cost which corresponds to 10% of one employee every year. In addition, no additional costs will be incurred for the time being.

Forest risk commodity

Palm Oil

Type of risk

Reputational and markets

Geographical scale

Global

Where in your value chain does the risk driver occur?

Supply chain

Primary risk driver

Increased stakeholder concern or negative stakeholder feedback

Primary potential impact

Brand damage

Company-specific description

Almost all Kao detergent products (for example, ATTACK clothing detergent, Bioré body detergent, etc.) use palm oil as one of their ingredients. Therefore, palm oil is one of Kao's strategic ingredients. Palm oil is a commodity where there is a risk of the environment and human rights not being considered in the supply chain. Therefore, if it is found that human rights are not considered, procurement of ingredients may stop. Also, manufacturers that purchase ingredients from such suppliers may also be criticized by NGOs, possibly damaging the brand. There was actually a campaign in which manufacturers of household goods and food who use palm oil as an ingredient were ranked in terms of consideration for forests, human rights, etc. Those that rated low were aggressively encouraged to make improvements. Even when it is palm production companies (plantations) and palm oil manufacturers, the suppliers, that have actually been destroying the forest, food manufacturers and household goods manufacturers that use palm oil as an ingredient are often the ones targeted in a negative campaign. Such a situation would not only cause a fall in the sales of Kao detergents, but also negatively affect profits due to the increased plant fixed-cost burden arising from lower production at plants.

Timeframe

Current - up to 1 year

Magnitude of potential impact

High

Likelihood

Very likely

Are you able to provide a potential financial impact figure?

Yes, a single figure estimate

Potential financial impact (currency)

30000000000

Potential financial impact figure - minimum (currency)

<Not Applicable>

Potential financial impact figure - maximum (currency)

<Not Applicable>

Explanation of financial impact figure

The sales of Kao's consumer product business are 1.2 trillion yen. If, say, detergents using palm oil account for 50% of the sales, palm oil sales amount to 600 billion yen. If the reputational risk associated with procuring palm oil becomes evident and the sales amount drops by 5% accordingly, the negative impact will be roughly 30 billion yen. The financial impact of this risk may become apparent within a year because of the fact that negative campaigns, such as those described in the Company-specific description, are actually occurring.

Primary response to risk

Greater traceability of forest-risk commodities

Description of response

Kao intends by 2020 to procure only raw materials that are not associated with deforestation at their places of origin, based on the Sustainable Palm Oil Procurement Guidelines. This objective is shared with all of our suppliers. To achieve this objective, Kao is investigating the deforestation risks at the places of origin through the following procedures: (1) Obtain information on palm kernel mills and palm oil mills from Tier-1 suppliers, and map this information (2) Identify the palm kernel mill supply chains (3) Conduct risk mapping of all palm oil mills, and identify those mills possibly conducting business with farms with higher deforestation risks (4) Visit and investigate those mills with higher risks As a result of these activities, traceability up to the palm oil mills reached 98% in 2018. The most important challenge for Kao now is to identify the risk levels of the farms. As a result of our activities, we predict that we can now avoid most risks to a certain extent. In Japan, our key market, Kao is recognized as a leading company in addressing forest commodity risks. In fact, a national Japanese broadcasting TV program reported on our activities for ensuring the traceability of palm oil in 2017.

Cost of response

10000000

Explanation of cost of response

We have calculated the expenses required to conduct third-party verifications and field investigations. These expenses will also be required annually in the future.

F3.2

(F3.2) Have you identified any forests-related opportunities with the potential to have a substantive financial or strategic impact on your business?

	Have you identified opportunities?
Timber	Yes
Palm Oil	Yes
Cattle products	<Not Applicable>
Soy	<Not Applicable>
Other - Rubber	<Not Applicable>
Other	<Not Applicable>

F3.2a

(F3.2a) For your selected forest risk commodity(ies), provide details of the identified opportunities with the potential to have a substantive financial or strategic impact on your business.

Forest risk commodity

Timber

Type of opportunity

Products & services

Where in your value chain does the opportunity occur?

Supply chain

Primary forests-related opportunity

Increased brand value

Financial incentives

<Not Applicable>

Company-specific description & strategy to realize opportunity

Kao offers some of its products with the FSC certification label displayed on their packages. This helps build our product brand, and contributes to the expansion of new ethical markets. As a result, our presence in those markets will continue to grow, leading to increased sales. Kao displays the FSC certification labels on the paper packages of ATTACK clothing detergent powder and other products, and the rate of introducing FSC certified paper to individual product paper packages reached nearly 60% in 2018. We are also striving to introduce FSC-certified corrugated cardboard boxes. Although general consumers have few opportunities to see a certification label on corrugated cardboard boxes, we are increasing our corporate value from an ethical viewpoint by demonstrating that our efforts for forest protection throughout the entire product lifecycle are visible to the public. In 2018, we introduced FSC- certified paper to approximately 90% of all corrugated cardboard boxes used globally. At the Post-2020 Procurement of Sustainable Forest Resources Press Conference, sponsored by the Forest Stewardship Council (FSC) Japan and held in July 2018, we explained our initiatives and exhibited products with FSC certification labels. We also announced the FSC-certified procurement declaration 2020, which promised that signatories would procure FSC-certified materials, in collaboration with six other Japanese companies at the conference. In addition, in the Kao Kirei Lifestyle Plan (KLP) released in April 2019, we set new targets (FSC, PEFC, etc.) aimed at using 100% certified products for paper products and pulp used for consumer products by 2025.

Estimated timeframe for realization

1-3 years

Magnitude of potential impact

Medium

Likelihood

Likely

Are you able to provide a potential financial impact figure?

Yes, a single figure estimate

Potential financial impact figure (currency)

5000000000

Potential financial impact figure – minimum (currency)

<Not Applicable>

Potential financial impact figure – maximum (currency)

<Not Applicable>

Explanation of financial impact figure

The sales of Kao's disposable diaper, "Merries," exceed 100 billion yen. If the product's reputation improves and sales increase by 5%, it would have a positive impact of 5 billion yen or more. Although such an opportunity has yet to appear, we believe that it may do so in one to three years as more people become aware of the FSC certification. The sales of Kao's disposable diaper, "Merries," are over 100 billion yen. If the product's reputation improves and sales increase by 5%, it will have an impact of 5 billion yen or more. Although such an opportunity has yet to appear, we believe that it may do so in one to three years as more people become aware of the FSC certification.

Forest risk commodity

Palm Oil

Type of opportunity

Products & services

Where in your value chain does the opportunity occur?

Supply chain

Primary forests-related opportunity

Increased brand value

Financial incentives

<Not Applicable>

Company-specific description & strategy to realize opportunity

Kao is currently working to obtain RSPO supply chain certification in more plants to allow their product packages to display the RSPO certification label. We believe that we will be able to offer our products promptly when emerging ethical markets require RSPO-certified products. As at the end of 2018, we have obtained the RSPO certification for our 35 group plants and offices, completing 100% of the initially planned target. Also, the purchasing ratio of RSPO certified palm oil (palm oil, palm kernel oil, and its derivatives) across all the palm oil purchased was 18% in 2018. We distribute these palm oil products to users in the chemical industry in a B2B capacity and also blend them into our own products. In addition, we plan to launch products with the RSPO certification label by the end of 2019. In the Kao KLP released in April 2019, we set out a new goal to complete the confirmation of traceability through to small-scale farms by 2030. If it is confirmed that the places of origin of procured palm oil are clear, that the palm oil is sourced from well-managed palm farms, and that the human rights of employees working such farms are considered, the reliability of the company and products from an ethical viewpoint will improve. Having participated in SUSTAIN as a founder member, in addition to Bluenumbers, in 2018, we will use this position to ensure traceability right through to small-scale farms.

Estimated timeframe for realization

1-3 years

Magnitude of potential impact

Medium-high

Likelihood

Likely

Are you able to provide a potential financial impact figure?

Yes, a single figure estimate

Potential financial impact figure (currency)

30000000000

Potential financial impact figure – minimum (currency)

<Not Applicable>

Potential financial impact figure – maximum (currency)

<Not Applicable>

Explanation of financial impact figure

The sales of Kao's consumer product business total 1.2 trillion yen. If detergents using palm oil account for 50% of the sales, this means that palm oil sales amount to 600 billion yen. If our reputation related to the procurement of palm oil improves and sales increase by 5%, the gain would be roughly 30 billion yen. Although such an opportunity has yet to appear, we believe that it may do so in one to three years as ethical consumption spreads. The sales of Kao's consumer product business are 1.2 trillion yen. If detergents using palm oil account for 50% of the sales, this means that palm oil sales amount to 600 billion yen. If our reputation related to the procurement of palm oil improves and sales increase by 5%, the impact will be roughly 30 billion yen. Although such an opportunity has yet to appear, we believe that it may do so in one to three years as ethical consumption spreads.

F4. Governance**F4.1****(F4.1) Does your organization have a policy that includes forests-related issues?**

Yes, we have a documented forests policy that is publicly available

F4.1a

(F4.1a) Select the options to describe the scope and content of your policy.

	Scope	Content	Please explain
Row 1	Company-wide	Commitment to eliminate deforestation and/or conversion Commitment to eliminate forests degradation Commitment to protect rights and livelihoods of local communities Commitments beyond regulatory compliance Commitment to innovation Recognition of the overall importance of forests and other natural habitats Description of business dependency on forests Recognition of potential business impact on forests and other natural habitats Description of forest risk commodities, parts of the business, and stages of value-chain covered by the policy List of timebound commitments and targets Description of forests-related standards for procurement Reference to international standards and widely-recognized forests-related initiatives	A large quantity of palm kernel oil is used for activators contained in detergents, one of Kao's key products. Timber is used for paper diapers and packing materials. This means that Kao's business activities rely heavily on those forest commodity supplies. Therefore, Kao includes its "Commitments beyond regulatory compliance", "Description of our business dependency on forests" and "Reference to international standards and widely-recognized forests-related initiatives" in its Responsible Care Policy, which is Kao's environmental conservation policy including the issues of forest commodities. This is to clearly show internally and externally how much we rely on the ecosystem services forests provide, and to promote Kao's voluntary commitment to customer satisfaction, considering the status of Kao's globally deployed businesses, and the social responsibilities associated with those businesses. As for the "Recognition of the potential business impact on forests and other natural habitats", Kao states in its Guidelines for Sustainable Procurement of Raw Materials that "Kao recognizes the importance of global issues and risks such as scarcity of resources, global warming, degradation of biodiversity and other environmental problems, as well as human rights, and, to contribute to resolution of global issues, Kao strives for sustainable procurement of raw materials." This content was added to the Guideline so that Kao could clearly show internally and externally how its activities impact forests and other natural habitats through its use of forest commodities, and to commit to the use and conservation of sustainable forests. For the same reasons, the other contents selected in the column "Content" are also included in Kao's Environmental Statement, Responsible Care Policy, Guidelines for Sustainable Procurement of Raw Materials, Guidelines for Supplier's Assessment, and Environmental Statement. We check for the need for review these Kao policies every year, and if we determine a policy needs to be reviewed, we update it accordingly. Forest commodities procured by Kao are palm oil and paper/pulp. Accordingly, the targeted specific ecosystems include equatorial tropical rainforests in Malaysia and Indonesia and conifer forests in North America.

F4.1b

(F4.1b) Do you have commodity specific sustainability policy(ies)? If yes, select the options that best describe their scope and content.

Do you have a commodity specific sustainability policy?	Scope	Content	Please explain

	Do you have a commodity specific sustainability policy?	Scope	Content	Please explain
Timber	Yes	Company-wide	<p>Commitment to eliminate deforestation and/or conversion</p> <p>Commitment to eliminate forests degradation</p> <p>Commitment to protect rights and livelihoods of local communities</p> <p>Commitments beyond regulatory compliance</p> <p>Commitment to innovation</p> <p>Recognition of the overall importance of forests and other natural habitats</p> <p>Description of business dependency on forests</p> <p>Recognition of potential business impact on forests and other natural habitats</p> <p>Description of forest risk commodities, parts of the business, and stages of value-chain covered by the policy</p> <p>List of timebound commitments and targets</p> <p>Description of forests-related standards for procurement</p> <p>Reference to international standards and widely-recognized forests-related initiatives</p>	<p>Kao supports zero deforestation at the source of its raw materials and includes "Commitments beyond regulatory compliance" and "Recognition of the potential business impact on forests and other natural habitats" in its Guidelines for Sustainable Procurement of Raw Materials in order to avoid contributing to the development of any environmentally-important forests, high-carbon stock forests or peatlands, regardless of how minimal the negative impact is, when procuring Timber products. This encourages Kao to comply with deforestation and procurement regulations, secures continued stable business operations, and helps us improve our voluntary customer-facing initiatives. Kao states the "Description of business dependency on forests" and "Reference to international standards and widely-recognized forest-related initiatives" in its Responsible Care Policy. These contents were added to the Policy because we recognize that our business depends on natural resources. Some of the raw materials that we procure are exposed to resource constraints on a mid- to long-term basis, therefore Kao has made it clear that we will reduce the usage of such materials and find alternative sources. At the same time, we are working on a procurement process that takes into account the ethical issues emerging as a result of globalization. We understand that the procurement of Timber has an impact on Kao's business activities, because it is used for paper diapers, one of Kao's key products, and packaging materials. For these reasons, the other contents selected in the column "Content" are also included in Kao's Environmental Statement, Responsible Care Policy, Guidelines for Sustainable Procurement of Raw Materials, Guidelines for Supplier's Assessment, and Environmental Statement. We check for the need to review these Kao policies every year, and if we determine a policy needs to be reviewed, we update it accordingly. Timber procured by Kao is used for paper diapers and packing materials. Accordingly, the targeted specific ecosystems include equatorial tropical rainforests and conifer forests in North America.</p>

	Do you have a commodity specific sustainability policy?	Scope	Content	Please explain
Palm Oil	Yes	Company-wide	Commitment to eliminate deforestation and/or conversion Commitment to eliminate forests degradation Commitment to protect rights and livelihoods of local communities Commitments beyond regulatory compliance Commitment to innovation Recognition of the overall importance of forests and other natural habitats Description of business dependency on forests Recognition of potential business impact on forests and other natural habitats Description of forest risk commodities, parts of the business, and stages of value-chain covered by the policy List of timebound commitments and targets Description of forests-related standards for procurement Reference to international standards and widely-recognized forests-related initiatives	Kao supports zero deforestation at the source of its raw materials and includes "Commitments beyond regulatory compliance" and "Recognition of the potential business impact on forests and other natural habitats" in its Guidelines for Sustainable Procurement of Raw Materials in order to avoid contributing to the development of any environmentally-important forests, high-carbon stock forests or peatlands, regardless of how minimal the negative impact is, when procuring Palm. This encourages Kao to comply with deforestation and procurement regulations, secures continued stable business operations, and helps us improve our voluntary customer-facing initiatives. Kao states the "Description of business dependency on forests" and "Reference to international standards and widely-recognized forest-related initiatives" in its Responsible Care Policy. These contents were added to the Policy because we recognize that our business depends on natural resources. Some of the raw materials that we procure are exposed to resource constraints on a mid- to long-term basis, therefore Kao has made it clear that we will reduce the usage of such materials and find alternative sources i.e. raw materials derived from inedible biomass, such as algae. At the same time, we are working on a procurement process that takes into account the ethical issues emerging as a result of globalization. We understand that the procurement of Palm has an impact on Kao's business activities, because a large quantity of palm kernel oil is used for activators contained in detergents, one of our key products. For these reasons, the other contents selected in the column "Content" are also included in Kao's Environmental Statement, Responsible Care Policy, Guidelines for Sustainable Procurement of Raw Materials, Guidelines for Supplier's Assessment, and Environmental Statement. We check for the need for review these Kao policies every year, and if we determine a policy needs to be reviewed, we update it accordingly. Palm oil procured by Kao is sourced from Malaysia and Indonesia. Accordingly, the targeted specific ecosystems include equatorial tropical rainforests in Malaysia and Indonesia.
Cattle Products	<Not Applicable>	<Not Applicable>	<Not Applicable>	<Not Applicable>
Soy	<Not Applicable>	<Not Applicable>	<Not Applicable>	<Not Applicable>
Other - Rubber	<Not Applicable>	<Not Applicable>	<Not Applicable>	<Not Applicable>
Other	<Not Applicable>	<Not Applicable>	<Not Applicable>	<Not Applicable>

F4.2

(F4.2) Is there board-level oversight of forests-related issues within your organization?

Yes

F4.2a

(F4.2a) Identify the position(s) of the individual(s) (do not include any names) on the board with responsibility for forests-related issues.

Position of individual	Please explain
Chief Executive Officer (CEO)	Since forest-risk commodities are closely tied to Kao's business, they must be monitored as business management issues, and are therefore under the CEO's oversight. The Board of Directors delegates the management of forest-related risks to the Internal Control Committee, and the management of forest-related opportunities to the Sustainability Committee. Our CEO serves as the chairperson of both Committees. The Risk and Crisis Management Committee, and the Responsible Care Promotion Committee, which constitute the Internal Control Committee, are engaged in the management of forest-related risks.

F4.2b

(F4.2b) Provide further details on the board's oversight of forests-related issues.

	Frequency that forests-related issues are a scheduled agenda item	Governance mechanisms into which forests-related issues are integrated	Please explain
Row 1	Scheduled - some meetings	Monitoring implementation and performance Overseeing acquisitions and divestiture Overseeing major capital expenditures Providing employee incentives Reviewing and guiding annual budgets Reviewing and guiding business plans Reviewing and guiding corporate responsibility strategy Reviewing and guiding major plans of action Reviewing and guiding risk management policies Reviewing and guiding strategy Reviewing innovation / R&D priorities Setting performance objectives	- Details on who briefs the board and on which subjects During the scheduled board meetings, the secretary-generals of the Risk and Crisis Management Committee(RCM), the Responsible Care Promotion Committee(RCP), and the Sustainability Committee(SC) report to the Board of Directors the plans and the results, and review drafts of plans (if modifications are required) on forest-risk commodities managed by each committee. - A description of how the selected governance mechanisms contribute to the board's oversight of forest issues RCM and RCP are both under the Internal Control Committee(IC), which in turn is under the control of the Board of Directors. RCM and RCP manage risks related to forest-risk commodities. SC, under the supervision of the Board of Directors, manages opportunities related to forest-risk commodities. Because forest-risk commodities have a large impact on Kao's businesses, and must be supervised as a business management issue, they are under the oversight of I C and SC, with the CEO serving as chairman on both. The Board confirms once, or more, annually the progress of Zero Deforestation in the Procurement of Palm Oil, Paper, and Pulp, the 2020 objective Kao has set forth. In addition, the Board receives reports on critical incidents occurring in that year, and any countermeasures, and provides instructions to review those countermeasures when necessary. In 2018, there were no critical incidents reported to the Board.

F4.3

(F4.3) Provide the highest management-level position(s) or committee(s) with responsibility for forests-related issues (do not include the names of individuals).

Name of the position(s) and/or committee(s)	Responsibility	Frequency of reporting to the board on forests-related issues	Please explain
Chief Executive Officer (CEO)	Both assessing and managing forests-related risks and opportunities	Annually	The Responsible Care Promotion Committee(RCP), which manages Kao Group's environment, health, etc., centrally, manages risks associated with forest-related issues as part of environmental items. RCP manages the status of activities of all Kao Group divisions and subsidiaries, and confirms the implementation status of measures to be taken by divisions and subsidiaries based on the operation plan established by the Risk and Crisis Management Committee(RCM). RCP and RCM are placed under the Internal Control Committee(IC), with the CEO serving as the chairman. In 2009, Kao released its Environmental Statement, and the Sustainability Committee(SC), chairman is the CEO, began the management including forest-related company-wide opportunity programs. Forest commodities have a great impact on Kao's business, and are therefore, supervised as a business management issue under the oversight of the CEO. There has been little development in forest issues. In addition, society has not demanded a reconsideration of our risk management plan created in the early 2010's. We do not foresee any delays in its progress toward its targets. For this reason, we are now requiring IC to report forest issues to the Board once a year. The frequency for SC to report on the same issue to the Board is also once yearly. Although an ethical market is growing in Kao's largest market territory, Japan, rapid changes have not been observed and we have a plan in place to respond to any changes that do occur.

F4.4

(F4.4) Do you provide incentives to C-suite employees or board members for the management of forests-related issues?

Yes

F4.4a

(F4.4a) What incentives are provided to C-Suite employees or board members for the management of forests-related issues (do not include the names of individuals)?

	Who is entitled to benefit from these incentives?	Indicator for incentivized performance	Please explain
Monetary reward	Chief Purchasing Officer (CPO)	Achievement of commitments and targets	Every year the company assesses its achievements towards its 2020 targets: zero deforestation in the procurement of palm oil, paper, and pulp. More specifically, the company checks the number of years elapsed since implementing the plan and the rates of commodity procurements confirmed as not contributing toward deforestation. Kao CPO's remuneration includes a performance-based bonus. The company provides corporate shares based on achievement of the business performance targets required by the mid-term plan. The performance-based bonus accounts for 28-35% of the baseline remuneration (when the performance-linked factor is set to 100%). The extent to which the CPO has achieved the target is comprehensively evaluated with respect to multiple business targets, and the performance-based bonus is set according to the evaluation result. One of the business performance targets is "zero deforestation by 2020" as set forth in the Guidelines for Sustainable Procurement of Raw Materials. Benchmark measurement method: The "zero deforestation by 2020" goal consists of six action targets, including confirmation of zero deforestation at places of palm oil origin. The achievement ratio for each target is calculated, and its average is used as the achievement benchmark for the "zero deforestation by 2020" goal. Success threshold: If the ratio of the percentage of time elapsed toward 2020 from the year the goal was set (A) to the "zero deforestation by 2020" goal benchmark (B) is 1 or more, the activities in the relevant year are deemed successful.
Recognition (non-monetary)	No one is entitled to these incentives	No indicator for incentivized performance	Kao does not grant C-Suite employees or board members recognition (non-monetary).
Other non-monetary reward	No one is entitled to these incentives	No indicator for incentivized performance	Kao does not grant C-Suite employees or board members recognition (non-monetary).

F4.5

(F4.5) Did your organization include information about its response to forests-related risks in its most recent mainstream financial report?

Yes (you may attach the report – this is optional)

F5. Business strategy

F5.1

(F5.1) Are forests-related issues integrated into any aspects of your long-term strategic business plan, and if so how?

	Are forests-related issues integrated?	Long-term time horizon (years)	Please explain
Long-term business objectives	Yes, forests-related issues are integrated	5-10	The Kao Group intends to maintain a strong global presence by "contributing to the sustainability of society" through solving social problems via business activities, social contribution activities, and by achieving sustainable "profitable growth." As a "contribution to the sustainability of society," we promote procurement of sustainable palm oil and paper/pulp, and respond to the expanding ethical consumer markets by indicating on our products that we use sustainable palm oil and paper/pulp. This is an approach toward achieving the sales target of 2.5 trillion yen in 2030. To procure raw materials, we promote activities by setting a two-stage target. As the first step, by 2020 we aim to purchase only paper/pulp and palm oil for household products that are traceable to places of origin for sustainability, as set forth in the Guidelines for Sustainable Procurement of Raw Materials. As the second step, we aim to confirm traceability right through to palm oil farms (2030) as set forth in the "Kirei Lifestyle Plan" and use certified paper products and pulp in 100% of consumer products (2025).
Strategy for long-term objectives	Yes, forests-related issues are integrated	5-10	We have incorporated the procurement of palm oil and paper/pulp in Kao's ESG strategy, "Kirei Lifestyle Plan," to demonstrate our commitment to responsible procurement. Our goal for palm oil is to complete the confirmation of traceability through to small-scale farms by 2030, while our goal for paper and pulp is to use certified paper products and pulp in 100% of consumer products by 2025. As an approach to achieve the sales target of 2.5 trillion yen in 2030, we are responding to the expanding ethical consumer markets by indicating on our products that we use sustainable palm oil and paper/pulp. Kao already displays the FSC certification label on the paper package of ATTACK clothing detergent powder, which uses sustainable paper.
Financial planning	Yes, forests-related issues are integrated	5-10	Kao is focusing on its non-financial activities, such as ESG, so that these activities will have a positive impact on its finances. A part of this initiative is the goal to realize sustainable palm oil procurement by 2020. At the same time, because ethical consumption is predicted to grow, many of Kao's factories have received SCCS certification based on the expectation of strong future demand for the RSPO-certified symbol. The company understands that these activities will require at least 7 million yen per year, which has already been included in the financial plan. The premium cost of certified products has also been factored into the financial plan.

F6. Implementation

F6.1

(F6.1) Has your organization made a public commitment to reduce or remove deforestation and/or forest degradation from its direct operations and/or supply chain?

Yes

F6.1a

(F6.1a) Has your organization endorsed any of the following initiatives as part of its public commitment to reduce or remove deforestation and/or forest degradation?

New York Declaration on Forests

We Mean Business

Other, please specify (The Consumer Goods Forum)

F6.1b

(F6.1b) Provide details on your public commitment(s), including the description of specific criteria, coverage, and actions.

Commodity coverage

Timber

Criteria

Zero net deforestation

No forest degradation

No new development on peatland

Forest landscape restoration

No conversion of High Conservation Value areas

No conversion of High Carbon Stock forests

Adoption of UN Global Compact principles

Adoption of Free, Prior and Informed Consent (FPIC) principles

Adoption of the UN International Labour Organization principles

No sourcing of illegally produced and/or traded forest risk commodities

No sourcing of forest risk commodities from unknown/controversial sources

Operational coverage

Direct operations and supply chain

% of total production/ consumption covered by commitment

100%

Cutoff date

No cutoff date

Commitment timeframe

2020

Please explain

Kao has declared zero deforestation. To achieve a target of zero deforestation set out in Kao's "guidelines for sustainable procurement of paper and pulp", we track

suppliers which provide raw materials, identify sourced forests and check the sourced forests whether they are used with due care of social, environmental and economic sustainability without any changes in natural habitats in light of WWF Japan's "check list for forest products procurement." . If an unsustainable supplier is identified and facts a supplier does not respect local people's rights are found out through the check list, suspension of business transactions and requirements of improvement will be considered. Introduction of FSC and PEFC certified paper including the principle of FPIC is actively promoted and 86% of paper and pulp was changed to certified ones in 2018. At first, certified products with the same certified rate suppliers hold had been provided even Kao had asked 100% certified products to have provided, however there was a case 100% certified products were provided as a results of tenacious negotiations with explanation of Kao's procurement policy. Nearly 100% traceability to be achieved by 2018 has been affirmed and whether the criteria are met has been checked through the results of these activities. Moreover, to meet criteria for Zero net deforestation, the groundwork has been laid out since 2017, and Kao asked suppliers for their support in a presentation made at the global symposiums related to promotion of the global supply chain contributing to zero reduction in forests organized by the Forestry Agency in January 2018. As initiatives for prevention of deforestation and conservation of forests, Kao advocates philosophy of the Organization for Industrial, Spiritual and Cultural Advancement-International, or OISCA and addressed "FURUSATO environment conservation project" in Northern Thailand. In the project, 42,500 trees were planted in 35ha land over the past 5 years until 2017 and a three-year plan was made in 2018 starting from 2019. Kao has also carried out joint forestation program, "Kao's reforestation activities for everyone" with the organization for Landscape and Urban Green Infrastructure since 2000. Statement of "No conversion of natural habitats" has been considered to be reviewed as it is not specified in the statement.

Commodity coverage

Palm Oil

Criteria

No conversion of natural habitats
Zero net deforestation
No forest degradation
No new development on peatland
No conversion of High Conservation Value areas
No conversion of High Carbon Stock forests
Adoption of UN Global Compact principles
Adoption of Free, Prior and Informed Consent (FPIC) principles
Adoption of the UN International Labour Organization principles
No sourcing of illegally produced and/or traded forest risk commodities
No sourcing of forest risk commodities from unknown/controversial sources

Operational coverage

Supply chain

% of total production/ consumption covered by commitment

100%

Cutoff date

2006

Commitment timeframe

2020

Please explain

The guidelines are aligned with the RSPO's "Principles and criteria." The RSPO's criteria 7.3 of "Principles and criteria" stipulates a ban on cropping in HCV since November 2005 and Kao has committed in accordance with it. The situation of use of lands within 50km of palm oil mills identified by information the Tier 1 suppliers provide is mapped. As of the end of 2018, 100% traceability of palm kernel oil and 98% traceability of palm oil mills was affirmed and they are being checked whether they meet the criteria Kao has set out in its commitment. Palm oil mills nearby protected forests and peat lands have risks of a change in natural habitats and being supplied palm fruit from palm farms which cause deforestation. A total of 89 mills with high risks were identified and of which 3 mills were made a on site visit with specialists and as a result of checking the situation, a decision was made that their risks are low. To ensure traceability of producing sites to small scale farms, Kao joined Bluenumber in 2017 and SUSTAIN in 2018. Bluenumber and SUSTAIN are systems aiming to establish traceability of farm produce at global scale. With them, environment conservation in small scale palm farms, human rights, FPIC etc. are being checked If a supplier is identified that it causes deforestation and does not respect local people's rights, suspension of business transactions and requirements of improvement for it will be considered. Moreover Kao asked suppliers for their support through various ways including in a presentation made at the global symposiums related to promotion of the global supply chain contributing to zero reduction in forests organized by the Forestry Agency in January 2018.

F6.2

(F6.2) Did you have any quantified targets for increasing sustainable production and/or consumption of your disclosed commodity(ies) that were active during the reporting year?

Yes

F6.2a

(F6.2a) Provide details of your target(s) for increasing sustainable production and/or consumption of the disclosed commodity(ies), and progress made.

Target reference number

Target 1

Forest risk commodity

Timber

Form of commodity covered

All forms of timber

Type of target

Traceability

Coverage

Supply chain

Traceability point

Forest

Third-party certification scheme

<Not Applicable>

Start year

2014

Start figure

0%

Target year

2020

Target

100%

% achieved

100%

Please explain

As part of our risk assessment for the consistent continuation of our business, Kao is now identifying the places of origin of all supplied pulp. The existing tools do not provide sufficient information for tracing places of origin. Therefore, we have developed internal company methods to achieve our objectives, including a risk assessment for deforestation for each procurement source (place of origin). In addition to this internal method described above, WWF Japan's Responsible Purchasing Checklist for Forest Products is used to evaluate the sustainability of their places of origin, based on suggestions by third-party consultants. This checklist tool allows us to independently check wood feedstock for its impact on deforestation, and its effect on society. Kao uses this tool because it is highly reliable tool chosen and used by many companies, and it allows us to comprehensively evaluate Kao's global suppliers using consistent benchmarks. The company uses paper certified by the globally recognized FSC and PEFC. Our achievement rate was almost 100% in 2018 (of which, 86% of the paper was certified). Kao plans to increase its ratio of certified paper by offering various suggestions and recommendations to any suppliers found through the activities described above to be uncertified. As the next step, we aim to achieve 100% certification by 2025.

Target reference number

Target 2

Forest risk commodity

Palm Oil

Form of commodity covered

All forms of palm oil

Type of target

Traceability

Coverage

Supply chain

Traceability point

Mill

Third-party certification scheme

<Not Applicable>

Start year

2014

Start figure

0%

Target year

2020

Target

100%

% achieved

91-99%

Please explain

The palm oil supply chain is extensive. It covers refinery plants (Tier-1), palm kernel oil mills (Tier-2), palm oil mills (Tier-3), and palm plantations (Tier-4). The numbers of these facilities increase upstream, and it is difficult to check them all at once. As a first step toward zero deforestation from palm oil procurement, Kao set palm oil mill traceability as a target. The company obtains supply chain information from its Tier-1 suppliers (refinery plants) to identify and map the mills. The company has succeeded in tracing 100% of the palm kernel oil mills, and 98% of the palm oil mills. The company expects to achieve 100% traceability in 2019 by continuing to request supply chain information from its Tier-1 suppliers.

Target reference number

Target 3

Forest risk commodity

Palm Oil

Form of commodity covered

All forms of palm oil

Type of target

Traceability

Coverage

Supply chain

Traceability point

Plantation

Third-party certification scheme

<Not Applicable>

Start year

2014

Start figure

0%

Target year

2030

Target

100%

% achieved

21-30%

Please explain

Kao largely divides oil palm farmers into (1) farms owned by Tier-1 oil refineries as their own farms, (2) third-party farmers from whom oil refineries directly purchase, and (3) small oil palm farmers. We confirm the traceability of (1) based on information from Tier-1 as in the case of Target 2. Since we cannot survey all farmers in (3) due to the large number of them, we joined Bluenumber and SUSTAIN. Bluenumber is an initiative that aims to confirm traceability by encouraging farms, palm oil mills, palm kernel oil mills, and oil refineries to register information on their and their workers' attributes, production bases, products, and activity details. In 2018, we confirmed the effectiveness of the initiative through pilot programs at two palm oil mills and also found some issues with deploying the initiative to small-scale farmers. SUSTAIN is an initiative that uses a blockchain to confirm traceability up to farms, and will start full-scale operation from 2019. As for (2), we will identify the targets during 2019 and request Tier-1 suppliers to provide information. By 2030, we will complete the traceability activity for (3).

Target reference number

Target 4

Forest risk commodity

Palm Oil

Form of commodity covered

All forms of palm oil

Type of target

Third-party certification scheme

Coverage

Direct operations

Traceability point

<Not Applicable>

Third-party certification scheme

Other, please specify (RSPO SCCS)

Start year

2012

Start figure

0%

Target year

2020

Target

100%

% achieved

100%

Please explain

To meet the requests of chemical product customers and the consumer product market for certified products, we encourage our group plants to obtain the RSPO Supply Chain Certification. We obtained the certification at 35 plants and offices of our group by the end of 2018, completing the 100% acquisition according to the initial plan.

F6.3

(F6.3) Do you have traceability system(s) in place to track and monitor the origin of your disclosed commodity(ies)?

	Do you have system(s) in place?
Timber	Yes
Palm Oil	Yes
Cattle products	<Not Applicable>
Soy	<Not Applicable>
Other - Rubber	<Not Applicable>
Other	<Not Applicable>

F6.3a

(F6.3a) Provide details on the level of traceability your organization has for your disclosed commodity(ies).

Timber

% of total production/consumption volume traceable

100%

Point to which commodity is traceable

Forest

Description of traceability system

Through purchase of certified products and WWF Japan's "Check list for forest products supply", raw materials are tracked starting from the Tier-1 suppliers and original forest is identified. And the original forest is checked whether it is used in consideration of social, environmental and economic sustainability. Almost all traceability was confirmed in light of certified products (86%) and the check list in the end of 2018. Tier1 : About 100 companies of printing, paper and cardboard companies Tier2 : About 50 companies of paper companies Tier3 : About 1000 companies of lumbering companies and chip factories If an unsustainable supplier identified in light of the check list, business improvement will be required or suspension of business transactions will be taken into account. There was no supplier required business improvement or suspended business transactions in 2018.

Exclusions

<Not Applicable>

Description of exclusion

<Not Applicable>

Palm Oil

% of total production/consumption volume traceable

91-99%

Point to which commodity is traceable

Mill

Description of traceability system

We confirm the traceability of palm oil through the following procedures. (1) Obtain the supply chain information (names, locations, etc., of palm kernel mills (Tier-2) and palm oil mills (Tier-3) from Tier-1 suppliers (refinery plants). Mapping this information enables us to identify the palm oil suppliers (90 palm kernel mills, 862 palm oil mills). (2) Conduct third-party verifications for the above Tier-1 suppliers to confirm their initiatives, and review suppliers' efforts and information on the entire supply chain. (3) Select representative mills in the respective regions from among the palm kernel mills that supply palm oil to the Tier-1 suppliers, and conduct a third-party verification for those mills (5 mills in 2018). (4) For the palm oil mills confirmed in (1), a third-party organization performs risk mapping. During this risk mapping, the organization identifies the status of the surrounding forests by using satellite photographs, administrative maps and vegetation maps, etc., within 50 km of the palm oil mill. If the presence of protected forest lands, traces of fire, peatland, etc., are confirmed within that range, we determine that the relevant mill is at a high risk of having received palm oil or kernels from a farm likely to be contributing to deforestation (89 mills were identified in 2016 and 2017). (5) For palm oil mills judged as high-risk during the risk mapping, we conduct an on-site investigation with the appropriate specialists, request each mill to make improvements, and monitor the progress of these improvements (on-site investigation was conducted for 2 mills in 2018 and verification based on information from Tier-1 suppliers was conducted for 5 mills).

Exclusions

Specific supplier(s)

Description of exclusion

Specific supplier is a provider of derivatives of PalmOil

F6.4

(F6.4) Do you specify any third-party certification schemes for your disclosed commodity(ies)? Indicate the volume and percentage of your production and/or consumption covered.

Forest risk commodity

Timber

Do you specify any certification scheme?

Yes

Certification coverage

Consumption volume

Third-party certification scheme

FSC Forest Management certification

FSC Chain of Custody

FSC Controlled Wood

PEFC Sustainable Forest Management certification

PEFC Chain of Custody

% of total production/consumption volume certified

86

Form of commodity

Pulp

Paper

Boards, plywood, engineered wood

Primary packaging

Secondary packaging

Tertiary packaging

Volume of production/ consumption certified

234000

Metric

Metric tons

Please explain

Introduction of certified paper in cardboards, paper-based individual packaging, pulp and paper for sanitary products used in consumer products are being facilitated. In 2018, the rate of certified paper and pulp reached 86% up 4 percentage point compared to 82% in 2017. At first, Kao had been turned down its request to a supplier to have provided 100% certified products, however as results of tenacious negotiations with explanation of Kao's procurement policy, 100% certified products were provided. As a result, 100% certified products in pulp are on the right track to be accomplished by 2019. The rate of certified products in cardboards, which account for about 50% of all paper and pulp, hit 89% in 2019 up 10 percentage point over 79% in 2017. A target has been set out that 100% certified products in paper and pulp used for consumer products are achieved by 2025. Kao's initiatives were explained and its products with the mark of FSC certification were showcased at a conference, "Post 2020 procurement of sustainable forests resources" in July 2018 hosted by FSC Japan. At the conference, joint commitment to procurement of FSC certified materials with 6 Japanese companies, "Statement of procurement of FSC certified materials in 2020" was announced.

Forest risk commodity

Palm Oil

Do you specify any certification scheme?

Yes

Certification coverage

Consumption volume

Third-party certification scheme

RSPO Mass Balance

RSPO Book and Claim

% of total production/consumption volume certified

18

Form of commodity

Crude palm oil (CPO)

Crude palm kernel oil (CPKO)

Refined palm oil

Palm oil derivatives

Palm kernel oil derivatives

Volume of production/ consumption certified

77700

Metric

Metric tons

Please explain

The purchase ratio of RSPO-certified oil (MB and B&C) was 18% in 2018, 5 points up from 2017 (13%). To further increase the purchase ratio, we need to increase consumer recognition of certified oil and boost the supply of certified oil accordingly. As one of such efforts in Japan, we have been participating in JaSPOC since 2016 as an executive committee member every year. At JaSPOC in 2018, we reported our traceability confirmation method, Bluenumbers and SUSTAIN initiatives to confirm traceability through to small-scale farms, and participation in stakeholder engagement with small-scale farms. We also established JaSPON in collaboration with NGOs, manufacturers, retailers, etc. in Japan. As a member of RSPO, we participate in the Round Table every year, and we possess and exercise voting rights for each matter under discussion. In May 2019, the secretary-general of RSPO and Kao CPO held a meeting to share their ideas about issues in RSPO certification and exchanged views for improvement.

F6.5

(F6.5) Do you specify any sustainable production/procurement standards for your disclosed commodity(ies), other than third-party certification? Indicate the percentage of production/consumption covered and if you monitor supplier compliance with these standards.

Forest risk commodity

Timber

Do you specify any sustainability standards?

Yes

Type of standard

Procurement

Description of standard

Sustainable Paper and Pulp Procurement Guidelines Kao commits to zero deforestation in its paper and pulp procurement, in consideration of preservation of biodiversity.

% of total commodity volume covered by standard

91-99%

Do you have a system in place to monitor compliance with this standard?

Yes

Type(s) of monitoring system

First-party auditing

% of suppliers in compliance with standards

91-99%

Please explain

Sustainability of paper and pulp is confirmed through the following procedures. 1) Kao's personnel in charge of its procurement explain the guidelines for raw materials procurement to the Tier-1 suppliers and ask their cooperation when meeting them. When procuring paper or pulp other than recycled paper, certified products such as FSC certification are procured basically, 2) Ask Tier-1 suppliers to submit the WWF Japan's, "Check list for forests crops" including a country of origin of forests timber is sourced from and name of forest management section. The operational scheme is as follows; -1 A Tier-1 supplier fills in necessary items in the check list and submits it to Kao -2 Kao's procurement staff checks the contents of the check list. If source of timber is unclear or legitimacy of the source is not verified, the staff reports it to the Tier-1 supplier and requires improvement. -3 Kao checks the Tier-1 supplier's response to the improvement -4 If the response to the improvement is not sufficient, Kao considers suspension of the business transactions. No improvement was required and no supplier was suspended business transactions in 2018.

Forest risk commodity

Palm Oil

Do you specify any sustainability standards?

Yes

Type of standard

Procurement

Description of standard

Sustainable Palm Oil Procurement Guidelines Kao commits to zero deforestation in its palm oil procurement, in consideration of preservation of biodiversity.

% of total commodity volume covered by standard

91-99%

Do you have a system in place to monitor compliance with this standard?

Yes

Type(s) of monitoring system

Aerial monitoring system

% of suppliers in compliance with standards

91-99%

Please explain

We confirm the traceability of palm oil through the following procedures. (1) Obtain the supply chain information (names, locations, etc., of palm kernel mills (Tier-2) and palm oil mills (Tier-3) from Tier-1 suppliers (refinery plants). Mapping this information enables us to identify the palm oil suppliers (90 palm kernel mills, 862 palm oil mills). (2) Conduct third party verifications for the above Tier-1 suppliers to confirm their initiatives, and review suppliers' efforts and information on the entire supply chain. (3) Select representative mills in the respective regions from among the palm kernel mills that supply palm oil to the Tier-1 suppliers, and conduct a third-party verification for those mills (5 mills in 2018). (4) For the palm oil mills confirmed in (1), a third party organization performs risk mapping. During this risk mapping, the organization identifies the status of the surrounding forests by using satellite photographs, administrative maps and vegetation maps, etc., within 50 km of the palm oil mill. If the presence of protected forest lands, traces of fire, peatland, etc., are confirmed within that range, we determine that the relevant mill is at a high risk of having received palm oil or kernels from a farm likely to be contributing to deforestation (89 mills were identified in 2016 and 2017). (5) For palm oil mills judged as high-risk during the risk mapping, we conduct an on-site investigation with the appropriate specialists, request each mill to make improvements, and monitor the progress of these improvements (on-site investigation was conducted for 2 mills in 2018 and verification based on information from Tier-1 suppliers was conducted for 5 mills).

F6.7

(F6.7) Are you working with your direct suppliers to support and improve their capacity to supply sustainable raw materials?

	Are you working with direct suppliers?	Supplier engagement approach	Please explain
Timber	Yes, working with direct suppliers	Supplier questionnaires on environmental and social indicators	We administer a Self-Assessment Questionnaire (SAQ; social and environmental aspects) for all Tier-1 suppliers. · Main strategy of engagement Kao has established the Guidelines for Supplier's Assessment, which stipulates environmental, safety, legal, and other initiatives for all Tier-1 suppliers. We request our suppliers to perform this self-assessment, and we monitor the results to confirm their compliance with the Guidelines. We also request our main suppliers to respond to surveys under the CDP Supply Chain Program. · Estimated percentage 91-99% · Case study As a result of monitoring the self-assessment results, we visited suppliers who had not met the criteria last year, shared issues with them, and requested them to work on making specific improvements. In addition, regarding the forest issues addressed by the CDP Supply Chain Program, we requested 23 of our paper and pulp suppliers to respond to a survey in order to conserve the forests throughout the entire supply chain.
Palm Oil	Yes, working with direct suppliers	Developing or distributing supply chain mapping tool Supplier questionnaires on environmental and social indicators Supplier audits	We administer a Self-Assessment Questionnaire (SAQ; social and environmental aspects) for all Tier-1 suppliers. · Main strategy of engagement Kao has established the Guidelines for Supplier's Assessment, which stipulates environmental, safety, legal, and other initiatives for all Tier-1 suppliers. We request our suppliers to perform this self-assessment, and we monitor the results to confirm their compliance with the Guidelines. We also request our main suppliers to respond to surveys under the CDP Supply Chain Program. · Estimated percentage 91-99% · Case study As a result of monitoring the self-assessment results, we visited suppliers who had not met the criteria last year, shared issues with them, and requested them to work on making specific improvements. In addition, regarding the forest issues addressed by the CDP Supply Chain Program, we requested 6 of our palm oil suppliers to respond to a survey in order to conserve the forests throughout the entire supply chain.
Cattle products	<Not Applicable>	<Not Applicable>	<Not Applicable>
Soy	<Not Applicable>	<Not Applicable>	<Not Applicable>
Other - Rubber	<Not Applicable>	<Not Applicable>	<Not Applicable>
Other	<Not Applicable>	<Not Applicable>	<Not Applicable>

F6.8

(F6.8) Are you working beyond your first-tier supplier(s) to manage and mitigate forests-related risks?

	Are you working beyond first tier?	Please explain
Timber	Yes, working beyond first tier	To achieve zero deforestation as specified under Kao's Sustainable Pulp and Paper Procurement Guidelines, we use the World Wide Fund for Nature (WWF) Japan's Responsible Purchasing Checklist for Forest Products to trace raw materials from Tier-1 suppliers, identify the forest of origin, and confirm that the sustainability of the relevant forests are addressed socially, environmentally and economically. By last year, we had investigated 80% (on a procurement volume basis) of our suppliers. If the checklist indicates that a supplier has not taken into account the sustainability of a forest, or that the supplier does not respect the rights of the native population, we will request that they make improvements, or consider suspending transactions with them.
Palm Oil	Yes, working beyond first tier	Palm oil suppliers comprise palm kernel oil refineries (Tier-1), palm kernel oil mills (Tier-2), palm oil mills (Tier-3), and oil palm farms (Tier-4). In 2018, we conducted third-party verification of 4 mills that are representative of 90 palm kernel oil mills (Tier-2) in their respective regions. We also conducted on-site investigation of 2 mills among 862 palm oil mills (Tier-3) and verification of 5 mills based on information from palm kernel oil refineries (Tier-1). For each of the issues discovered, we proposed or requested that the respective operators make improvements. In addition, we participated in the stakeholder engagement program hosted by CRT and visited small-scale farmers (Tier-4) in Malaysia's Selangor State to listen to talks from farm owners engaging in organic farming. We also received an explanation of the cargo collection business, which aims to fairly distribute profits at cargo pickup points run by the Malaysian Palm Oil Board (MPOB). Following that, we joined a discussion with six small-scale oil palm farmers and MPOB staff, gaining knowledge on the situation at farms and about the small-scale farm support business called KPSM. KPSM is promoted by the MPOB. In Indonesia, we joined a discussion meeting with small-scale farm owners, etc. (Tier-4) in Jambi State to listen to them explaining the situation at farms and a certification* initiative for improving productivity and product appeal through a producer's association.
Cattle products	<Not Applicable>	<Not Applicable>
Soy	<Not Applicable>	<Not Applicable>
Other - Rubber	<Not Applicable>	<Not Applicable>
Other	<Not Applicable>	<Not Applicable>

F6.9

(F6.9) Do you participate in external initiatives or activities to further the implementation of your policies concerning the sustainability of your disclosed commodity(ies)?

Forest risk commodity

Timber

Do you participate in activities/initiatives?

Yes

Activities

Involved in multi-partnership or stakeholder initiatives

Initiatives

UN Global Compact

The Consumer Good Forum (CGF)

FSC

Other, please specify (JBIB, CSPU)

Please explain

Kao is the board member of CGF. We have participated in JBIB (Japan Business Initiative for Conservation and Sustainable Use of Biodiversity) that is an initiative where Japanese companies having high motivation to an action about the conservation of biodiversity and the sustainable use of natural capital. We participate in JBIB since its founding and play a role of vice president and contribute to level-up of members by introducing and promoting our activities for the reduction of deforestation. We also participate in CSPU (Consortium for Sustainable Paper Use) in order to improve social awareness and enhance the use of socially and environmentally responsible paper use. To achieve this objective, we hold information seminar and share our experience with other actors in collaboration with WWF and other participating companies. At the Post 2020 Procurement of Sustainable Forest Resources Press Conference sponsored by Forest Stewardship Council (FSC) Japan, held in July 2018, Kao announced the FSC certified procurement declaration 2020. In this declaration, we promised to procure FSC-certified materials, in collaboration with six other Japanese companies attending the conference.

Forest risk commodity

Palm Oil

Do you participate in activities/initiatives?

Yes

Activities

Involved in multi-partnership or stakeholder initiatives

Initiatives

UN Global Compact

The Consumer Good Forum (CGF)

Roundtable on Sustainable Palm Oil (RSPO)

Other, please specify (JBIB, Bluenumbers, SUSTAIN, JaSPON)

Please explain

Kao is the board member of CGF. We have participated in JBIB (Japan Business Initiative for Conservation and Sustainable Use of Biodiversity) that is an initiative where Japanese companies having high motivation to an action about the conservation of biodiversity and the sustainable use of natural capital. We participate in JBIB since its founding and play a role of vice president and contribute to level-up of members by introducing and promoting our activities for the reduction of deforestation. We participate in Bluenumbers and SUSTAIN to confirm traceability of palm farms (especially small-scale farms). We also participate in JaSPON as a founder member, and have been promoting the spread of sustainable palm oil in collaboration with the industry.

F7. Linkages and trade-offs

F7.1

(F7.1) Has your organization identified any linkages or trade-offs between forests and other environmental issues in its direct operations and/or other parts of its value chain?

Yes

F7.1a

(F7.1a) Describe the linkages or trade-offs and the related management policy or action.

Linkage/tradeoff

Linkage

Type of linkage/tradeoff

Increased carbon sequestration

Description of linkage/tradeoff

Forests play an important role in stabilizing climate by absorbing and holding CO2 in the atmosphere. Proper forests management to stop deforestation enhances carbon sequestration function, which leads to ease climate change and is necessary action to realize enriched lifestyle for the current and future generations. Among palm kernel oil producing countries, in Malaysia and Indonesia from which Kao purchases, GHG emissions produced by development of peat lands become an issue and halt development of peat lands leads to increased carbon sequestration. Measuring increased carbon sequestration is difficult for Kao as it does not own farms and forests, but forest risk commodities Kao procures annually amount to as much as 274,000 tons of timber and 421,000 tons of palm. Kao can contribute to increased carbon sequestration by checking and promoting sustainable forests management through the supply chain management which supplies the forest risk commodities.

Policy or action

i) A description of an action to manage the linkage is given Kao has laid out guidelines for "Sustainable palm oil" and "Sustainable paper and pulp" and advocates zero deforestation. To this end, a total of six targets have been set out such as confirming zero deforestation by palm oil producing sites. One of the targets is prohibiting participation in development of peat wetland forestry and initiatives are promoted to stop destruction of peat wetland forestry. ii) How the management action is integrated into the business strategy Kao aims at 2.5 trillion yen in revenue in 2030. To this end, it is assumed that about 1.5 times as much as procurement of raw materials is needed compared to the current procurement in quantity. Procurement of important forest related raw materials such as palm oil, paper and pulp without GHG emissions produced by deforestation of peat lands leads to securing social sustainability and is aligned with a direction of Kao's growth strategy. iii) A change in the measured impact of the linkage in the reporting year In 2018, kao's palm oil (RSPO certified palm kernel oil) from sustainable forests increased by approximately 20,000 tons, or about 50 tons, compared to 40,000 hectares in terms of area. That led to increased carbon sequestration in this area equivalent plantation.

F8. Verification

F8.1

(F8.1) Do you verify any forests information reported in your CDP disclosure?

Yes

F8.1a

(F8.1a) Which data points within your CDP disclosure have been verified, and which standards were used?

Disclosure module

F6. Implementation

Data points verified

Timber Ratio of certified paper/pulp materials (%) Palm Oil Certified palm oil purchases (thousand tons)

Verification standard

ISAE3000

Please explain

Kao has been promoting zero-deforestation activities targeting timber and palm oil that the Kao Group purchases globally. Purchasing certified products is a major component of these activities, and we consider it essential to objectively evaluate their progress. Accordingly, we selected the above data points as the targets for verification with regard to timber and palm oil that the Kao Group purchases globally. This verification is the first verification conducted this year.

F9. Barriers and challenges

F9.1

(F9.1) Describe the key barriers or challenges to avoiding forests-related risks in your direct operations or in other parts of your value chain.

Forest risk commodity

Timber

Coverage

Other parts of the value chain

Primary barrier/challenge type

Limited public awareness and/or market demand

Comment

Forest risk commodity

Palm Oil

Coverage

Supply chain

Primary barrier/challenge type

Supply chain complexity

Comment

F9.2

(F9.2) Describe the main measures that would improve your organization's ability to manage forests-related risks.

Forest risk commodity

Timber

Coverage

Other parts of the value chain

Main measure

Increased demand for certified products

Comment

Forest risk commodity

Palm Oil

Coverage

Supply chain

Main measure

Investment in monitoring tools and traceability systems

Comment

F18. Signoff

F-FI

(F-FI) Use this field to provide any additional information or context that you feel is relevant to your organization's response. Please note that this field is optional and is not scored.

F18.1

(F18.1) Provide the following information for the person that has signed off (approved) your CDP forests response.

	Job Title	Corresponding job category
Row 1	Representative Director, President and Chief Executive Officer	Chief Executive Officer (CEO)

SF. Supply chain module

SF0.1

(SF0.1) What is your organization's annual revenue for the reporting period?

	Annual revenue
Row 1	20770000000

SF0.2

(SF0.2) Do you have an ISIN for your organization that you are willing to share with CDP?

Yes

SF0.2a

(SF0.2a) Please share your ISIN in the table below.

	ISIN country code	ISIN numeric identifier (including single check digit)
Row 1	JP	3205800000

SF1.1

(SF1.1) On F6.4 you were asked "Do you specify any third-party certification schemes for your disclosed commodity(ies)? Indicate the volume and percentage of your production and/or consumption covered". Can you also indicate, for each of your disclosed commodity(ies), the percentage of certified volume sold to each requesting CDP supply chain member?

No

SF1.1b

(SF1.1b) Why can you not indicate the percentage of certified volume sold to each of your requesting CDP supply chain members? Describe any future plans for adopting and communicating levels of certification to requesting members.

Requesting member

FIRMENICH SA

Forest risk commodity

Timber

Primary reason

Insufficient data on what is sold to requesting member

Please explain

We are promoting the purchase of certified Timber and we know the our total purchase amount. However, the traceability to the end customer is not enough, so we couldn't allocate them to each customer.

Requesting member

L'Oréal

Forest risk commodity

Timber

Primary reason

Insufficient data on what is sold to requesting member

Please explain

We are promoting the purchase of certified Timber and we know the our total purchase amount. However, the traceability to the end customer is not enough, so we couldn't allocate them to each customer.

Requesting member

Symrise AG

Forest risk commodity

Timber

Primary reason

Insufficient data on what is sold to requesting member

Please explain

We are promoting the purchase of certified Timber and we know the our total purchase amount. However, the traceability to the end customer is not enough, so we couldn't allocate them to each customer.

Requesting member

FIRMENICH SA

Forest risk commodity

Palm Oil

Primary reason

Insufficient data on what is sold to requesting member

Please explain

We are promoting the purchase of certified palm oil and we know the our total purchase amount. However, traceability of the derivative manufacturing process and traceability to the end customer is not enough, so wo couldn't allocate them to each customer.

Requesting member

L'Oréal

Forest risk commodity

Palm Oil

Primary reason

Insufficient data on what is sold to requesting member

Please explain

We are promoting the purchase of certified palm oil and we know the our total purchase amount. However, traceability of the derivative manufacturing process and traceability to the end customer is not enough, so wo couldn't allocate them to each customer.

Requesting member

Symrise AG

Forest risk commodity

Palm Oil

Primary reason

Insufficient data on what is sold to requesting member

Please explain

We are promoting the purchase of certified palm oil and we know the our total purchase amount. However, traceability of the derivative manufacturing process and traceability to the end customer is not enough, so wo couldn't allocate them to each customer.

SF2.1

(SF2.1) Please propose any mutually beneficial forests-related projects you could collaborate on with specific CDP supply chain members.

SF2.2

(SF2.2) Have requests or initiatives by CDP supply chain members prompted your organization to take organizational-level action to reduce or remove deforestation/forest degradation from your operations or your supply chain?

No

Submit your response

In which language are you submitting your response?

English

Please confirm how your response should be handled by CDP

	Public or Non-Public Submission	I am submitting to	Are you ready to submit the additional Supply Chain Questions?
I am submitting my response	Public	Investors Customers	Yes, submit Supply Chain Questions now

Please confirm below

I have read and accept the applicable Terms