

Welcome to your CDP Forests Questionnaire 2021

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 16.9% of total turnover in fiscal 2020; The Skin Care and hair Care Business,22.4%; The Human Health Care Business,16.9%; The Fabric and Home Care Business, 27.1%; and The Chemical Business,16.7%. The Company reported JPY 1,382.0 b in revenues and 33,409 permanent employees at December 31, 2020.

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, 2020 | December 31, 2020 |

F0.3

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

JPY

F0.4

(F0.4) Select the forest risk commodity(ies) that you are, or are not, disclosing on (including any that are sources for your processed ingredients or manufactured goods); and for each select the stages of the supply chain that best represents your organization’s area of operation.

| | Commodity disclosure | Stage of the value chain | Explanation if not disclosing |
|-----------------|---|--------------------------|--|
| Timber products | Disclosing | Manufacturing | |
| Palm oil | Disclosing | Manufacturing | |
| Cattle products | This commodity is not produced, sourced or used by our organization | | |
| Soy | This commodity is not produced, sourced or used by our organization | | |
| Other - Rubber | This commodity is not produced, sourced or used by our organization | | |
| Other - Cocoa | This commodity is not produced, sourced or used by our organization | | |
| Other - Coffee | Not disclosing | Manufacturing | Kao purchases, processes and sells coffee however, we consider coffee brings negligible impact on our business, because coffee contributes less than 1 percent of Kao's revenue. |

F0.5

(F0.5) Are there any parts of your direct operations or supply chain that are 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)?

Timber products

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/Area of origin

Canada
China
Germany
Indonesia
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 mainly for making our hygiene products, and paper for the packages of our consumer products. We also use plain paper copier at our offices.

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/Area of origin

Indonesia
 Malaysia

% 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.

F1.2

(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 products | 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 83% of our total revenue. |
| Palm oil | 81-90% | We purchase Palm and Palm Kernel oil and its 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. |

F1.5

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

| | Data availability/Disclosure |
|-----------------|--|
| Timber products | Consumption data available, disclosing |
| Palm oil | Consumption data available, disclosing |

F1.5a

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

Forest risk commodity

Timber products

Data type

Consumption data

Volume

287,000

Metric

Metric tons

Data coverage

Full commodity production/consumption

Please explain

Forest risk commodity

Palm oil

Data type

Consumption data

Volume

431,000

Metric

Metric tons

Data coverage

Full commodity production/consumption

Please explain

F1.5b

(F1.5b) For your disclosed commodity(ies), indicate the percentage of the production/consumption volume sourced by national and/or sub-national jurisdiction of origin.

Forest risk commodity

Timber products

Country/Area of origin

Any other countries/areas

State or equivalent jurisdiction

% of total production/consumption volume

69

Please explain

Kao's procurement of paper and pulp in three countries (Japan, the U.S. and Canada) accounts for 69%. Kao manages all information on paper and pulp, including the amount procured, through the Internal company system.

Forest risk commodity

Palm oil

Country/Area of origin

Indonesia

State or equivalent jurisdiction

Specify state/equivalent jurisdiction

Riau

% of total production/consumption volume

Please explain

Forest risk commodity

Palm oil

Country/Area of origin

Malaysia

State or equivalent jurisdiction

Specify state/equivalent jurisdiction

Perak

% of total production/consumption volume

Please explain

F1.5e

(F1.5e) How does your organization produce or consume biofuel derived from palm oil?

Does your organization produce or consume biofuel derived from palm oil?

No

Data type

Volume produced/consumed

Metric

Country/Area of origin

State or equivalent jurisdiction

% of total production/consumption volume

Does the source of your organization's biofuel material come from smallholders?

Comment

F1.6

(F1.6) 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 products

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

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 identifies the places of origin of all supplied pulp and paper. The existing tools do not provide sufficient information for tracing places of origin. Therefore, we have developed internal company methods. Kao is using WWF Japan's Responsible Purchasing Checklist for Forest Products to assess the origin and risk for non-certified pulp and paper.

This checklist is to consider the environment, society, and economic aspects of forests that produce paper and wood products. We confirm the "traceability" in the supply chain, and the "suitability of management" for the forest. The results is shown in six stages of S,A,B,C,D and E. The checklist is self-filled with the evidence, i.e., a copy of the logging permissions or the results of an environmental assessments. Kao's purchasing staff asks Tier1 supplier to complete this.

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 however, for the suppliers of non-certified products, investigations are conducted using the checklist. In 2020, the proportion of non-certified products was 6%.

Based on the evaluation with the checklist, Kao assess any risks arising from raw materials supplied to Kao in our annual review after evaluating copies of logging permissions and environmental assessments.

The activities above are implemented in collaboration with external consultants.

Kao has been previously told by NGOs that Tire1 supplier companies are purchasing forest related products from companies suspected of deforestation. At that time, Kao immediately confirmed if the name of the suspected company was on WWF Japan's Responsible Purchasing Checklist for Forest Products on which Tire1 business partner was listed. Kao promptly requested that Tire1 suppliers improve, and suspended transactions of the timber products until they were improved. In 2020, when Uygur Autonomous Region in China captured people's attention, Kao reviewed Kao's pulp and cotton supply chains based on WWF Japan's Responsible Purchasing Checklist for Forest Products and confirmed that they were not purchased from the region.

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

Internal company methods
External consultants
Other, please specify
SUSTAIN

Please explain

As part of our risk assessment for the consistent continuation of our business, Kao now identifies the places of palm oil mill of all supplied palm oil. The available tools do not provide sufficient information for tracing the places of origin. Therefore, Kao has developed internal company methods, to evaluate traceability up to the mills and for both of carrying out a risk-assessment and confirming traceability. The risk assessment method is as follows.

(1) Kao obtains supply chain information from refineries (Tier-1) about the name of palm kernel oil mills (Tier-2) and palm oil mills (Tier-3), parent company names, locations

(latitude and longitude), etc. and prepares a palm mill list. By contacting Tier-1, Kao confirms the status of NDPE/HCSA/FPIC compliance efforts at Tier-1, its group companies, Tier-2 and Tier-3 in the supply chain. Kao surveys for plantations (Tier-4) by regularly contacting Tier-1 to verify traceability to Tier-4.

In 2019, Kao published a palm mill list of 1,045 palm oil mills and updated in 2020 (1,027 mills). In 2020, Kao requested and confirmed that 8 Indonesian and Malaysian Tier1 comply with NDPE/HCSA.

(2) Kao has prepared a palm mill map from the list in (1) and (i) uses satellite photos etc. to check if there are national parks, protected forests and peatlands within a 50km radius of palm mill, etc., (ii) if there are mills that have caused previous problems in the parent company, etc., (iii) upon information from NGOs is confirmed and identified as risk mill. In 2018, Kao released a palm mill map with the locations of 90 palm kernel oil mills and 862 palm oil mills.

(3) Kao hears from Tier-1 regarding risk mills. Kao carries out an on-site survey by third-party to check high risk mills, and requests the mills for improvement, and follows up. By 2019, Kao had conducted on-site surveys of 8 mills and informational verifications from Tier-1. Kao plans to conduct an audit if it determines that there is a problem in the future.

The activities shown in (2) and (3) are implemented with external consultants.

We participate in SUSTAIN to confirm the traceability of small farms.

In 2020, Kao obtained a risk information from an NGO for a supplier. Kao confirmed that it had not purchased any risky palm manufactured at the relevant supplier plants in Indonesia and Malaysia. However, Kao asked the supplier to make improvements.

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 active ingredients 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.

In 2019, Kao formed the TCFD-Adhoc Group under the ESG Committee, including procurement departments and executive directors of the Risk Management Committee. The group examined the procurement potential of Timber and Palm Oil through 2050 based on public information published around the world, based on two climate change scenarios: a 2°C scenario and a 4°C scenario, and a future demand forecast. The survey covers Kao's source of origin (pulp-supplying forests in North America for Timber, palm oil farms in Malaysia and Indonesia for Palm Oil), and the supply chain from the forest to the Kao group's plant. Kao set forests as survey target because forests are vulnerable with natural phenomena such as temperature and precipitation,

and because the risk to supply chains would affect procurement activities when climate change triggers natural disasters such as floods.

In 2019, Kao investigated the effects of climate change on the yield of forest related commodity (Timber and Palm) in 2030. As a result, there was no significant influence to Kao. However, at the same time, useful information was obtained that procurement risks would become apparent because demand will increase in the future.

In 2020, in order to evaluate the impact of climate change on the cultivation of oil palm trees in Malaysia and Indonesia, from where Kao procures palm oil, we examined the documents available in the public domain and reviewed our existing forecasts. The results of this evaluation showed that the more the temperature rises, the smaller the area suitable for oil palm cultivation will become. It was confirmed that there is a strong likelihood that rising temperatures will be accompanied by a fall in palm oil harvests. For example, in Malaysia, a 1 degree Celsius rise in the average temperature would lead to an approximately 10% fall in the size of the palm oil harvest. This report is also reported to Kao's procurement department, the risk crisis management committee, and the ESG committee chaired by the CEO. Kao's ESG Committee decided to conduct an investigation to improve the accuracy of the survey.

Quality of forest risk commodities

Relevance & inclusion

Relevant, always included

Please explain

The quality of palm oil and Timber is vital to Kao's continued stable production of quality products, and is a critical part of our risk assessment. Kao's typical use of palm kernel oil involves purchasing crude palm kernel oil, obtaining refined oil from its own plants, using it as a raw material to produce derivatives, which are sold externally or used in its own products. When the quality of crude palm kernel oil purchased by Kao changes, the operating conditions of the refining process at the time of manufacture change. At times, there is a risk that the quality of final products made from palm oil, such as detergents, which are Kao's mainstay products, will be affected. Therefore, we recognize the quality of crude palm kernel oil purchased, including colour and smell, as a risk.

Kao evaluates the quality of purchased forest related raw materials at Quarity Assurance of the plant where they were delivered, and accumulates the resulting data. Quarity Assurance of the plant where the raw materials for Forest related are delivered shall be reported to Quality Management Committee when they are judged to be risky in light of the quality standards, such as when the quality of the raw materials varies more than specified or the quality of the raw materials tends to deteriorate. Quality Management Committee under Internal Control Committee assesses whether variations in the quality of certain forest related feedstocks pose significant risks. Quality Management Committee formulates, implements, and evaluates measures under Risk & Crisis Management Committee when the likelihood of occurrence and impact on management are significant.

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, K25.

Laundry detergents, one of Kao’s major products, use a large amount of palm kernel oil in its active ingredients. Kao’s diapers and some packaging materials are mainly made of timber.

If Forest risk commodities are produced through illegal logging, they will lead deterioration of ecosystems and habitats in the forest. This is a violation against Kao’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 of Kao.

When traceability is checked for the supply chain to the forest commodity’s production site, it is important to evaluate the impact on ecosystem of the site. To this end, in palm oil, Kao possess a map showing vegetation including palm oil mills and farms which supply palm to mills and use of lands in collaboration with NGOs.

Through these activities, it was found that there are many small palm plantations in the first producer of Kao's palm oil, and productivity is not high in these farms. Therefore, Kao decided to start a support program for small palm plantations (Tier-4) in cooperation with a palm kernel oil supplier (Tier-1) in 2019.

Kao, together with Apical Group of oils and fats manufacturing and sales companies, and Asian Agri, a plantation company, established a support program in 2020. By providing educational support for small-scale plantations to improve yield of palm oil, the program aims to support 5000 small-scale plantations in three provinces of Indonesia- Sumatra (Liau, Jambi, and Northern Sumatra) to acquire RSPO certification by 2030. As the improvement of productivity for palm plantation is effective to prevent the deterioration of ecosystem around the farm, the program is expected to support to maintain the ecosystem.

Regulation

Relevance & inclusion

Relevant, always included

Please explain

A large quantity of palm kernel oil is used for active ingredients contained in laundry 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.

Kao's purchasing division works closely with Tier1 suppliers and NGOs to collect information on new regulations concerning palm oil, paper, and pulp, and accumulate such information as in-house knowledge. The Secretariat of Responsible Care

Promotion Committee, which is responsible for compliance with environmental laws and regulations, also confirms the introduction of new laws and regulations every month. Using this information on new regulation, the Procurement Division below The Risk and Crisis Management Committee regularly (at least annually) use the information on this new regulation to assess risks and develop countermeasures. 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.

In 2020, there were no new legal or regulatory information that could have a significant impact on Kao's management.

Climate change

Relevance & inclusion

Relevant, always included

Please explain

A large quantity of palm kernel oil is used for active ingredients contained in laundry 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.

In 2020, in order to evaluate the impact of climate change on the cultivation of oil palm trees in Malaysia and Indonesia, from where Kao procures palm oil, we examined the documents available in the public domain and reviewed our existing forecasts. The results of this evaluation showed that the more the temperature rises, the smaller the area suitable for oil palm cultivation will become. It was confirmed that there is a strong likelihood that rising temperatures will be accompanied by a fall in palm oil harvests. For example, in Malaysia, a 1 degree Celsius rise in the average temperature would lead to an approximately 10% fall in the size of the palm oil harvest.

The results were shared within the business units, procurement division and so on. The information is 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 active ingredients contained in laundry 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 were shared within the business units and procurement division and so on. The information is 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 active ingredients contained in laundry 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, Kao's 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 active ingredients contained in laundry 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.

If Kao's disposable diapers are suspected of using illegally logged timber, there is a risk that consumers choose competing products which could result in a decline in Kao's market share.

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.

Leakage markets

Relevance & inclusion

Relevant, sometimes included

Please explain

A large quantity of palm kernel oil is used for active ingredients contained in laundry detergents, one of Kao's key products. Timber is used for paper diapers and packing materials.

There is a risk that Kao's chemical products are used by customers as biofuel, and customers' factories are at risk of causing environmental damage to local residents and harmful rumors to Kao. In addition, if Kao's suppliers deal with non-compliant commodities, Kao may be held responsible as a purchaser of compliance-compliant forest commodities.

Raw materials derived from Timber are not used for Non-compliant applications because they are used in Kao's finished products.

Raw materials derived from Palm are sold to customers as finished products such as Kao's detergents and chemical products such as higher alcohol derivatives. Kao's Chemicals Division communicates with customers through buyers and regularly checks the applications used by customers. Every year, Kao uses Sedex or Kao SAQs to answer social questions, including compliance and human rights, and evaluate the results. Further Kao 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 non compliant activities related to forest-risk commodities, under the Risk and Crisis Management Committee.

In 2020, no new Leakage markets risks were identified that could have a material impact on Kao's management.

Brand damage related to forest risk commodities

Relevance & inclusion

Relevant, always included

Please explain

A large quantity of palm kernel oil is used for active ingredients contained in laundry 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.

Kao accumulates and maintains Historical Information of routinely checked data in order to recognize that Palm and Timber have an enormous impact on corporate brand damage. Historical Information in similar industries that Kao has gathered to date include, for example, an NGO displaying images of wildlife in tropical rainforests killed in branded products, or a gigantic banner in another company's headquarters building to appeal for forest conservation.

Kao engages in dialogues with organizations that disseminate Latest information and directly to resolve issues. In 2020, for example, Kao received an inquiry from The Rainforest Alliance Network about forests and human rights policies and held a dialogue with them.

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 is directly linked to the loss of markets.

Corruption

Relevance & inclusion

Relevant, always included

Please explain

Malaysia and Indonesia, countries where Kao procures 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. Kao endorses the Global Compact that 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 will 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 active ingredients contained in laundry 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. Kao asks Tier-1 suppliers to collect information on their upstream supplier Tier-2, Tier-3, which Kao is informed about. Kao uses this information to assess the risks associated with palm oil and Timber in accordance with the risk assessment methods stipulated in

the Kao Human Rights Policy. The Procurement Division identifies and manages social situations under the Risk Management Committee. Kao has also confirmed that there are risks related to Social Impact related to the procurement of palm oil.

Therefore, 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 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 request Kao 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 2020, the procurement volume of RSPO-certified oil was increased by 14% from 2019. A set of 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.

We had completed the initial plan of obtaining the RSPO SCCS certification at 35 Kao plants and offices globally in 2018.

Employees

Relevance & inclusion

Relevant, always included

Please explain

Kao uses palm kernel oil for active ingredients contained in laundry 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. Procurement Division employees have taken the Certification Test for Environmental Specialists ("Eco Test") as the education to understand the relationship among our business, society and environment, and change their actions. The cumulative passing rate in 2020 for employees in the Procurement Division was 78% for the Eco Test. 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 active ingredients contained in laundry 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. 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 active ingredients contained in laundry 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 participate 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 talk with farm owners, etc. Obtaining information on potential risks such as conflicts related to land development through such conversations helps in evaluating risks associated with local residents. In addition, we gain 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 active ingredients contained in laundry 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 participate 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 gain 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 active ingredients contained in laundry 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 participate 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 obtain 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 active ingredients contained in laundry 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.

Regulatory authorities have the authority to determine the level of new regulations. Kao has included regulator in its risk assessment because it is necessary to understand the risks associated with the regulations and to respond quickly to the risks prior to the introduction of new regulations. As part of its engagement with regulatory authorities, Kao holds interviews with regulatory authorities and exchanges opinions through industry associations and other organizations.

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 active ingredients contained in laundry 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, Kao will stop purchasing procure palm oil from that supplier. This may affect our product supply. Also, if they know that we procured palm oil from such 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 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 products | Yes |
| Palm oil | Yes |

F3.1a

(F3.1a) How does your organization define substantive financial or strategic 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 products

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 baby diaper "Merries" throughout Asia and the growth in sales of these products is one of Kao's growth drivers. "Merries" uses pulp. Such situations will lead to reduced operations at Kao plants, resulting in an increase in fixed costs over sales. In Japan, which accounts for more than half of the sales of the human health business to which baby diaper "Merries" belongs, about 40% of consumers refer to word of mouth such as SNS include negative campaign when they purchase daily necessities such as baby diapers. Therefore, if customer and other stakeholder concerns about Kao's activities on Timber increase, there is a risk that the "Merries" brand will be damaged and sales of baby diapers will decrease. So, Kao has set a goal of confirming 100% of the origin of paper and pulp by 2020 in 2014, and is engaged in activities every year. Through this activity, it was possible to confirm 100% origin as of 2020. This activity does not generate the above negative campaigns. It should be noted that the additional cost for the confirmation of the place of origin is only labor costs for carrying out this activity. 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.

Timeframe

Current - up to 1 year

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)

6,200,000,000

Potential financial impact figure - minimum (currency)

Potential financial impact figure - maximum (currency)

Explanation of financial

Kao is developing baby diapers "Merries" in Asian countries. "Merries" has sold more than 100 billion yen per year and is one of Kao's future growth drivers. In Japan, about 40% of consumers refer to word of mouth such as SNS include negative campaign when they purchase daily necessities such as baby diapers. 62% of sales in the human health business to which baby diaper "Merries" belongs are in Japan. In Japan, about 40% of consumers refer to word of mouth such as SNS include negative campaign when they purchase daily necessities such as baby diapers. Kao expects up to 25% of

consumers to change their sales behavior by touching this information. If 25% of the consumers didn't actually buy it, annual sales of "Merries" would fall by 6.2 billion yen (=100 billion yen x 62% x 40% x 25%). This is equivalent to 2.6% of Kao's human health business (where baby diapers "Merries" belong) of 234.0 billion yen. We recognize that this risk can occur at any time at the moment.

Primary response to risk

Increased use of sustainably sourced materials

Description of response

Sales of Kao's disposable diaper "Merries" exceeds JPY100 billion. If reputation and other risks to that product materialize and net sales decline by 5%, there will be a negative impact of JPY5 billion or more. While these risks have not yet surfaced, Kao recognizes that the risk of reputation for products that do not use certified products may become apparent in one to three years as the forest management council (FSC) and other certification systems become well known in the world. Kao has therefore continued to respond to the strategic goals of (i) identifying 100% of paper and pulp origin by 2020, and (ii) replacing all paper and pulp with certified products by 2025.

As a result, in 2020, (i) the verification of the place of origin was completed by 100%, and (ii) the percentage of certified products was 94%. In this way, Kao's progress in identifying the origin of paper and pulp and procuring certified products has remained high relative to its strategic objectives. We also recognize that this response is sufficiently effective because Kao does not have a negative campaign against this risk or the accompanying decline in sales.

Cost of response

1,200,000

Explanation of cost of response

Kao's two measures were not accompanied by increased direct costs. On the other hand, Kao incurs administrative expenses to manage the status of implementation. To manage this risk, each year we require personnel costs for 1 employee (12million JPY/person/Year) to engage 10% of the year. Therefore, the cost required for the response was 1.2 million JPY (=12million JPY/person x 1person x 10%). 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 of Kao's cleaning products (ATTACK laundry detergent, and Biore body wash, etc.) use Palm Oil as one of the raw materials. Of Kao's skin care, hair care, fabric and home care business, which mainly handles cleaning products, sales in 2020 were 683.3 billion yen, with sales in Europe and the Americas of 115.2 billion yen. In Japan, which accounts for about 73% of sales in these businesses, about 40% of consumers refer to word of mouth such as SNS include negative campaign when they purchase daily necessities such as laundry detergent. Therefore, if the concern of customers and other stakeholders increases about Kao's activities against Palm, there is a risk that many brands of Kao will be damaged and their sales will decline. Kao is promoting its activities every year with the goal of 100% confirming the origin of palm oil to be purchased by 2020 in 2014. In 2020, we have confirmed 100% traceability up to palm oil mills.

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)

68,330,000,000

Potential financial impact figure - minimum (currency)

Potential financial impact figure - maximum (currency)

Explanation of financial

The sales of Kao's consumer product business are 1.151 trillion yen. Among them, sales of the skin care and hair care business and fabric and home care business, which handle a large number of products using active agents derived from palm oil, are 683.3 billion yen. In Japan, about 40% of consumers refer to word of mouth such as SNS include negative campaign when they purchase daily necessities such as laundry detergent. Kao expects up to 25% of consumers to change their sales behavior by touching this information. If the reputational risk associated with procuring palm oil becomes evident and the sales amount drops by 25% accordingly, the negative impact

will be 68.33 billion yen (=683.3 billion Yen x 40% x 25%) per year. 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. We recognize that this risk can occur at any time at the moment.

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, we completed traceability to palm oil mills in 2020. Our activity does not generate the above negative campaigns. In addition, there is the purchase of certified oil as one of the methods of confirming the origin of the country, this oil has become a premium price.

Cost of response

3,600,000

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 three employee every year (3.6 million Yen = 12 million Yen/person x 3 person x 10%). In addition, no additional costs will be incurred for the time being.

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 products | Yes |
| Palm oil | Yes |

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 products

Type of opportunity

Products & services

Where in your value chain does the opportunity occur?

Supply chain

Primary forests-related opportunity

Increased brand value

Company-specific description & strategy to realize opportunity

In the future, ethical consumption is expected to grow around the world in order to realize a sustainable society. For example, the market size of sustainable certified products in the U.S. has grown by 5% per year, and this growth rate is expected to continue. In contrast, the market size of sustainable certified products in Asia, including Japan, has not reached the United States, so the market growth rate in Asia is expected to be 2.5%/year, assuming a market growth rate of 1/2 of the United States.

Kao's baby diapers "Merries" have sales of more than 100 billion yen in Asia. Therefore, this product may contribute to an increase in sales by more than 2.5 billion yen by affixing ethical certification labels such as FSC and PEFC to stimulate ethical consumers' willingness to purchase. As Kao considers one billion yen is a "significant impact", it is a serious strategy to stimulate ethical consumption.

Kao is offering products that clearly state the FSC certification labelling the package. In addition to contributing to the improvement of the value of the product brand, we believe this will contribute to the expansion of the new ethical market. Kao has specified the FSC certification labelling on paper boxes for laundry detergent ATTACK, and the introduction rate of FSC certified paper into product paper boxes, cardboard and pulp in 2020 has reached about 60%. Kao is also actively promoting the introduction of FSC certified cardboard, and in 2020, it introduced FSC certified paper to about 94% of cardboard used in Kao group globally.

Kao explained its efforts and exhibited products labelled with FSC certification at the post-2020 Sustainable Forest Resource Procurement Conference hosted by FSC Japan in July 2018, and announced the "Declaration of Procurement of FSC Certified Materials 2020", which promises to procure FSC certified materials in collaboration with six Japanese companies at the conference.

Kao has set a new target of 100% certified paper products and pulp used in consumer products by 2025 at Kao Kirei Lifestyle Plan, which was released in April 2019 .

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)

5,000,000,000

Potential financial impact figure – minimum (currency)

Potential financial impact figure – maximum (currency)

Explanation of financial impact figure

The market size of sustainable certified products in the U.S. is growing by 5% per year, and this growth rate is expected to continue. Kao's baby diaper "Merries" has sold more than 100 billion yen. An increase in reputation for this product and a 2.5% increase in sales in Asia would have an impact of more than 2.5 billion yen. This opportunity has not yet become apparent, but we recognize that it could become apparent in the 1-3 years of increased awareness of 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

Company-specific description & strategy to realize opportunity

Ethical consumption is expected to grow around the world in order to realize a sustainable society in the future. For example, the market size of sustainable certified products in the U.S. has grown by 5% per year, and this growth rate is expected to continue. In 2020, sales of the consumer business in Kao Americas were 84 billion yen. If 50% of the company's sales (42 billion yen) products were affixed with ethical certification labelling such as RSPO, sales increase is expected by 5%, which is equivalent to 2.1 billion yen. As Kao considers one billion yen is a "significant impact", it is a serious strategy to stimulate ethical consumption.

Kao is expanding its RSPO supply chain certification plants to allow RSPO certification labelling on the package. Kao will be able to provide the new ethical market in a timely manner when it seeks RSPO certified products. Kao has obtained RSPO supply chain certification at a total of 35 of its group plants and offices by the end of 2018, and has completed 100% of its original plan. Kao sells it to chemical users via B to B and blends

it into its own products. In 2019, Kao launched a laundry detergent with the RSPO certification labelling in Taiwan.

Kao's 2020 RSPO certified palm oil (palm oil, palm kernel oil, its derivatives) purchase ratio was 25% of the total palm oil.

Kao released Kao Kirei Lifestyle Plan in April 2020. In the plan, the company announced a new goal of completing traceability checks to small farms by 2030. Generally speaking, in the procurement of palm oil, if it is confirmed that its origin is clearly investigated, that palm farm is under control, and that the human rights of employees are considered, the reliability of the company and products is improved from the viewpoint of ethics.

In 2018, Kao participated in SUSTAIN as a founding member in addition to the Blue Number. Kao is using it for traceability to small 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)

2,100,000,000

Potential financial impact figure – minimum (currency)

Potential financial impact figure – maximum (currency)

Explanation of financial impact figure

The market size of sustainable certified products in the U.S. has grown by 5% per year, and this growth rate is expected to continue. In 2020, sales of the consumer business in Kao Americas were 84 billion yen. If 50% of the company's sales (42 billion yen) products were affixed with ethical certification labelling such as RSPO, sales increase is expected by 5%, which is equivalent to 2.1 billion yen. We recognize that this opportunity has already become apparent.

F4. Governance

F4.1

(F4.1) Is there board-level oversight of forests-related issues within your organization?

Yes

F4.1a

(F4.1a) 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) | <p>Since forest-risk commodities are closely tied to Kao's business, they must be monitored as business management issues, and are therefore under the Board of Directors' oversight.</p> <p>The ESG Committee is responsible for compliance with Kao's response policy regarding forest issues. Then this committee investigates and evaluates, for example, social trends related to forest-related goals, and reviews them as necessary.</p> <p>The Internal Control Committee is responsible for achieving the targets related to forest issues. The Responsible Care Committee, one of the subcommittees of this committee, annually confirms the achievement status of forest-related targets. These two committees are under the board of directors.</p> <p>Our CEO serves as the chairperson of both Committees.</p> |

F4.1b

(F4.1b) 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 | <p>Monitoring implementation and performance</p> <p>Overseeing acquisitions and divestiture</p> <p>Overseeing major capital expenditures</p> <p>Providing employee incentives</p> <p>Reviewing and guiding annual budgets</p> <p>Reviewing and guiding business plans</p> <p>Reviewing and guiding corporate responsibility strategy</p> | <p>Reviewing and guiding corporate responsibility strategy, -major plans of action, -strategy, Setting performance objectives:</p> <p>The functions of these four governance mechanisms into which forest-related issues are integrated are covered by the ESG Committee (chairman is CEO) held four times a year in Kao. The contents were supervised by the Board and deliberated more than six times in 2020.</p> <p>Overseeing -acquisitions and divestiture, -major capital expenditures, Providing employee incentives, Reviewing and guiding -annual budgets, -business plans, Reviewing innovation/ R&D priorities:</p> <p>The functions of these six governance mechanisms into which forest-related issues are integrated are covered by the Management Committee (chairman is CEO) held every month</p> |

| | | |
|--|---|--|
| | <p>Reviewing and guiding major plans of action</p> <p>Reviewing and guiding risk management policies</p> <p>Reviewing and guiding strategy</p> <p>Reviewing innovation / R&D priorities</p> <p>Setting performance objectives</p> | <p>in Kao. The contents were supervised by the Board and deliberated more than six times in 2020.</p> <p>Monitoring implementation and performance, Reviewing and guiding risk management policies: The functions of these two governance mechanisms into which forest-related issues are integrated are covered by the two sub Committees of Internal Control Committee (chairman is CEO) held more than once in Kao. The contents were supervised by the Board and deliberated once in 2020.</p> |
|--|---|--|

F4.2

(F4.2) 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 | More frequently than quarterly | <p>i) A description of the committee's position in the corporate structure The Internal Control Committee and the ESG Committee are under the Board of Directors. The chairman of both committee is CEO.</p> <p>ii) Frequency of reporting to the board on forests-related issues The Internal Control Committee reports the results of Forest-related Monitoring implementation and performance and Reviewing and guiding risk management policies more frequently than quarterly. In 2020 the contents were supervised by the Board and deliberated more than six times.</p> <p>The ESG Committee reports to the Board at least once a year the forest-related Reviewing and guiding corporate responsibility strategy, -major plans of action, -strategy, and Setting performance objectives.</p> <p>The contents were supervised by the Board and deliberated more than six</p> |

| | | | |
|--|--|--|---|
| | | | <p>times in 2020.</p> <p>Each committee reports to the Board whenever there is a sudden change in social trends that requires a urgent change in strategy, plan, or risk management policy.</p> <p>iii) Details on the forest-related responsibilities of the committees</p> <p>The Internal Control Committee is responsible for summarizing results, identifying risks, managing mitigation activities, and responding when risks become apparent.</p> <p>The scope of responsibility of the ESG Committee is Reviewing and guiding corporate responsibility strategy, -major plans of action, -strategy, and Setting performance objectives.</p> |
|--|--|--|---|

F4.3

(F4.3) Do you provide incentives to C-suite employees or board members for the management of forests-related issues?

| | Provide incentives for management of forests-related issues | Comment |
|-------|---|---------|
| Row 1 | Yes | |

F4.3a

(F4.3a) 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)?

| | Role(s) entitled to incentive? | Performance indicator | Please explain |
|-----------------|--|--|--|
| Monetary reward | Chief Sustainability Officer (CSO) Chief Purchasing Officer (CPO) | Achievement of commitments and targets | <p>Kao set four targets for palm oil procurement in 2014, including "procure 100% traceable oil by 2020" (one for 2015 and three for 2020). For paper and pulp procurement, we have set three targets (all 2020), including "procure pulp that can be traced to 100% wood production by 2020". These targets will lead to zero deforestation in the palm oil and paper and pulp industries.</p> <p>The degree of achievement of these individual targets is the achievement rate of the target (for example, the tracking rate of the paper and pulp to the timber producing area: 100%) and the elapsed years until the</p> |

| | | | |
|---------------------|---|---|---|
| | | | <p>target (2020: (2020-2015)/(2020-2015))x100=100%) (in this case, 100%/100%=100%), and if this ratio exceeds 100%, it is considered successful</p> <p>A portion of Kao's executive officers' remuneration includes a "performance-linked portion" in which the Company's shares are delivered in accordance with the achievement level of the performance targets of the medium-term management.</p> <p>The performance-linked coefficient of compensation varies from 0% to 200% depending on performance, from 100% when performance is achieved as targeted. When the coefficient for the performance-linked portion of the remuneration is 100%, the portion of the share-based remuneration is 30% to 40% of the basic remuneration.</p> <p>When the coefficient is 0%, the stock-based compensation portion is 0% and only the cash-based compensation portion. Therefore, the remuneration is 60 (60+0) to 70 (70+0)% of the base remuneration.</p> <p>When the coefficient is 200%, the stock-based compensation portion is between 60% and 80%, so the total compensation of the cash portion and the stock portion is between 130 (70+60)% and 140 (60+80)% of the base compensation.</p> |
| Non-monetary reward | Chief Sustainability Officer (CSO) Chief Purchasing Officer (CPO) Other, please specify | Achievement of commitments and targets Supply chain engagement | Kao does not grant C-Suite employees or board members recognition (non-monetary). |

F4.4

(F4.4) 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)

F4.5

(F4.5) Does your organization have a policy that includes forests-related issues?

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

F4.5a

(F4.5a) Select the options to describe the scope and content of your policy.

| | Scope | Content | Please explain |
|-------|--------------|--|--|
| Row 1 | Company-wide | Commitment to eliminate conversion of natural ecosystems Commitment to eliminate deforestation Commitment to remediation, restoration and/or compensation of past harms Commitment to protect rights and livelihoods of local communities Commitments beyond regulatory compliance Recognition of the overall importance of forests and other natural ecosystems 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 milestones and targets Description of forests-related standards for procurement | Kao states that Kao Way's mission is "satisfaction and enrichment of the lives of people and contributing to the sustainability of society". Not only consumers and customers, but also suppliers for forest-related raw materials and neighboring residents of plantations and forests are the targets for our mission. i) "satisfaction and enrichment of the lives of people" means "comprehensiveness". Because Kao values this comprehensiveness, so the following items are included in the policy. Description of forest risk commodities, parts of the business, and stages of value-chain covered by the policy - Commitment to eliminate conversion of natural ecosystems - Commitment to remediation, restoration and/or compensation of past harms - Commitment to eliminate deforestation - Commitment to protect rights and livelihoods of local communities - Commitments beyond regulatory compliance - Recognition of the overall importance of forests and other natural ecosystems ii) Kao believes that it is important to sustainably maintain the forests and natural environment, which are heavily dependent on its business activities, in order to realize i), and therefore the following items are specified in the policy. - 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 iii) In order to surely realize the priority of i) and ii), emphasis is placed on clear goal setting and compliance with the law, and the following items are included in the policy. - List of timebound milestones and targets |

| | | | |
|--|--|--|--|
| | | | <p>- Description of forests-related standards for procurement</p> <p>Kao confirms the need for policy revision every year at the ESG Committee. When it is necessary to revise it, it is formulated by the ESG Committee and approved by the Board.</p> <p>All Kao employees, in charge of forest related commodities, make decisions (decision making) to implement these policies based on Kao Way from time to time at OJT. In addition, departmental policies that deal with Forest related commodities (such as the Kao Raw Materials Procurement Guidelines) are educated to the members of the relevant departments, and all employees, including managers, make decisions (decision making) on a daily basis in order to realize the policy.</p> |
|--|--|--|--|

F4.5b

(F4.5b) 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 |
|-----------------|---|--------------|--|---|
| Timber products | Yes | Company-wide | Commitment to eliminate deforestation Commitment to protect rights and livelihoods of local communities Commitments beyond regulatory compliance Recognition of the overall importance of forests and other natural ecosystems Description of business | Kao states that Kao Way's mission is "satisfaction and enrichment of the lives of people and contributing to the sustainability of society". Not only consumers and customers, but also suppliers involved in the supply of timber products and neighboring residents of forests are the targets for our mission. i) "satisfaction and enrichment of the lives of people" means "comprehensiveness". Because Kao values this comprehensiveness, so the following items are included in the policy. Description of forest risk commodities, parts of the business, and stages of value-chain covered by the policy |

| | | | | |
|--|--|--|---|---|
| | | | <p>dependency on forests</p> <p>Recognition of potential business impact on forests and other natural ecosystems</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> | <ul style="list-style-type: none"> - Commitment to eliminate deforestation - Commitment to protect rights and livelihoods of local communities - Commitments beyond regulatory compliance - Recognition of the overall importance of forests and other natural ecosystems <p>ii) Kao believes that it is important to sustainably maintain the forests and natural environment, which are heavily dependent on its business activities, in order to realize i), and therefore the following items are specified in the policy.</p> <ul style="list-style-type: none"> - 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 <p>iii) In order to surely realize the priority of i) and ii), emphasis is placed on clear goal setting and compliance with the law, and the following items are included in the policy.</p> <ul style="list-style-type: none"> - List of time-bound milestones and targets - Description of forests-related standards for procurement <p>Kao confirms the need for policy revision every year at the ESG Committee. When it is necessary to revise it, it is formulated by the ESG Committee and approved by the Board.</p> <p>As an activity based on this policy, baby diapers with reduced pulp usage has developed for reducing impacts for Timber.</p> |
|--|--|--|---|---|

| | | | | This reflects the following policy. “Description of business dependency on forests Recognition of potential business impact on forests and other natural habitats” |
|----------|-----|--------------|--|--|
| Palm oil | Yes | Company-wide | <p>Commitment to eliminate deforestation</p> <p>Commitment to protect rights and livelihoods of local communities</p> <p>Commitments beyond regulatory compliance</p> <p>Recognition of the overall importance of forests and other natural ecosystems</p> <p>Description of business dependency on forests</p> <p>Recognition of potential business impact on forests and other natural ecosystems</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>Kao states that Kao Way's mission is “satisfaction and enrichment of the lives of people and contributing to the sustainability of society”. Not only consumers and customers, but also suppliers involved in the supply of palm oil and neighboring residents of plantations are the targets for our mission.</p> <p>i) “satisfaction and enrichment of the lives of people” means “comprehensiveness”. Because Kao values this comprehensiveness, so the following items are included in the policy.</p> <p>Description of forest risk commodities, parts of the business, and stages of value-chain covered by the policy</p> <ul style="list-style-type: none"> - Commitment to eliminate deforestation - Commitment to protect rights and livelihoods of local communities - Commitments beyond regulatory compliance - Recognition of the overall importance of forests and other natural ecosystems <p>ii) Kao believes that it is important to sustainably maintain the forests and natural environment, which are heavily dependent on its business activities, in order to realize i), and therefore the following items are specified in the policy.</p> <ul style="list-style-type: none"> - 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, |

| | | | | |
|--|--|--|--|---|
| | | | | <p>and stages of value-chain covered by the policy</p> <p>iii) In order to surely realize the priority of i) and ii), emphasis is placed on clear goal setting and compliance with the law, and the following items are included in the policy.</p> <ul style="list-style-type: none"> - List of time-bound milestones and targets - Description of forests-related standards for procurement <p>Kao confirms the need for policy revision every year at the ESG Committee. When it is necessary to revise it, it is formulated by the ESG Committee and approved by the Board.</p> <p>As an activity based on this policy, a new surfactant "BioIOS" using a component of Palm Oil that had been unused has developed for reducing impacts for Palm Oil.</p> <p>This reflects the following policy. "Description of business dependency on forests Recognition of potential business impact on forests and other natural habitats"</p> |
|--|--|--|--|---|

F4.6

(F4.6) 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

F4.6a

(F4.6a) 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

F4.6b

(F4.6b) Provide details on your public commitment(s), including the description of specific criteria, coverage, and actions.

Forest risk commodity

Timber products

Criteria

Zero gross deforestation/ no deforestation
 No new development on peat regardless of depth
 No conversion of High Conservation Value areas
 No conversion of High Carbon Stock forests
 Secure Free, Prior and Informed Consent (FPIC) of indigenous people and local communities
 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

2014

Commitment target date

2020

Please explain

Kao aims to eliminate deforestation. Kao's Sustainable Procurement Guidelines for Paper and Pulp are working to increase the percentage of purchased FSC and PEFC certified products to achieve zero deforestation.

The FSC's Principles and Standards set out the rights of indigenous peoples (FPIC) in Principle 3 and prohibit the conversion of natural forests to non-forest land use in Principle 6.9 (no deforestation). Similar requirements are also stipulated in PEFC. Kao recognizes that promoting switching to FSC-certified products or PEFC certified products is an activity in meet of declarations such as "no deforestation/no deforestation" and "safe freedom, prior and informed consent (FPIC) of indigenous and local communities".

In 2020, in Indonesia, the purpose, goal, and mechanism of certification of Kao's "Sustainable Pulp and Paper Procurement Guidelines" were explained to suppliers who have not yet acquired FSC certification in some supply chains, and they requested that they acquire FSC certification (CoC). As a result, Kao agreed to obtain certification for all supply chains in Indonesia. Suppliers are also requested to provide FSC and PEFC

certified goods on an ongoing basis.

As a result of implementing these measures, the percentage of certified products in 2020 reached 94% of the total products, an increase of 3 points from 91% in 2019.

Kao's share of FSCs and PEFC certified products is increasing year by year.

Forest risk commodity

Palm oil

Criteria

Zero gross deforestation/ no deforestation

No new development on peat regardless of depth

No conversion of High Conservation Value areas

No conversion of High Carbon Stock forests

Secure Free, Prior and Informed Consent (FPIC) of indigenous people and local communities

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

2006

Commitment target date

2020

Please explain

Kao supports zero deforestation. Kao's Guidelines for Sustainable Procurement of Palm Oil stipulates action guidelines to achieve zero-deforestation, such as ensuring that the guidelines meet RSPO's Principles and Standards, and ensuring traceability. RSPO's "Principles and Standards" Standard 7.12.1 requires that clearing after November 2005 does not compromise HCV.

Kao conducts risk assessments of palm oil deforestation and peatland development using the following procedures, and respond based on the results. Kao recognizes that this activity is meet to Zero gross deforestation/no deforestation Declaration and No new development on peat regardless of depth.

(1) Kao obtains supply chain information from refineries (Tier-1) about the name of palm kernel oil mills (Tier-2) and palm oil mills (Tier-3), parent company names, locations (latitude and longitude), etc. and prepares a palm mill list. By contacting refineries (Tier-1), Kao confirms the status of NDPE/HCSA/FPIC compliance efforts at refineries (Tier-1), refineries' group companies, palm kernel oil mills (Tier-2) and palm oil mills (Tier-3)

in the supply chain. Kao conducts surveys of plantations (Tier-4) by regularly contacting refineries (Tier-1) to verify traceability to palm plantations (Tier-4).

In 2019, Kao published a palm mill list describing 1,045 palm oil mills and updated the list in 2020 (1,027 palm oil mills). In 2020, Kao requested and confirmed that 8 Indonesian and Malaysian refineries (Tier1) comply with NDPE/HCSA.

(2) Kao has prepared a palm mill map from palm mill list confirmed in (1) and (i) uses satellite photographs and other information to check whether there are national parks, protected forests and peatlands within a 50km radius of palm mill location, etc., (ii) whether there are mills that have caused previous problems in the parent company, etc., (iii) if information from NGOs is confirmed and identified as risk mill. In 2018, Kao released a palm mill map describing the locations of 90 palm kernel oil mills and 862 palm oil mills.

(3) Kao holds hearings with refinery (Tier-1) regarding palm oil mills deemed risk mills. In addition, Kao carries out an on-site survey by third-party in response to palm oil mills that are judged to be extremely high-risk (high risk mills), and requests the mills for improvement, and follows up. By 2019, Kao had conducted on-site surveys of 8 mills and informational verifications from refineries (Tier-1). Kao plans to conduct an audit if it determines that there is a problem in the future.

The activities described in (2) and (3) above are implemented in collaboration with External consultants.

Kao is considering asking suppliers who are involved in deforestation and do not respect the rights of indigenous peoples to improve or cease trading. For suppliers whose RSPO certification was suspended in 2016 due to deforestation complaints, Kao asked the company to stop supplying until improvements were confirmed through objective verification by a third party appointed by RSPO and repeatedly communicated with suppliers to confirm progress.

In March 2020, Kao requested the Supplier to comply with NDPE on our website and declared that it would preferentially purchase from suppliers that comply with HCSA. In March 2021, Kao requested that its Indonesian and Malaysian refineries (Tier-1) comply with NDPE/HCSA at their own companies, its group companies, and palm kernel mill (Tier-2) in the supply chain, and palm oil mill(Tier-3).

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 |
|--|--|--------------------------------|----------------|
| | | | |

| | | | |
|--------------------------------------|---|--------------|--|
| <p>Long-term business objectives</p> | <p>Yes, forests-related issues are integrated</p> | <p>11-15</p> | <p>Kao formulated a long-term strategy in 2016 to become a global presence by 2030 by "contributing to the sustainability of society" by solving social issues through business activities and social contribution activities and realizing sustainable "profitable growth." In 2019, Kao formulated an ESG Strategic "Kirei Lifestyle Plan" aimed at 2030. It includes the following forest related commodities strategies: Respond to expanding ethical consumer markets by promoting sustainable palm oil and paper/pulp procurement and demonstrating to products the use of sustainable palm oil and paper/pulp.</p> <p>To procure raw materials, we promote activities by setting a two-stage target. As the first step, by 2020 we aimed 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 that stated that we support zero deforestation in 2014. For palm oil, traceability to palm oil mill was confirmed almost 100% in 1st step. However, it was difficult to confirm traceability to the farm. In particular, primary suppliers have not been able to confirm traceability to the farm because of the insufficient understanding and management of small farms in Indonesia.</p> <p>As a second step, in April 2019, Kao set a target for traceability to palm oil plantations (target year 2030) in Kirei Lifestyle Plan (Kao's ESG strategy). The activities at SUSTAIN, in which Kao joined as one of the founder in 2018, also support the traceability. SUSTAIN is an initiative in which palm oil stakeholders (small plantations, plantations, palm oil mills, refiners, consumer goods manufacturers, etc.) work together to clarify the supply chain to origin.</p> <p>For pulp and paper, for the 1st step, Kao established 100% traceability to the origin, of which 94% was certified products in 2020. As it was found that a certification labeling is one of the key factors to appeal as ethical products, Kao aims the 2nd step in Kao's ESG strategy (the Kirei Lifestyle Plan) to achieve 100% certification of pulp and paper used for consumer products (target year 2025).</p> |
|--------------------------------------|---|--------------|--|

| | | | |
|--|---|--------------|---|
| | | | <p>Many suppliers that do not offer certified products are relatively small. Kao aims to achieve its goals by carefully explaining them the necessity of certification, and by providing them the scheme to obtain certifications.</p> |
| <p>Strategy for long-term objectives</p> | <p>Yes, forests-related issues are integrated</p> | <p>11-15</p> | <p>In 2016, Kao formulated the "Vision to be Achieved by 2030. Accordingly, in 2019, Kao formulated an ESG Strategic "Kirei Lifestyle Plan" for 2030. Activities related to Forest related commodities, such as purchasing palm oil and paper/pulp, are managed and promoted under one of the key activities of the "Kirei Lifestyle Plan", which is responsible for procuring raw materials. Kao's business depends heavily on natural capital. In particular, Kao's objective is to raise Forest related commodities with due consideration for environmental and social aspects by 2030.</p> <p>We are participating in SUSTAIN to achieve this goal. SUSTAIN is an initiative that aims to share supply chain information by utilizing blockchain technology and collaborating with palm oil stakeholders (farmers, palm oil extraction plants, palm kernel oil factories, and refineries). A pilot survey was conducted in Jambi Province, Indonesia, in 2019 on traceability to small farms.</p> <p>Kao launched SMILE (Smallholder Inclusion for better Livelihood & Empowerment) program in 2020 to help Indonesian small-scale palm farms improve productivity and acquire certification for sustainable palm oil. Kao aims to provide technical guidance for improving productivity, curb the development of new plantations by increasing yields, support the acquisition of RSPO certification for sustainable palm oil, and improve the livelihoods of producers through dialogue with producers in order to resolve issues such as environmental degradation and human rights violations in Indonesia. During the 11-year period from 2020 to 2030, the program was implemented in the provinces of Liau, Jambi, and Northern Sumatra in Indonesia. The target number of small-scale palm plantations is approximately 5000.</p> <p>On the other hand our goal for paper and pulp is to use certified paper products and pulp in 100% of consumer products by 2025 (94% in 2020).</p> |

| | | | |
|--------------------|--|-------|---|
| | | | <p>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.</p> <p>The affix of FSC labelling on Kao products began in 2013 for the first time in Japan. ATTACK laundry detergents for Taiwan displays the RSPO certification labelling since 2019. Kao expands affixing FSC and RSPO labelling.</p> |
| Financial planning | Yes, forests-related issues are integrated | 11-15 | <p>In 2016, Kao formulated the "Vision to be Achieved by 2030." There is also a sales target of JPY2.5 trillion for 2030. In 2019, we formulated an ESG Strategic "Kirei Lifestyle Plan" aimed at 2030. To this end, we have established 19 key initiatives, including responses to Forest related issue, as well as targets for 2030. Kao is working to ensure that these activities have a positive impact on finance.</p> <p>A part of this initiative is the milestone to realize sustainable palm oil procurement by 2020. At the same time, because ethical consumption is predicted to grow, in 2018, 35 Kao's sites including factories and offices which are located in Indonesia, Malaysia, Japan, etc have received RSPO SCCS certification based on the expectation of strong future demand for the RSPO-certified label.</p> <p>We recognize that we need at least 7 million yen a year to maintain this certification, and we are incorporating it into our financial plans by 2030. In addition, the cost of the premium of certified products and engagement with small farms etc. is incorporated into the financial plan based on the activity plan of the current year and the following year.</p> <p>For pulp and paper, the additional cost of introducing certified products from suppliers is almost zero, so the financial impact is almost zero.</p> |

F6. Implementation

F6.1

(F6.1) Did you have any timebound and quantifiable targets for increasing sustainable production and/or consumption of your disclosed commodity(ies) that were active during the reporting year?

Yes

F6.1a

(F6.1a) Provide details of your timebound and quantifiable 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 products

Type of target

Traceability

Description of target

We are promoting the procurement of sustainable paper and pulp to achieve zero deforestation.

The target is 100% traceability to the place of origin by 2020.

Linked commitment

Zero net/gross deforestation

Traceability point

Forest management unit

Third-party certification scheme

Start year

2014

Target year

2020

Quantitative metric

Target (number)

Target (%)

100

% of target achieved

100

Please explain

Kao checks traceability in two ways: by purchasing certified products and by Kao's internal company method. Our unique verification method is to use the WWF-Japan Forest Products Procurement Checklist to track raw materials from Tier 1 suppliers, identify the original forests, and ensure that the forests are socially, environmentally, and economically sustainable.

By 2018, we had achieved nearly 100% traceability verification through the two measures described above.

In 2020, we confirmed 100% traceability. At first, traceability was checked mainly by the WWF Japan Forest Products Procurement Checklist, and the switch to certified products progressed every year. In 2020, the rate of certified products reached 94% (FSC: approx. 61%, PEFC: approx. 33%). Kao aims to achieve 100% certified products by 2025. The additional cost for purchasing certified products and using the checklist is almost zero, so the financial impact is virtually zero.

Target reference number

Target 2

Forest risk commodity

Timber products

Type of target

Third-party certification

Description of target

We are promoting the procurement of sustainable paper and pulp to achieve zero deforestation.

Kao's target is to achieve 100% third-party certification by 2025.

Linked commitment

Zero net/gross deforestation

Traceability point

Third-party certification scheme

FSC Chain of Custody

PEFC Chain of Custody

Start year

2019

Target year

2025

Quantitative metric

Target (number)

Target (%)

100

% of target achieved

94

Please explain

As one of the means of achievement, Kao is promoting the introduction of certified paper for cardboard (for consumer products), paper-ware (individual packaging), pulp for sanitary products, and paper for sanitary products.

In 2020, the ratio of certified paper and pulp was 94%, increased 3 percentage points from 2019 (91%). Kao aims to achieve 100% by 2025.

For pulp and paper, as the additional cost of certification is almost zero, negative financial impact is almost zero.

Target reference number

Target 4

Forest risk commodity

Palm oil

Type of target

Traceability

Description of target

Kao has set a milestone of 100% traceability confirmation up to palm oil mills (Tier-3) by 2020.

Kao aims to confirm traceability to Refinery (Tier-1), palm kernel mill (Tier-2), palm oil mill (Tier-3), and palm plantation (Tier-4).

Linked commitment

Zero net/gross deforestation

Traceability point

Mill

Third-party certification scheme

Start year

2014

Target year

2020

Quantitative metric

Target (number)

Target (%)

100

% of target achieved

100

Please explain

In 2020, Kao has established 100% traceability of palm oil supply chain up to palm oil mill (Tier-3), and to post a palm mill list on the website.

By working with Refineries (Tier-1) and NGOs, Kao aims to ensure traceability to palm plantations (Tier-4).

Target reference number

Target 5

Forest risk commodity

Palm oil

Type of target

Third-party certification

Description of target

Kao has set a target of "zero deforestation" and purchase RSPO certified oil as one way to achieve it. Target set for RSPO certification of all palm oil used in consumer products by the end of 2020.

Linked commitment

Zero net/gross deforestation

Traceability point

Third-party certification scheme

RSPO Mass Balance

RSPO Book and Claim

Start year

2016

Target year

2020

Quantitative metric

Target (number)

Target (%)

100

% of target achieved

100

Please explain

Kao aims to purchase an amount equivalent to the total amount of palm oil used for consumers in 2020 with RSPO certified oil.

As a next step, Kao set a target to make it a 100%RSPO certified oil including palm oil used for industrial applications by 2025.

Target reference number

Target 6

Forest risk commodity

Palm oil

Type of target

Engagement with smallholders

Description of target

Kao, together with Apical Group of oils and fats manufacturing and sales companies, and Asian Agri, a plantation company, established a support program in 2020. By providing educational support for small-scale plantations to improve yield of palm oil, the program aims to support 5000 small-scale plantations in three provinces of Indonesia-Sumatra (Liau, Jambi, and Northern Sumatra) to acquire RSPO certification by 2030.

Linked commitment

Zero net/gross deforestation

Traceability point

Third-party certification scheme

Start year

2020

Target year

2030

Quantitative metric

Target (number)

5,000

Target (%)

% of target achieved

0

Please explain

Kao will commence support for approximately 800 small-scale plantations from 2021 to acquire RSPO certification for 5000 small-scale plantations in three provinces of Indonesia-Sumatra (Liau, Jambi and Northern Sumatra) by 2030, and to provide educational support to improve productivity.

Target reference number

Target 3

Forest risk commodity

Timber products

Type of target

Assess and/or verify compliance

Description of target

Kao aims to achieve zero deforestation, and guidelines for achieving this are set forth in the raw material procurement guidelines. Suppliers are required to comply with these Guidelines. The target is 100% of paper and pulp purchases meeting the guidelines by 2020.

Linked commitment

Zero net/gross deforestation

Traceability point

Third-party certification scheme

Start year

2014

Target year

2020

Quantitative metric

Target (number)

Target (%)

100

% of target achieved

100

Please explain

Confirmation method:

- i) Purchase of certified Timber products
- ii) For non-certified Timber products, Kao uses WWF Japan's "forest product procurement checklist" for confirmation.

By 2018, Kao had been evaluated and confirmed almost 100% of Timber products for compliance, and Kao is currently maintaining the scheme.

For pulp and paper, as the additional cost of installing certified products from suppliers and utilizing checklists is almost zero, negative financial impact is almost zero.

In 2020, Kao has evaluated and confirmed 100% of Timber products for compliance.

F6.2

(F6.2) 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? | Description of traceability system | Exclusions |
|-----------------|--|---|-------------------|
| Timber products | Yes | <p>The traceability system used by Kao consists of two types, one is by purchasing certified products and another is by using WWF Japan's Forest Product Procurement Checklist. Kao confirms the forests are sustainable in society, the environment, and economically through the Tier-1 suppliers.</p> <ul style="list-style-type: none"> - At the end of 2020, the ratio of certified raw material was 94%. Most of the rest was checked with WWF Japan's check list. Therefore, Kao regards almost 100% traceability was established. - Tier 1: Printing companies, paper package companies, cardboard companies; about 100 companies - Tier 2: About 50 paper companies - Tier 3: Sawmills, chip factories, approximately 1000 companies - Tier 4: Forest management unit <p>If the checklist reveals a non-sustainable supplier, Kao requests improvement or discontinue trading. In 2020, no suppliers are requested for improvement nor discontinue trading.</p> | Not applicable |

| | | | |
|----------|-----|--|----------------|
| Palm oil | Yes | <p>Traceability of palm oil is checked as follows.</p> <p>(1) Kao obtains supply chain information from refineries (Tier-1) about the name of palm kernel oil mills (Tier-2) and palm oil mills (Tier-3), parent company names, locations (latitude and longitude), etc. and prepares a palm mill list. By contacting refineries (Tier-1), Kao confirms the status of NDPE/HCSA/FPIC compliance efforts at refineries (Tier-1), refineries' group companies, palm kernel oil mills (Tier-2) and palm oil mills (Tier-3) in the supply chain. Kao conducts surveys of plantations (Tier-4) by regularly contacting refineries (Tier-1) to verify traceability to palm plantations (Tier-4).</p> <p>In 2019, Kao published a palm mill list describing 1,045 palm oil mills and updated the list in 2020 (1,027 palm oil mills). In 2020, Kao requested and confirmed that 8 Indonesian and Malaysian refineries (Tier1) comply with NDPE/HCSA.</p> <p>(2) Kao has prepared a palm mill map from palm mill list confirmed in (1) and (i) uses satellite photographs and other information to check whether there are national parks, protected forests and peatlands within a 50km radius of palm mill location, etc., (ii) whether there are mills that have caused previous problems in the parent company, etc., (iii) if information from NGOs is confirmed and identified as risk mill. In 2018, Kao released a palm mill map describing the locations of 90 palm kernel oil mills and 862 palm oil mills.</p> <p>(3) Kao holds hearings with refinery (Tier-1) regarding palm oil mills deemed risk mills. In addition, Kao carries out an on-site survey by third-party in response to palm oil mills that are judged to be extremely high-risk (high risk mills), and requests the mills for improvement, and follows up. By 2019, Kao had conducted on-site surveys of 8 mills and informational verifications from refineries (Tier-1). Kao plans to conduct an audit if it determines that there is a problem in the future.</p> <p>The activities described in (2) and (3) above are implemented in collaboration with External consultants.</p> | Not applicable |
|----------|-----|--|----------------|

F6.2a

(F6.2a) Provide details on the level of traceability your organization has for its disclosed commodity(ies).

| Forest risk commodity | Point to which commodity is traceable | % of total production/consumption volume traceable |
|-----------------------|---------------------------------------|--|
| Timber products | Forest management unit | 100 |

| | | |
|----------|------|-----|
| Palm oil | Mill | 100 |
|----------|------|-----|

F6.3

(F6.3) Have you adopted any third-party certification scheme(s) for your disclosed commodity(ies)?

| | Third-party certification scheme adopted? | % of total production and/or consumption volume certified |
|-----------------|---|---|
| Timber products | Yes | 94 |
| Palm oil | Yes | 25 |

F6.3a

(F6.3a) Provide a detailed breakdown of the volume and percentage of your production and/or consumption by certification scheme.

Forest risk commodity

Timber products

Third-party certification scheme

FSC Forest Management certification

Chain-of-custody model used

% of total production/consumption volume certified

61

Form of commodity

Pulp
 Paper
 Primary packaging
 Secondary packaging
 Tertiary packaging

Volume of production/ consumption certified

177,000

Metric for volume

Metric tons

Is this certified by more than one scheme?

No

Please explain

Kao annually requests suppliers to provide new FSC certified paper, which was implemented in 2020. In 2020, the rate of FSC certified paper and pulp reached 61% out of total timber product, increased 3 point from 58% in 2019.

With regard to the purchase of certified paper, Kao's ESG strategy (the Kirei Lifestyle Plan) aims to achieve a 100% ratio of FSC or PEFC certified paper and pulp used in consumer products by 2025.

As a specific example, in Indonesia in 2020, Kao explained the objectives, targets, and certification mechanisms of Kao's Guidelines for Procurement of Sustainable Pulp and Paper to suppliers that have not yet acquired FSC certification in some supply chains. As a result of requesting that they acquire FSC certification (CoC), all supply chains agreed to acquire certification. As a result of these activities, the percentage of FSC-certified products is increasing year by year.

Forest risk commodity

Timber products

Third-party certification scheme

PEFC Chain of Custody

Chain-of-custody model used

% of total production/consumption volume certified

33

Form of commodity

Pulp

Paper

Primary packaging

Secondary packaging

Tertiary packaging

Volume of production/ consumption certified

94,000

Metric for volume

Is this certified by more than one scheme?

No

Please explain

Kao annually requests suppliers to provide new PEFC certified paper, which was implemented in 2020. In 2020, the rate of PEFC certified paper and pulp reached 33% out of total timber product, which is the same level as last year.

Kao states FSC certification the first priority, but procures PEFC certified products if there is no FSC certified forest in the origin.

A supplier of paper containers did not provide PEFC certified paper, but Kao

communicated the company with the background and goals of the use of certified paper. Kao continued to demand FSC certified products, then the supplier started supplying it. This activity contributed greatly to Kao's target.

With regard to the purchase of certified paper, Kao's ESG strategy (the Kirei Lifestyle Plan) aims to achieve a 100% FSC or PEFC certified ratio of paper and pulp used in consumer products by 2025.

Forest risk commodity

Palm oil

Third-party certification scheme

RSPO Mass Balance

Chain-of-custody model used

% of total production/consumption volume certified

23

Form of commodity

Crude palm oil (CPO)
 Crude palm kernel oil (CPKO)
 Palm oil derivatives
 Palm kernel oil derivatives

Volume of production/ consumption certified

97,000

Metric for volume

Metric tons

Is this certified by more than one scheme?

No

Please explain

In 2020, Kao purchased 97,000 tonnes of RSPO certified oils (MBs). This accounted for 23% of the total amount of palm-derived raw materials purchased, an increase of 4% over 2019. Kao has implemented the following measures to promote the widespread use of RSPO certified oil.

(1) Since 2019, Kao has been collecting information and providing information on sustainable palm oil procurement. Kao has established a JaSPON (Japan Sustainable Palm Oil Network) with NGOs and other companies to promote sustainable palm oil procurement and consumption. Kao is a member of the Board of Directors.

(2) Kao is a member of RSPO Standard Standing Committee.

(3) In 2020, Kao set a target of making 100% of palm oil purchased, including for industrial use, into certified oil by 2025.

Forest risk commodity

Palm oil

Third-party certification scheme

RSPO Credits/Book & Claim

Chain-of-custody model used

% of total production/consumption volume certified

2

Form of commodity

Crude palm oil (CPO)

Crude palm kernel oil (CPKO)

Volume of production/ consumption certified

10,000

Metric for volume

Metric tons

Is this certified by more than one scheme?

No

Please explain

For purchasing RSPO certified raw materials, B&C is used to supplement the purchase of MB products.

F6.4

(F6.4) For your disclosed commodity(ies), do you have a system to control, monitor, or verify compliance with no conversion and/or no deforestation commitments?

| | A system to control, monitor or verify compliance |
|-----------------|---|
| Timber products | Yes, we have a system in place for our no conversion and/or deforestation commitments |
| Palm oil | Yes, we have a system in place for our no conversion and/or deforestation commitments |

F6.4a

(F6.4a) Provide details on the system, the approaches used to monitor compliance, the quantitative progress, and the non-compliance protocols, to implement your no conversion and/or deforestation commitment(s).

Forest risk commodity

Timber products

Operational coverage

Direct operations
Supply chain

Description of control systems

Kao purchased as follows:

By purchasing certified products and by using WWF Japan's Forest Product Procurement Checklist, Kao confirms the forests are sustainable in society, the environment, and economically through the Tier-1 suppliers.

- Tier 1: Printing companies, paper package companies, cardboard companies; about 100 companies
- Tier 2: About 50 paper companies
- Tier 3: Sawmills, chip factories, approximately 1000 companies
- Tier 4: Forest management unit

Kao also requests Tier 1 suppliers to answer CDP supply chain programmes, Sedex and in-house SAQs annually to confirm their content and make improvements. It is also recognized as a system to manage, monitor, and verify.

Monitoring and verification approach

Community-based monitoring
Other, please specify
Purchasing certified products and utilizing checklists

% of total volume in compliance

100%

% of total suppliers in compliance

100%

Response to supplier non-compliance

Suspend & engage

Procedures to address and resolve non-compliance with suppliers

Providing information on appropriate actions that can be taken to address non-compliance

Please explain

Kao confirms the ratio of certified products of paper and pulp once a year. In the process, Kao also confirms the conformity of the management system. If Kao found that a supplier is non-compliance, Kao will temporarily stop procurement and engages the supplier to comply. If the status of non-compliance continues for long-term, Kao will also consider changing the supplier.

If the checklist reveals a non-sustainable supplier, it will require a switch to an FSC or PEFC certified product along with a request for improvement. If this is not done, Kao will consider discontinuing the transaction.

Kao monitors continuously external input on non-compliance in the supply chain. The following are examples of Community-based monitoring.

A Tier3 paper manufacturer in Japan publishes on its website the basic philosophy, operating policies, strict control, and community-wide activities of company-owned forests in Japan. Kao actually visited this company-owned forest and monitored and audited its activities through dialogue with paper manufacturer and local residents.

Forest risk commodity

Palm oil

Operational coverage

Direct operations

Supply chain

Description of control systems

(1) Kao obtains supply chain information from Tier-1 about the name of Tier-2 and Tier-3, parent company names, locations (latitude and longitude), etc. and prepares a palm mill list. By contacting Tier-1, Kao confirms the status of NDPE/HCSA/FPIC compliance efforts at Tier-1, refineries' group companies, Tier-2 and Tier-3 in the supply chain. Kao conducts surveys of Tier-4 by contacting Tier-1 to verify traceability to Tier-4.

(2) Kao has prepared a palm mill map from palm mill list confirmed in (1) and uses satellite photographs to check whether there are national parks, protected forests and peatlands within a 50km radius of palm mill location, etc.,

Kao holds hearings with Tier-1 regarding palm oil mills deemed risk mills. In addition, Kao carries out an on-site survey by third-party in response to palm oil mills that are judged to be extremely high-risk (high risk mills). By 2019, Kao had conducted on-site surveys of 8 mills and informational verifications from Tier-1.

Monitoring and verification approach

Geospatial monitoring tool

Ground-based monitoring system

First-party verification

Third-party verification

% of total volume in compliance

100%

% of total suppliers in compliance

100%

Response to supplier non-compliance

Suspend & engage

Procedures to address and resolve non-compliance with suppliers

Developing time-bound targets and milestones to bring suppliers back into compliance

Providing information on appropriate actions that can be taken to address non-compliance

Please explain

Kao has updated mill list described in Description of control systems at least as frequently as once a year. Kao monitors continuously external sources of non-compliance in the supply chain. Whenever a violation of compliance is suspected, Kao will conduct a fact-finding survey through refineries (Tier-1) in the supply chain, regarding Palm kernel mills (Tier-2), Palm oil mills (Tier-3), and plantations (Tier-4). Upon discovery of non-compliance in this study, Kao will cease doing business with the company and request the company to take corrective actions and to comply with NDPE and HCSA. If the non-compliance status continues for a long time, Kao requests the refinery (Tier-1) to suspend business with the company concerned. In addition, a third-party audit shall be conducted on the relevant company to confirm the progress of improvement.

F6.6

(F6.6) For your disclosed commodity(ies), indicate if you assess your own compliance and/or the compliance of your suppliers with forest regulations and/or mandatory standards.

| | Assess legal compliance with forest regulations |
|-----------------|---|
| Timber products | Yes, from suppliers |
| Palm oil | Yes, from suppliers |

F6.6a

(F6.6a) For you disclosed commodity(ies), indicate how you ensure legal compliance with forest regulations and/or mandatory standards.

Timber products

Procedure to ensure legal compliance

In two ways, Kao recognizes purchased Timber Products comply with forest regulations and/or laws:

Method i) -Purchase FSC and PEFC certified products

Kao recognizes that FSC and PEFC certified products comply with national forest laws and regulations.

Method ii) -Purchase non-certified products

When Kao purchase non-certified products, Kao will provide the suppliers with a WWF Japan's checklist and Kao will confirm the checklist after filling out.

WWF Japan's Checklist contains items to confirm if a supplier fits relevant laws and regulations of each country, and Kao confirms the contents filled out by the supplier. If a supplier is not complying, Kao temporarily stop procurement and engage in compliance. After compliance is confirmed, the procurement will be resumed.

Through the activities, compliance with laws and regulations in the supply chain can be ensured. In Kao's direct operations, the secretariat of Responsible Care Committee, a

sub-committee of the Internal Control Committee, annually confirms compliance with relevant laws and regulations. If non-compliance is found, Kao requests the supplier to comply.

Kao further requests Tier 1 suppliers to answer CDP supply chain programmes, Sedex and in-house SAQs, including items for confirming compliance with laws and regulations, and checks and improves their content. These activities are also recognized as systems for ensuring legal compliance.

If non-compliance is found, Kao requests the supplier to comply.

In Kao's direct operations, the secretariat of Responsible Care Committee, a sub-committee of the Internal Control Committee, annually confirms compliance with relevant laws and regulations.

For these reasons, Kao recognizes that these procedures are sufficient to ensure compliance directly within operations and supply chains.

Country/Area of origin

Indonesia

Law and/or mandatory standard(s)

Other, please specify

FSC, PEFC

Comment

Palm oil

Procedure to ensure legal compliance

Kao recognizes that purchased palm oil is in compliance with forest regulations and/or laws in two ways.

1) Purchasing RSPO certified products

Kao recognizes that RSPO certified palm oil complies with the laws and regulations of each country.

2) Purchase of non-certified products

When Kao purchases non-certified products, through CDP Supply Chain programme, we ask refinery(Tier-1) to answer questions of CDP Forest, including compliance status and compliance questions, to verify the compliance status of each company. If there are any items that Kao has received that do not comply with the requirements of compliance, then after checking the contents, the supplier is required to comply with the requirements and ensures compliance with the laws and regulations of the supply chain.

3) Other

In addition, Tier 1 supplier is requested to respond to the CDP Supply Chain Programme, Sedex, and in-house SAQs, including items to verify compliance with laws and regulations, and to review and improve the content. These activities are also recognized as systems for ensuring legal compliance.

If non-compliance is found, Kao requests the supplier to comply.

In Kao's direct operations, the secretariat of Responsible Care Committee, a sub-

committee of the Internal Control Committee, annually confirms compliance with relevant laws and regulations.

For these reasons, Kao recognizes that these procedures are sufficient to ensure compliance directly within operations and supply chains.

Country/Area of origin

- Indonesia
- Malaysia

Law and/or mandatory standard(s)

- ISPO
- MSPO
- Other, please specify
- RSPO

Comment

F6.7

(F6.7) Are you working with smallholders to support good agricultural practices and reduce deforestation and/or conversion of natural ecosystems?

| | Are you working with smallholders? | Type of smallholder engagement approach | Smallholder engagement approach | Number of smallholders engaged | Please explain |
|-----------------|------------------------------------|---|--|--------------------------------|---|
| Timber products | Yes, working with smallholders | Financial and commercial incentives | Purchase guarantee linked to best agricultural practices | 0 | Major package manufacturers in Japan are developing and selling packages using thinned wood (and also certified products)*1 to secure employment in forestry and preserve forests. Effective use of thinned wood leads to forest conservation and support for forestry workers. Kao believes that considering adopting this packaging is effective for the sustainability of smallholder and seeks strategic engagement with its suppliers. |

| | | | | | |
|----------|--|---|--|----|---|
| | | | | | *1 Thinned wood is wood generated during thinning of standing trees that become dense in the growth process of forests. |
| Palm oil | Yes, working with independent smallholders | Supply chain mapping Capacity building | Supplier questionnaires on environmental and social indicators Offering on-site technical assistance and extension services Providing agricultural inputs Investing in pilot projects Prioritizing support for smallholders in high-risk deforestation regions | 20 | Kao announced in October 2020 that, with the aim of building a sustainable supply chain for palm oil, Kao, together with Apical Group of oils and fats manufacturing and sales companies, and Asian Agri, a plantation company, will begin a program called SMILE (SMallholder Inclusion for betterLivelihood & Empowerment program) to help Indonesian small-scale palm farms improve productivity and acquire certification for sustainable palm oil. Together with the above two companies, Kao aims to provide technical guidance for improving productivity, curb the development of new plantations by increasing yields, support the acquisition of RSPO certification for sustainable palm oil, and improve the livelihoods of producers through dialogue with producers in order to resolve issues such as environmental degradation and human rights violations in Indonesia. |

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| | | | | <p>In addition, Kao's original support is the Adjuvant Series of Agricultural Materials (functional adhesives), which is derived from Kao's long years of interfacial science research. By utilizing Adjuvant Series that can efficiently spray agricultural chemicals, we aim to reduce the amount of agricultural chemicals used and reduce costs, thereby stabilizing farm income and reducing environmental impact. Kao aims to support 5000 small-scale farmers in Indonesia by 2030. This initiative was announced at the Webinar in Indonesia, where more than 200 people from industry and media participated. In 2020, 20 surveys were conducted in Riau province, Indonesia on the living, environmental and palm plantations of independent small-scale plantations (Tier4). In 2021, a questionnaire survey was conducted on 500 small-scale plantations in Jambi province, Northern Sumatra province and Riau province. After grasping the actual situation, the Grievance Mechanism was decided to be prepared for the</p> |
|--|--|--|--|--|

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| | | | | | resolution of human rights issues in particular from 2022. |
|--|--|--|--|--|--|

F6.8

(F6.8) Are you working with your direct suppliers to support and improve their capacity to comply with your forests-related policies, commitments, and other requirements?

| | Are you working with direct suppliers? | Type of direct supplier engagement approach | Direct supplier engagement approach | % of suppliers engaged | Please explain |
|-----------------|--|---|--|------------------------|--|
| Timber products | Yes, working with direct suppliers | Supply chain mapping Capacity building Financial and commercial incentives Other | Supplier questionnaires on environmental and social indicators Supplier audits Organizing capacity building events Financial incentives for certified products Other, please specify CDP Supply Chain Program | 81-90% | <p>Kao's purchasing department convenes key business partners every year to hold the vendor summit to promote the overall ESG activities including Kao's Forest related commodity (Timber and Palm).</p> <p>In addition, Kao requires Tier1 suppliers to respond to Sedex SAQ or Kao SAQs (social and environmental). The survey rate in 2020 was 83% (on a value basis)</p> <p>- Main strategy of engagement</p> <p>Toward the aim of "contributing to the realization of social sustainability," Kao respects the "Ten Principles of the United Nations Global Compact" in procurement, asks its business partners to consider "social responsibility" and "the environment," and prioritizes procurement from business partners who comply with it. Kao will also make these guidelines known to all business partners, strive to</p> |

| | | | | | |
|----------|------------------------------------|---|--|--------|---|
| | | | | | <p>understand the status of compliance, and take appropriate measures, such as guidance on improvements including audits and cancellation of transactions if there is a violation.</p> <p>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.</p> <p>As a specific example, Kao requests its main suppliers to respond to a survey of the CDP supply chain program. In 2020, Kao requested that 36 forest-related suppliers respond to the survey (29 companies responded) in order to conserve forests throughout the supply chain. In 2020, Kao procured about 0.1 million tonnes of RSPO certified palm oil at premiums.</p> |
| Palm oil | Yes, working with direct suppliers | Supply chain mapping Capacity building Financial and commercial incentives Other | Supplier questionnaires on environmental and social indicators Developing or distributing supply chain mapping tool | 81-90% | <p>Kao's purchasing department convenes key business partners every year to hold the vendor summit to promote the overall ESG activities including Kao's Forest related commodity (Timber and Palm).</p> <p>In addition, Kao requires Tier1 suppliers to respond to Sedex</p> |

| | | | | |
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| | | | <p>Organizing capacity building events</p> <p>Financial incentives for certified products</p> <p>Other, please specify</p> <p>CDP Supply Chain Program</p> | <p>SAQ or Kao SAQs (social and environmental). The survey rate in 2020 was 83% (on a value basis).</p> <ul style="list-style-type: none"> • Main strategy of engagement <p>Toward the aim of "contributing to the realization of social sustainability," Kao respects the "Ten Principles of the United Nations Global Compact" in procurement, asks its business partners to consider "social responsibility" and "the environment," and prioritizes procurement from business partners who comply with it. Kao will also make these guidelines known to all business partners, strive to understand the status of compliance, and take appropriate measures, such as guidance on improvements including audits and cancellation of transactions if there is a violation.</p> <p>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.</p> <p>As a specific example, Kao requests its main suppliers to respond to a survey of the</p> |
|--|--|--|--|--|

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|--|--|--|--|--|---|
| | | | | | CDP supply chain program. In 2020, Kao requested that 36 forest-related suppliers respond to the survey (29 companies responded) in order to conserve forests throughout the supply chain. In 2020, Kao procured about 0.1 million tonnes of RSPO certified palm oil at premiums. |
|--|--|--|--|--|---|

F6.9

(F6.9) Are you working beyond your first-tier supplier(s) to manage and mitigate deforestation risks?

| | Are you working beyond first tier? | Type of engagement approach with indirect suppliers | Indirect supplier engagement approach | Please explain |
|-----------------|------------------------------------|---|--|---|
| Timber products | Yes, working beyond first tier | Supply chain mapping Capacity building Other | On-site meetings with indirect suppliers Offering on-site training and technical assistance Other, please specify Gather information on the environment and society of indirect suppliers | By purchasing certified products and by using WWF Japan's Forest Product Procurement Checklist, Kao confirms the forests are sustainable in society, the environment, and economically through the Tier-1 suppliers. At the end of 2020, the ratio of certified raw material was 94%. Most of the rest was checked with WWF Japan's check list. Therefore, Kao regards almost 100% traceability was established. - Tier 1: Printing companies, paper package companies, cardboard companies; about 100 companies - Tier 2: About 50 paper companies - Tier 3: Sawmills, chip factories, approximately 1000 companies - Tier 4: Forest management unit Kao will work with Tier 1 suppliers for requesting improvements to Tier 2 or Tier 3 suppliers if the checklist reveals them non-sustainable suppliers or reveals them that they do not respect the rights of the indigenous people. If no improvement is expected, Kao will consider canceling the deal. No such |

| | | | | |
|----------|--------------------------------|---|--|---|
| | | | | <p>cases occurred in 2020.</p> <p>Also, in 2020 Kao visited a major Japanese paper company, a Tier3, to explain Kao's procurement policy, traceability status, and so forth, to ask them to continue to comply with Kao's policy, and to inspect their traceability. Kao has invested more than JPY 300 million to file more than 400 patent regarding a pulp mold technology. Recognizing that this technology is also a technology for preventing forest conservation and deforestation and is a method for effectively utilizing virgin pulp and wastepaper pulp, Kao has signed licensing agreements with more than eight suppliers (not only large enterprises but also SMEs) including Indirect supplier, and is currently providing Kao's technology.</p> |
| Palm oil | Yes, working beyond first tier | Supply chain mapping Capacity building | <p>Developing or distributing supply chain mapping tools</p> <p>On-site meetings with indirect suppliers</p> <p>Supplier audits</p> <p>Offering on-site training and technical assistance</p> <p>Investing in pilot projects</p> | <p>The following initiatives are being implemented for the supply chain of palm oil in Indonesia and Malaysia.</p> <p>(1) Kao conducts traceability surveys of palm kernel mills (Tier 2), palm oil mills (Tier-3), and plantations (Tier-4) through refineries (Tier-1) and conducts third-party field surveys of mills classified as high risk mill. Kao conducted on-site surveys and third-party audits of 8 palm oil mills (Tier-3) by 2019, and asked for improvements.</p> <p>(2) Kao is investigating the actual status of independent small-scale plantations in Tier 4 through direct dialogue with the local community. Kao participated in the Stakeholder Engagement (SHE) programme sponsored by Caux Round Table Japan (CRT Japan) in 2019 and engaged in direct dialogue with independent smallholder plantations in Jambi province, Indonesia.</p> <p>In 2020, Kao launched a program described in F6.7 to help Indonesian</p> |

| | | | | |
|--|--|--|--|---|
| | | | | <p>small-scale palm plantations increase productivity and obtain certification for sustainable palm oil, and conducted a set of test survey (20 surveys) on the livelihoods, environmental and palm plantations of independent small-scale plantations (Tier4) in Riau province, Indonesia. Furthermore, in 2021, a questionnaire survey was conducted on 500 small-scale plantations in Liau province, Jambi province, and Northern Sumatra province. After grasping the actual situation, the Grievance Mechanism was decided to be introduced in 2022, particularly for the resolution of human rights issues.</p> |
|--|--|--|--|---|

F6.10

(F6.10) Do you participate in external activities and/or initiatives to promote the implementation of your forests-related policies and commitments?

Forest risk commodity

Timber products

Do you participate in activities/initiatives?

Yes

Activities

Involved in multi-partnership or stakeholder initiatives

Initiatives

Forest Stewardship Council (FSC)

Other, please specify

JBIB

Jurisdictional approaches

Please explain

Kao sponsored the FSC Forest Week 2020 campaign to convey the importance of forest protection sponsored mainly by FSC Japan. FSC Forest Week 2020 is held by FSC Japan to raise awareness of FSC and aims to disseminate to consumers and businesses the means of forest conservation that anyone can participate in by "selecting FSC-certified products" to resolve the issue of deforestation. Kao sponsored the campaign and worked to expand the use of FSC in Japan. These activities support the achievement of Kao's goal of 100% certification of paper products and pulp used in

household products by 2025. Kao participated in JBIB (Business Initiative for the Conservation and Sustainable Use of Japanese Biodiversity), an initiative undertaken by Japanese companies highly motivated to act on the conservation of biodiversity and the sustainable use of natural capital. JBIB has participated since its foundation, served as a director, and contributed to improving the level of its members by introducing and promoting activities to reduce deforestation.

All of these activities fit together with the eco-activities implemented under the eco-slogans set out in Kao's environmental strategy "Kao Environmental Declaration" together with the eco-activities carried out under the eco-slogans.

Forest risk commodity

Timber products

Do you participate in activities/initiatives?

Yes

Activities

Involved in jurisdictional approaches

Initiatives

Jurisdictional approaches

Produce, Conserve and Include (PCI)

Production, Protection and Inclusion (PPI)

Please explain

Kao sponsored the FSC Forest Week 2020 campaign to convey the importance of forest protection sponsored mainly by FSC Japan. FSC Forest Week 2020 is held by FSC Japan to raise awareness of FSC and aims to disseminate to consumers and businesses the means of forest conservation that anyone can participate in by "selecting FSC-certified products" to resolve the issue of deforestation. Kao sponsored the campaign and worked to expand the use of FSC in Japan. These activities support the achievement of Kao's goal of 100% certification of paper products and pulp used in household products by 2025. Kao participated in JBIB (Business Initiative for the Conservation and Sustainable Use of Japanese Biodiversity), an initiative undertaken by Japanese companies highly motivated to act on the conservation of biodiversity and the sustainable use of natural capital. JBIB has participated since its foundation, served as a director, and contributed to improving the level of its members by introducing and promoting activities to reduce deforestation.

Kao is participating in these activities to promote Produce and Conserve (Inclusive) comprehensively. All of these activities fit together with the eco-activities implemented under the eco-slogans set out in Kao's environmental strategy "Kao Environmental Declaration" together with the eco-activities carried out under the eco-slogans.

Forest risk commodity

Palm oil

Do you participate in activities/initiatives?

Yes

Activities

Involved in multi-partnership or stakeholder initiatives

Initiatives

Roundtable on Sustainable Palm Oil (RSPO)

Other, please specify

JBIB, SUSTAIN, JaSPON

Jurisdictional approaches

Please explain

Kao has been a member of RSPO since 2007 to eliminate deforestation associated with producing palm oil and contribute to the sustainability of the palm industry. In 2020, we procured a quantity of RSPO certified oil equivalent to the total quantity of palm oil used for Kao's consumer products. The following activities are also being carried out with the aim of disseminating this activity in Japan. Since 2019, Kao has been working with NGOs and other companies to collect and inform information on sustainable palm oil procurement and to promote sustainable palm oil procurement and consumption. Kao has participated as a director of JaSPON (Japan Sustainable Palm Oil Network). In 2019, a small-scale farmer inspection was conducted in Malaysia. In 2020, discussions were held to expand the activities of JaSPON, and decisions were made to hold regular information-exchange meetings with RSPO officials, to hold briefings for companies seeking to join RSPO, and to launch a JaSPON website. These activities support the achievement of Kao's goal of 100% palm oil by 2025. Kao participated in JBIB (Business Initiative for the Conservation and Sustainable Use of Japanese Biodiversity), an initiative undertaken by Japanese companies highly motivated to act on the conservation of biodiversity and the sustainable use of natural capital. JBIB has participated since its foundation, served as a director, and contributed to improving the level of its members by introducing and promoting activities to reduce deforestation. Kao has participated in SUSTAIN (Sustainable Assurance & Influence Alliance) since its establishment and is involved in the project to construct a palm plantation traceability system using a block chain. A pilot farmer conducted a demonstration experiment at the end of 2019 to confirm the operation of the system. However, the activity was suspended in corona in 2020, but it is scheduled to expand the scale in 2021 and enter the dissemination stage.

All of these activities fit together with the eco-activities implemented under the eco-slogans set out in Kao's environmental strategy "Kao Environmental Declaration" together with the eco-activities carried out under the eco-slogans.

Forest risk commodity

Palm oil

Do you participate in activities/initiatives?

Yes

Activities

Involved in jurisdictional approaches

Initiatives

Jurisdictional approaches

Produce, Conserve and Include (PCI)

Production, Protection and Inclusion (PPI)

RSPO Jurisdictional Approach to Certification

Please explain

Kao has been a member of RSPO since 2007 to eliminate deforestation associated with producing palm oil and contribute to the sustainability of the palm industry. In 2020, we procured a quantity of RSPO certified oil equivalent to the total quantity of palm oil used for Kao's consumer products. The following activities are also being carried out with the aim of disseminating this activity in Japan. Since 2019, Kao has been working with NGOs and other companies to collect and inform information on sustainable palm oil procurement and to promote sustainable palm oil procurement and consumption. Kao has participated as a director of JaSPON (Japan Sustainable Palm Oil Network). In 2019, a small-scale farmer inspection was conducted in Malaysia. In 2020, discussions were held to expand the activities of JaSPON, and decisions were made to hold regular information-exchange meetings with RSPO officials, to hold briefings for companies seeking to join RSPO, and to launch a JaSPON website. These activities support the achievement of Kao's goal of 100% palm oil by 2025. Kao participated in JBIB (Business Initiative for the Conservation and Sustainable Use of Japanese Biodiversity), an initiative undertaken by Japanese companies highly motivated to act on the conservation of biodiversity and the sustainable use of natural capital. JBIB has participated since its foundation, served as a director, and contributed to improving the level of its members by introducing and promoting activities to reduce deforestation. Kao has participated in SUSTAIN (Sustainable Assurance & Influence Alliance) since its establishment and is involved in the project to construct a palm plantation traceability system using a block chain. A pilot farmer conducted a demonstration experiment at the end of 2019 to confirm the operation of the system. However, the activity was suspended in corona in 2020, but it is scheduled to expand the scale in 2021 and enter the dissemination stage.

Kao is participating in these activities to promote Produce and Conserve (Inclusive) comprehensively.

All of these activities fit together with the eco-activities implemented under the eco-slogans set out in Kao's environmental strategy "Kao Environmental Declaration" together with the eco-activities carried out under the eco-slogans.

F6.11

(F6.11) Is your organization supporting or implementing project(s) focused on ecosystem restoration and protection?

Yes

F6.11a

(F6.11a) Provide details on your project(s), including the extent, duration, and monitoring frequency. Please specify any measured outcome(s).

Project reference

Project 1

Project type

Reforestation

Primary motivation

Voluntary

Description of project

Thailand is one of Kao's most important countries in Asia with manufacturing sites. However, as economic growth progresses, people are suffering from floods and smoke damage caused by rapid deforestation and concentration of population in cities. Aiming to Contribute to Thailand's society, especially to improve the situation of rapid deforestation in northern Thailand and other environmental problems caused by it, Kao conduct an environmental conservation project in northern Thailand with partnership of OISCA and OISCA Thailand.

Not only supporting afforestation and forest management, we also contribute to the income improvement and technology acquisition of community residents by exploring how to make use of the formed forest and how to coexist with forest by promoting agroforestry.

Start year

2012

Target year

2022

Project area to date (Hectares)

41

Project area in the target year (Hectares)

44

Country/Area

Thailand

Latitude

20.2206

Longitude

100.20355

Monitoring frequency

Six-monthly or more frequently

Measured outcomes to date

Carbon sequestration

Please explain

Once a year, when a tree-planting event is held, Kao's employees visit the site to observe the situation of the forest. In addition, local staff of NGOs are stationed at the site, and inspections and technical guidance are provided as appropriate. Visits of NGO members in Bangkok are conducted about once every two months.

In the first phase from 2012 to 2017, the project completed its goal of planting 42,500 trees on 35 hectares of land.

Kao began its second phase of support in April 2019. This new afforestation site was developed because the forest was neglected and covered with many undergrowth. In 2020, Kao planted trees and planted trees. The area planted in 2020 was 3 hectares. As a result of these activities, 41 hectares of plantations were developed, and the carbon dioxide sequestration in the forests was 5,562 ton-CO₂.

F7. Verification

F7.1

(F7.1) Do you verify any forests information reported in your CDP disclosure?

Yes

F7.1a

(F7.1a) 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.

F8. Barriers and challenges

F8.1

(F8.1) Describe the key barriers or challenges to eliminating deforestation and/or conversion of other natural ecosystems from your direct operations or from other parts of your value chain.

Forest risk commodity

Timber products

Coverage

Supply chain

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

F8.2

(F8.2) Describe the main measures that would improve your organization's ability to manage its exposure to deforestation and/or conversion of other natural ecosystems.

Forest risk commodity

Timber products

Coverage

Other parts of the value chain

Main measure

Greater customer awareness

Comment

Forest risk commodity

Palm oil

Coverage

Supply chain

Main measure

Greater supplier awareness/engagement

Comment

F17 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.

F17.1

(F17.1) Provide the following information for the person that has signed off (approved) your CDP forests response.

| | Job Title | Corresponding job category |
|-------|---------------------------------------|-------------------------------|
| Row 1 | President and Chief Executive Officer | Chief Executive Officer (CEO) |