

## F0. Introduction

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### F0.1

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**(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 four divisions. The Hygiene and Living Care Business offers fabric care products including detergents for apparel use, and home care products including detergents for kitchen use and hygiene products and paper diapers. The Health and Beauty Care Business offers premium skincare products such as face washes, as well as premium hair care products including shampoos, hair styling products and hair coloring products, among others. The Life Care Business provides food and beverage products such as drinks and professional use products. The Cosmetic Business provides cosmetics such as lotion, foundation and lipstick. The Chemical Business provides oil and fat products such as fatty acids; functional materials products such as surfacants and additives for plastic use, as well as specialty chemical products such as essences, among others.

The Hygiene and Living Care Business accounted for 33.3% of total turnover in fiscal 2022; The Health and Beauty Care Business, 23.8%; The Life Care Business, 3.6%; The Cosmetic Business, 15.8%; and The Chemical Business, 23.1%. The Company reported JPY 1,551.1 b in revenues and 35,411 permanent employees at December 31, 2022.

### F0.2

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**(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 2022	December 31 2022

### F0.3

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

JPY

### F0.4

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**(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.**

## Timber products

### Commodity disclosure

Disclosing

### Stage of the value chain

Manufacturing

### Are you disclosing information on embedded commodities?

Yes

### Explanation if not disclosing

<Not Applicable>

## Palm oil

### Commodity disclosure

Disclosing

### Stage of the value chain

Manufacturing

### Are you disclosing information on embedded commodities?

Yes

### Explanation if not disclosing

<Not Applicable>

## Cattle products

### Commodity disclosure

This commodity is not produced, sourced or used by our organization

### Stage of the value chain

<Not Applicable>

### Are you disclosing information on embedded commodities?

<Not Applicable>

### Explanation if not disclosing

<Not Applicable>

## Soy

### Commodity disclosure

This commodity is not produced, sourced or used by our organization

### Stage of the value chain

<Not Applicable>

### Are you disclosing information on embedded commodities?

<Not Applicable>

### Explanation if not disclosing

<Not Applicable>

## Other - Rubber

### Commodity disclosure

This commodity is not produced, sourced or used by our organization

**Stage of the value chain**

<Not Applicable>

**Are you disclosing information on embedded commodities?**

<Not Applicable>

**Explanation if not disclosing**

<Not Applicable>

**Other - Cocoa**

**Commodity**

**disclosure**

This commodity is not produced, sourced or used by our organization

**Stage of the value chain**

<Not Applicable>

**Are you disclosing information on embedded commodities?**

<Not Applicable>

**Explanation if not disclosing**

<Not Applicable>

**Other - Coffee**

**Commodity**

**disclosure**

Not disclosing

**Stage of the value chain**

Manufacturing

**Are you disclosing information on embedded commodities?**

<Not Applicable>

**Explanation if not disclosing**

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**

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**(F0.5) Select the option that describes the reporting boundary for which forests-related impacts on your business are being reported**

Operational control

**F0.6**

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**(F0.6) Select the countries/areas in which you operate.**

Australia Austria Belgium Canada China Czechia Denmark Finland France Germany  
Hong Kong SAR, China Indonesia  
Italy Japan Malaysia Mexico  
Netherlands New Zealand Norway Philippines  
Republic of Korea Russian Federation Singapore  
South Africa Spain Sweden Switzerland Taiwan, China Thailand  
United Kingdom of Great Britain and Northern Ireland United States of America  
Viet Nam

## F0.7

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**(F0.7) Are there any parts of your direct operations or supply chain that are not included in your disclosure?**

No

## F0.8

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**(F0.8) Does your organization have an ISIN code or another unique identifier (e.g., Ticker, CUSIP, etc.?)**

Indicate whether you are able to provide a unique identifier for your organization	Provide your unique identifier
Yes, an ISIN code	JP3205800000

## F1. Current state

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### F1.1

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**(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 Indonesia Japan

New Zealand Taiwan, China Thailand

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.**

	<b>% of revenue dependent on commodity</b>	<b>Comment</b>
Timber products	71-80%	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 75% of our total revenue.
Palm oil	81-90%	We purchase palm and palm kernel oil and their derivatives for many consumer and industrial chemical products. For consumer products, the percentage of such products per product is limited, but more than 80% of our total revenues depend on palm and palm kernel oil derivatives as many products in our Hygiene Living Care, Health & Beauty Care and Chemicals businesses contain palm and palm kernel oil derivatives.
Cattle products	<Not Applicable>	<Not Applicable>
Soy	<Not Applicable>	<Not Applicable>
Other - Rubber	<Not Applicable>	<Not Applicable>
Other - Cocoa	<Not Applicable>	<Not Applicable>
Other - Coffee	<Not Applicable>	<Not Applicable>

**F1.5**

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

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

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**(F1.5a) Disclose your production and/or consumption figure, and the percentage of commodity volumes verified as deforestation- and/or conversion-free.****Forest risk commodity**

Timber products

**Data type**

Consumption data

**Commodity production/ consumption volume**

275000

**Metric for commodity production/ consumption volume**

Metric tons

**Data coverage**

Full commodity production/consumption

**Have any of your reported commodity volumes been verified as deforestation- and/or conversion-free?**

Yes

**% of reported volume verified as deforestation- and/or conversion-free**

97

**Please explain**

Kao is promoting the purchase of FSC and PEFC certified products as a means of procuring deforestation-free paper and pulp. In 2022, 97% of all certified paper and pulp purchases were made. We are aiming for 100% by 2025.

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**Forest risk commodity**

Palm oil

**Data type**

Consumption data

**Commodity production/ consumption volume**

458000

**Metric for commodity production/ consumption volume**

Metric tons

**Data coverage**

Full commodity production/consumption

**Have any of your reported commodity volumes been verified as deforestation- and/or conversion-free?**

Yes

**% of reported volume verified as deforestation- and/or conversion-free**

89

**Please explain**

Kao promotes the purchase of RSPO-certified products as a means of procuring palm oil without cutting down forests. By 2022, 34% of all palm oil purchases will be converted to certified. We are aiming for 100% by 2025. In addition, 85% of all palm oil purchases are monitored by Tier 1 supplier satellite deforestation monitoring. 89% of cases were confirmed by one of the above methods. We are also checking the deforestation monitoring status of our Tier 1 suppliers' satellites.

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**(F1.5b) Provide a breakdown of your DCF and non-DCF volumes relevant to your stage in the supply chain according to how verification is achieved and the highest level of traceability, respectively.**

**Timber products – DCF**

**% of DCF production/consumption volume from areas with no or negligible risk of deforestation/conversion**  
0

**% of DCF production/consumption volume verified through monitoring systems**  
0

**% of DCF production/consumption volume physically certified**  
100

**% of non-DCF production/consumption volume from unknown origin**  
<Not Applicable>

**% of non-DCF production/consumption volume traceable only as far as country level**  
<Not Applicable>

**% of non-DCF production/consumption volume traceable only as far as sub-national area**  
<Not Applicable>

**% of non-DCF production/consumption volume traceable only as far as processing facility level**  
<Not Applicable>

**% of non-DCF production/consumption volume traceable to production unit level**  
<Not Applicable>

**Total percentage of production/consumption volume reported (DCF) [auto-calculated]**  
100

**Total percentage of production/consumption volume reported (non-DCF) [(auto-calculated)]**  
<Not Applicable>

**Timber products – Non DCF**

**% of DCF production/consumption volume from areas with no or negligible risk of deforestation/conversion**  
<Not Applicable>

**% of DCF production/consumption volume verified through monitoring systems**  
<Not Applicable>

**% of DCF production/consumption volume physically certified**  
<Not Applicable>

**% of non-DCF production/consumption volume from unknown origin**  
0

**% of non-DCF production/consumption volume traceable only as far as country level**  
0

**% of non-DCF production/consumption volume traceable only as far as sub-national area**  
0

**% of non-DCF production/consumption volume traceable only as far as processing facility level**  
0

**% of non-DCF production/consumption volume traceable to production unit level**  
100

**Total percentage of production/consumption volume reported (DCF) [auto-calculated]**  
<Not Applicable>

**Total percentage of production/consumption volume reported (non-DCF) [(auto-calculated)]**  
100

#### **Palm oil – DCF**

**% of DCF production/consumption volume from areas with no or negligible risk of deforestation/conversion**  
0

**% of DCF production/consumption volume verified through monitoring systems**  
71

**% of DCF production/consumption volume physically certified**  
29

**% of non-DCF production/consumption volume from unknown origin**  
<Not Applicable>

**% of non-DCF production/consumption volume traceable only as far as country level**  
<Not Applicable>

**% of non-DCF production/consumption volume traceable only as far as sub-national area**  
<Not Applicable>

**% of non-DCF production/consumption volume traceable only as far as processing facility level**  
<Not Applicable>

**% of non-DCF production/consumption volume traceable to production unit level**  
<Not Applicable>

**Total percentage of production/consumption volume reported (DCF) [auto-calculated]**  
100

**Total percentage of production/consumption volume reported (non-DCF) [(auto-calculated)]**  
<Not Applicable>

#### **Palm oil – Non DCF**

**% of DCF production/consumption volume from areas with no or negligible risk of deforestation/conversion**  
<Not Applicable>

**% of DCF production/consumption volume verified through monitoring systems**  
<Not Applicable>

**% of DCF production/consumption volume physically certified**  
<Not Applicable>

**% of non-DCF production/consumption volume from unknown origin**  
0

**% of non-DCF production/consumption volume traceable only as far as country level**  
0

**% of non-DCF production/consumption volume traceable only as far as sub-national area**  
0



**% of non-DCF production/consumption volume traceable only as far as processing facility level**

100

**% of non-DCF production/consumption volume traceable to production unit level**

0

**Total percentage of production/consumption volume reported (DCF) [auto-calculated]**

<Not Applicable>

**Total percentage of production/consumption volume reported (non-DCF) [(auto-calculated)]**

100

F1.5c

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**(F1.5c) 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**

Palm oil

**Country/Area of origin**

Indonesia

**State or equivalent jurisdiction**

Specify state/equivalent jurisdiction (Reau)

**% of total production/consumption volume**

65

**Please explain**

The amount of palm oil purchased by item is managed in an internal database, and the producing country is identified based on mill information from Tier 1 suppliers. Mill information is published on the website's Balm Dashboard.

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**Forest risk commodity**

Palm oil

**Country/Area of origin**

Malaysia

**State or equivalent jurisdiction**

Specify state/equivalent jurisdiction (Perak)

**% of total production/consumption volume**

35

**Please explain**

The amount of palm oil purchased by item is managed in an internal database, and the producing country is identified based on mill information from Tier 1 suppliers. Mill information is published on the website's Palm Dashboard.

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**Forest risk commodity**

Timber products

**Country/Area of origin**

Any other countries/areas

**State or equivalent jurisdiction**

<Not Applicable>

**% of total production/consumption volume**

73

**Please explain**

In 2022, Kao has procured approximately 73% of its total procured pulp and paper products from other countries (Japan, the United States, Canada, etc.). About 97% of that is procured as products produced from wood certified or managed based on a third-party certification system.

Kao has also established its own guidelines for procuring wood raw materials. Based on these guidelines, Kao collects traceability information from all suppliers, identifies the place of origin, observes local forest-related laws and regulations, and confirms that there is no illegal logging. doing.

In addition, we manage all information, including the amount of paper and pulp procured, in our internal system.

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**Forest risk commodity**

Timber products

**Country/Area of origin**

Indonesia

**State or equivalent jurisdiction**

Specify state/equivalent jurisdiction (East Java Province)

**% of total production/consumption volume**

22

**Please explain**

Kao has procured approximately 22% of its total pulp and paper products from Indonesia in 2022.

About 99% of that is procured as products produced from wood certified or managed based on a third-party certification system.

Kao has also established its own guidelines for procuring wood raw materials. Based on these guidelines, Kao collects traceability information from all suppliers, identifies the place of origin, observes local forest-related laws and regulations, and confirms that there is no illegal logging. doing. In addition, we manage all information, including the amount of paper and pulp procured, in our internal system.

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**Forest risk commodity**

Timber products

**Country/Area of origin**

Thailand

**State or equivalent jurisdiction**

Specify state/equivalent jurisdiction (Eastern (Rayong Province, Samut Prakan Province, Prachinburi province), Central (Bangkok))

**% of total production/consumption volume**

5

**Please explain**

In 2022, Kao procured approximately 5% of its total procurement volume of pulp and paper products from Thailand.

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Approximately 100% of this is procured as products produced from wood that has been certified or managed based on a third-party certification system.

Kao has also established its own guidelines for procuring wood raw materials. Based on these guidelines, Kao collects traceability information from all suppliers, identifies the place of origin, observes local forest-related laws and regulations, and confirms that there is no illegal logging. In addition, we manage all information, including the amount of paper and pulp procured, in our internal system.

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## F1.5f

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### **(F1.5f) 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**

<Not Applicable>

**Volume produced/consumed**

<Not Applicable>

**Metric**

<Not Applicable>

**Country/Area of origin**

<Not Applicable>

**State or equivalent jurisdiction**

<Not Applicable>

**% of total production/consumption volume**

<Not Applicable>

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

<Not Applicable>

**Comment**

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## F1.6

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### **(F1.6) Has your organization experienced any detrimental forests-related impacts?**

No

## F1.7

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**(F1.7) Indicate whether you have assessed the deforestation or conversion footprint for your disclosed commodities over the past 5 years, or since a specified cutoff date, and provide details.**

**Forest risk commodity**

Timber products

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### **Have you monitored or estimated your deforestation/conversion footprint?**

Yes, we monitor deforestation/conversion footprint in our supply chain

#### **Coverage**

Full consumption volume

### **Reporting deforestation/conversion since a specified cutoff date or during the last five years?**

Since a specified cutoff date, please specify year (2019)

### **Known or estimated deforestation/ conversion footprint (hectares)**

0

### **Describe methods and data sources used to monitor or estimate deforestation/ conversion footprint**

Since 2019, Kao has confirmed that there is no transformation of the natural ecosystem behind the wood raw materials it procures by purchasing products produced from wood that has been certified or managed based on the FSC certification system, with the exception of some pulp.

The FSC certification system defines “timber harvested for the purpose of converting natural forests” as one of five unacceptable timber categories. This includes conversion of natural forests to plantations as an unacceptable matter.

Therefore, by purchasing all of our wood materials from wood that is certified or managed under FSC certification schemes, we ensure that the wood materials we source are free from conversion of natural ecosystems.

In addition, Kao has established its own guidelines for procuring wood raw materials. Based on these guidelines, we collect traceability information from all suppliers, identify the country of origin, and confirm compliance with local forest-related laws and regulations. We have confirmed that there is no illegal logging. In addition to Tier 1 suppliers, we actively engage in dialogue with Tier 2 and beyond suppliers.

We monitor the footprint of deforestation and conversion of natural ecosystems in our supply chain.

In 2022, we held a dialogue with a major domestic paper manufacturer that procures timber from Tier 2 onwards.

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### **Forest risk commodity**

Palm oil

### **Have you monitored or estimated your deforestation/conversion footprint?**

Yes, we monitor deforestation/conversion footprint in our supply chain

#### **Coverage**

Partial consumption volume

### **Reporting deforestation/conversion since a specified cutoff date or during the last five years?**

Since a specified cutoff date, please specify year (2013)

### **Known or estimated deforestation/ conversion footprint (hectares)**

0

### **Describe methods and data sources used to monitor or estimate deforestation/ conversion footprint**

Since 2013, we have continued to purchase RSPO-certified mass-balanced products to procure deforestation-free palm oil. In addition, Tier 1 suppliers are conducting deforestation monitoring via satellite.

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## **F2. Procedures**

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### **F2.1**

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

Yes, forests-related risks are assessed

F2.1a

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**(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)

**Issues considered**

Availability of forest risk commodities Quality of forests risk commodities

Impact of activity on the status of ecosystems and habitats Regulation

Climate change

Impact on water security Tariffs or price increases Loss of markets Leakage markets

Brand damage related to forests risk commodities Corruption

Social impacts

**Stakeholders considered**

Customers Employees Investors

Local communities NGOs

Other forest risk commodity users/producers at a local level Regulators

Suppliers

**Please explain**

The most significant risk for Kao is brand damage related to forest risk commodities. This issue was determined by internal company method as a result of a comprehensive risk survey conducted by the Risk and Crisis Management Committee for each department and subsidiary. If customers were perceived as a brand

that uses non-environmentally friendly paper, Kao would lose our brand images and sales opportunities. Kao recognizes it's important to identify the places of origin of all supplied pulp and paper. So Kao developed internal company methods to identify the places of origin of all supplied them. 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 2022, the proportion of non-certified products was 3%.

Kao use WWF Japan's Responsible Purchasing Checklist for Forest Products (WWF checklist) 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. WWF 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.

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 confirmed if the name of the suspected company was on WWF checklist 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 checklist 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)

### **Issues considered**

Availability of forest risk commodities Quality of forests risk commodities  
Impact of activity on the status of ecosystems and habitats Regulation  
Climate change  
Impact on water security Tariffs or price increases Loss of markets Leakage markets  
Brand damage related to forests risk commodities Corruption  
Social impacts

### **Stakeholders considered**

Customers Employees Investors

Local communities NGOs

Other forest risk commodity users/producers at a local level Regulators

Suppliers

### Please explain

The most significant risk for Kao is brand damage related to forest risk commodities. This issue was determined by internal company method as a result of a comprehensive risk survey conducted by the Risk and Crisis Management Committee for each department and subsidiary.

If customers were perceived as a brand that uses non-environmentally friendly palm oil, Kao would lose our brand images and sales opportunities. Kao recognizes it's important to identify the places of origin of all supplied palm oil. So Kao has identified places of palm oil mill of all supplied palm oil.

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 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 2021 (887 mills). In 2021, Kao confirmed the compliance status of Malaysian and Indonesian Tier-1 by investigating the activities of NDPE, HCSA, and FPIC.

(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 were mills that have caused previous problems in the parent company, etc., (iii) upon information from NGOs is confirmed and identified as risk mill.

(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.

External consultants mainly acted in (2) and (3).

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

In 2022, we will confirm the status of compliance with the NDPE policy at Tier 1 suppliers in Indonesia and Malaysia, and request improvement guidance from risky suppliers. Activities will continue in the future.

## F2.2

### (F2.2) For each of your disclosed commodity(ies), has your organization mapped its value chains?

	Value chain mapping	Primary reason for not mapping your value chain	Explain why your organization does not map its value chain and outline any plans to introduce it
Timber products	Yes, we have mapped the entire value chain	<Not Applicable>	<Not Applicable>
Palm oil	Yes, we have mapped the entire value chain	<Not Applicable>	<Not Applicable>
Cattle products	<Not Applicable>	<Not Applicable>	<Not Applicable>
Soy	<Not Applicable>	<Not Applicable>	<Not Applicable>
Other - Rubber	<Not Applicable>	<Not Applicable>	<Not Applicable>
Other - Cocoa	<Not Applicable>	<Not Applicable>	<Not Applicable>
Other - Coffee	<Not Applicable>	<Not Applicable>	<Not Applicable>

## F2.2a

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**(F2.2a) Provide details of your organization's value chain mapping for its disclosed commodity(ies).**

**Forest risk commodity**

Palm oil

**Scope of value chain mapping**

Own operations Tier 1 suppliers

Tier 2 suppliers

**% of total suppliers covered within selected tier(s)**

100

**Description of mapping process and coverage**

Own operatin: Maps the production bases that deliver palm oil, palm kernel oil, palm oil derivatives, and palm kernel oil derivatives as raw materials among our own factories.

Tier 1 supplier: Knows the locations of palm oil refineries and maps them in our internal system.

Tier 2 supplier: Based on the supply chain information of the primary suppliers of palm oil, we research mill facility names, locations, etc., create mill lists and mill maps, and publish them on our website (dashboard).

**Your own production and primary processing sites: attach a list of**

**facility names and locations (optional) Your suppliers' production and**

**primary processing sites: attach a list of names and locations**

**(optional)**

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**Forest risk commodity**

Timber products

**Scope of value chain mapping**

Own operations Tier 1 suppliers

**% of total suppliers covered within selected tier(s)**

100

**Description of mapping process and coverage**

We conducted a survey of all production plants for Tier-1 suppliers of packaging materials including paper and pulp from Kao Corporation of Japan. Information is shared by mapping based on the address of the production factory in the in-house system.

**Your own production and primary processing sites: attach a list of facility names and locations (optional)**

**Your suppliers' production and primary processing sites: attach a list of names and locations (optional)**

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## F2.3

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**(F2.3) Do you use a classification system to determine risk of deforestation and/or conversion of other ecosystems for your sourcing areas, and if yes, what methodology is used, and what is the classification used for?**



	Use of a classification system to determine deforestation and/or conversion risk of sourcing areas	Methodology used for classifying levels of risk	Use of risk classification	Attachment indicating risk classification for each sourcing area (optional)
1	Yes, we use a classification system	<p>- A definition of substantive financial or strategic impact is given We define an event as having a substantive impact if the amount of financial damage exceeding 1 billion yen (or equivalent to roughly 0.1% of the sales figure) is expected to appear within ten years and continue for several years. We recognize that the relevant risk no longer exists if a measure for preventing the existence of the relevant risk has been developed and implemented. We review the validity of this definition every year and correct it as necessary.</p> <p>- The measure(s), metric(s) or indicator(s) used to identify substantive change Kao evaluates substantial changes in terms of financial aspects and the continuity of direct operation.</p> <p>- The threshold or amount of change in the metric/measure/indicator which indicates substantive change We define an event as a substantive change if it is expected that the amount of financial damage will exceed 1 billion yen and a suspension of our operation in terms of direct operation for one day or more will appear within ten years. We define our production bases in areas marked with a high water risk level or higher either in 2030 or 2040 by Aqueduct, as potential changes. We recognize that the relevant risk ceases to exist if a measure has been developed and implemented to prevent the existence of the relevant risk. We review the validity of this definition every year and correct it as necessary.</p> <p>- Whether the definition applies to direct operations, or supply chain, or both The above definition applies to both direct operation and the supply chain.</p>	Kao manages company-wide risks, including climate change, water security, and forests, through two committees: the Internal Control Committee, chaired by the CEO, and the Risk and Crisis Management Committee (held at least four times a year) and the Responsible Care Promotion Committee (held at least twice a year). From a short-, medium-, and long-term perspective, assess all risks related to corporate activities, such as various reputational risks, employee labor risks, and environmental risks around factories, not only for the company but also for the upstream and downstream value chains, and identify risks that may have a significant strategic or financial impact if earnings damage of 1 billion yen or more is expected. The Risk and Crisis Management Committee selects a person in charge (executive officer) for each identified risk. The person in charge formulates and implements countermeasures and reports the countermeasure status to the committee.	

## F3. Risks and opportunities

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### F3.1

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**(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
Cattle products	<Not Applicable>
Soy	<Not Applicable>
Other - Rubber	<Not Applicable>
Other - Cocoa	<Not Applicable>
Other - Coffee	<Not Applicable>

### F3.1a

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**(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

-Description of the quantifiable indicator used to define substantive financial impact of forests-related risks :

Cases that have at least a one billion yen total impact of both additional spending and drop down in sales on operating results

### F3.1b

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**(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

Palm oil

#### Type of risk

Reputational and markets

#### Geographical scale

Plantation

#### 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 2022 were 711.6 billion yen.

In Japan, which accounts for about 69% of sales in these businesses, about 60% 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 since 2014. In 2020, we have confirmed 100% traceability up to palm oil mills and continue in 2022 also.

### **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)**

4931000000

### **Potential financial impact figure - minimum (currency)**

<Not Applicable>

### **Potential financial impact figure - maximum (currency)**

<Not Applicable>

### **Explanation of financial impact**

The sales of Kao's consumer product business are 1.193.3 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 711.6 billion yen. In Japan, which accounts for about 69% of sales in these businesses, and about 60% 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 would be 49.31 billion yen (=711.6 billion Yen x 69% x (1-60%) 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 2021 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 have completed traceability to palm oil mills in 2020. We continue this activity in

2022. 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

3600000

### 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.

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### Forest risk commodity

Timber products

### Type of risk

Reputational and markets

### Geographical scale

Forest management unit

### 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. The sanitary business included "Merries" is one of Kao's main businesses with annual sales of 174.5 billion yen. 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 60% 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. Kao continues this activity in 2022 also. 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

About as likely as not

### Are you able to provide a potential financial impact figure?

Yes, a single figure estimate

### Potential financial impact (currency)

7700000000

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### Potential financial impact figure - minimum (currency)

<Not Applicable>

### Potential financial impact figure - maximum (currency)

<Not Applicable>

### Explanation of financial impact

Kao is developing its sanitary business in Asian countries, including Merries baby diapers. The sanitary business is one of Kao's main businesses with annual sales of

174.5 billion yen. In Japan, about 60% of consumers refer to word of mouth and negative campaigns on social media when purchasing baby diapers and other daily necessities. The sanitary business, to which Merries baby diapers belong, accounts for 44% of domestic sales. In Japan, about 60% of consumers refer to word of mouth and negative campaigns on social media when purchasing baby diapers and other daily necessities. Kao expects up to 25% of consumers to change their selling behavior when exposed to this information. If 25% of consumers did not actually buy, the annual sales of the sanitary business would decrease by 7.7 billion yen ( $=174.5 \text{ billion yen} \times 44\% \times (1-60\%) \times 25\%$ ). This is equivalent to 4.4% of Kao's sanitary business (the business to which Merries baby diapers belong) of ¥174.5 billion. Since the impact on sales exceeds 1 billion yen, it is regarded as a risk with a significant impact. We recognize that this risk may arise at any time at this time.

### Primary response to risk

Increased use of sustainably sourced materials

### Description of response

Sales of Kao's disposable diaper "Merries" is JPY174.5 billion. If reputation and other risks to that product materialize and net sales decline by 5%, there will be a negative impact of JPY8.7 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 2021, (i) the verification of the place of origin was completed by 100%, and (ii) the percentage of certified products was 96%. 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

1200000

### 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 ( $=12\text{million JPY/person} \times 1\text{person} \times 10\%$ ).

In addition, no additional costs will be incurred for the time being.

**(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
Cattle products	<Not Applicable>
Soy	<Not Applicable>
Other - Rubber	<Not Applicable>
Other - Cocoa	<Not Applicable>
Other - Coffee	<Not Applicable>

## F3.2a

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

**Forest risk commodity**

Timber products

**Type of opportunity**

Products & services

**Where in your value chain does the opportunity occur?**

Supply chain

**Primary forests-related opportunity**

Increased sales of existing products/services

**Company-specific description**

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 2022 has reached about 60%. Kao is also actively promoting the introduction of FSC certified cardboard, and in 2022, it introduced FSC certified paper to almost 100% 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. It was confirmed that the target does not need to be changed in 2022.

**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)**

4400000000

**Potential financial impact figure – minimum (currency)**

<Not Applicable>

**Potential financial impact figure – maximum (currency)**

<Not Applicable>

**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. Sales of Kao's sanitary business, including baby diapers "Merries", exceeded 100 billion yen, reaching 174.5 billion yen in 2022. If the reputation of this business improves and sales in Asia increase by 2.5%, there will be an impact of 4.4 billion yen. While this opportunity is not yet apparent, we recognize that it may become apparent in the next 1-3 years as FSC certification gains more recognition.  $4.4 \text{ billion yen} = 174.5 \text{ billion yen} \times 2.5\%$

**Cost to realize opportunity**

440000000

**Strategy to realize opportunity**

Since certified products are traded at a price approximately 10% higher than non-certified products, the difference in raw material costs between non-certified and certified products is incurred. Therefore, 440 million yen, which is 10% of the 4.4 billion yen, will be the cost to realize the opportunity.

$440 \text{ million yen} = 4.4 \text{ billion yen} \times 10\%$

Kao has continued to meet its strategic goals of (i) identifying the origin of 100% of its paper and pulp by 2020 and (ii) replacing all paper and pulp with certified products by 2025. As a result, by 2022, (i) the certification of origin will be 100% complete, and (ii) the percentage of certified products will be 97%. We will support 100% certified products by 2025, and continue this initiative after 2025.

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**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 sales of existing products/services

**Company-specific description**

Ethical consumption is expected to expand around the world in order to realize a sustainable society. Among Kao's businesses, the Hygiene & Living Care Business, Cosmetics Business, Health & Beauty Care Business, and Chemical Business use palm oil as a raw material, accounting for 96% of total sales.

Of all our businesses, we recognize that the chemicals business has the highest demand for certified palm oil

products.

For example, the market for sustainable certified products in the United States is growing by 5% annually and is expected to continue growing at this rate. In 2022, the sales of the chemical business will be 402.5 billion yen and the palm derivative business will be approximately 282 billion yen. If an ethical certification label such as RSPO is attached to the palm derivative business sales (282 billion yen), sales will increase by 5%, equivalent to 14.1 billion yen. Kao sees 1 billion yen as a “major impact” and is a full-fledged strategy to stimulate ethical consumption. Kao is expanding its RSPO supply chain certified factories to enable RSPO certified labeling. Kao can serve new ethical markets in a timely manner when seeking RSPO certified products. By the end of 2018, Kao had acquired RSPO supply chain certification for a total of 35 Group plants and offices, achieving 100% of the original plan. Kao sells this to chemical users on a B2B basis and incorporates it into its own products. Kao's purchasing ratio of RSPO-certified palm oil (palm oil, palm kernel oil, and their derivatives) in 2022 was 34% of all palm oil. We aim to purchase 100% of RSPO-certified palm oil (palm oil, palm kernel oil, and their derivatives) by 2025, and will increase the purchase ratio.

### 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)

14100000000

### Potential financial impact figure – minimum (currency)

<Not Applicable>

### Potential financial impact figure – maximum (currency)

<Not Applicable>

### 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 2022, the sales of the chemical business will be 402.5 billion yen and the palm derivative business will be approximately 282 billion yen. If an ethical certification label such as RSPO is attached to the palm derivative business sales (282 billion yen), sales will increase by 5%, equivalent to 14.1 billion yen. Kao sees 1 billion yen as a “major impact” and is a full-fledged strategy to stimulate ethical consumption. Kao is expanding its RSPO supply chain certified factories to enable RSPO certified labeling. We recognize that this opportunity has already become apparent.

14.1 billion yen = 282 billion yen x 5%

### Cost to realize opportunity

4200000000

### Strategy to realize opportunity

Since certified products are traded at a price approximately 15% higher than non-certified products, the cost difference between non-certified and certified products is incurred. Therefore, 4.2 billion yen, which is 15% of the 14.1 billion yen, will be the cost of realizing the opportunity.

4.2 billion yen = 14.1 billion yen x 15%

In the chemical products business, Kao has sold 1 billion yen of products containing 2022 RSPO-certified palm oil and palm kernel oil derivatives.

Kao's purchasing ratio of RSPO-certified palm oil (palm oil, palm kernel oil, and their derivatives) in 2022 was 34% of all palm oil. We aim to purchase 100% of RSPO-certified palm oil (palm oil, palm kernel oil, and their derivatives) by 2025, and will increase the purchase ratio.



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 or committee	Responsibilities for forest-related issues
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. The ESG Managing 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.</p> <p>These two committees are under the board of directors. Our CEO serves as the chairperson of both Committees.</p> <p>In 2022, CEO approved to keep the targets such as ensuring the traceability of palm oil to all small plantations, with an RSPO certified oil purchase ratio of 100% in 2025.</p>

**(F4.1b) Provide further details on the board’s oversight of forests-related issues.**

	<b>Frequency that forests-related issues are a scheduled agenda item</b>	<b>Governance mechanisms into which forests-related issues are integrated</b>	<b>Please explain</b>
Row 1	Scheduled - some meetings	Monitoring implementation and performance Monitoring progress towards corporate targets Overseeing acquisitions, mergers, and divestitures Overseeing major capital expenditures Overseeing the setting of corporate targets Providing employee incentives Reviewing and guiding annual budgets Reviewing and guiding business plans Reviewing and guiding corporate responsibility strategy Reviewing and guiding major plans of action Reviewing and guiding risk management policies Reviewing and guiding strategy Reviewing innovation / R&D priorities Setting performance objectives	Reviewing and guiding corporate responsibility strategy, -major plans of action, -strategy, Setting performance objectives: The functions of these four governance mechanisms into which forest-related issues are integrated are covered by the ESG Managing Committee (chairman is CEO) held six times a year in Kao. The contents were supervised by the Board and deliberated more than six times in 2022. Overseeing -acquisitions and divestiture, -major capital expenditures, Providing employee incentives, Reviewing and guiding -annual budgets, -business plans, Reviewing innovation/ R&D priorities: 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 in Kao. The contents were supervised by the Board and deliberated more than six times in 2022. 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 2022.

**(F4.1d) Does your organization have at least one board member with competence on forests-related issues? Row 1**

**Board member(s) have competence on forests-related issues**

Yes

**Criteria used to assess competence on forests-related issues**

Worked in R&D that is responsible for the development of forest-related products for one year or more, or in divisions related to forest risk management such as the ESG Division and the Supply Chain Management Division, or served as a member of the Risk & Crisis Management Committee.

**Primary reason for no board-level competence on forests-related issues**

<Not Applicable>

**Explain why your organization does not have at least one board member with competence on forests-related issues and any plans to address board-level competence in the future**

<Not Applicable>

**(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)	Forests-related responsibilities of this position	Frequency of reporting to the board on forests-related issues	Please explain
Chief Executive Officer (CEO)	<p>Managing annual budgets relating to the implementation of forest-related policies and commitments</p> <p>Managing major capital and/or operational expenditures, related to low-impact forest products or services (including R&amp;D)</p> <p>Managing forests-related acquisitions, mergers, and divestitures</p> <p>Providing forests-related employee incentives</p> <p>Integrating forests-related issues into business strategy</p> <p>Setting forests-related corporate targets</p> <p>Monitoring progress against forests-related corporate targets</p> <p>Assessing forests-related risks and opportunities</p> <p>Managing forests-related risks and opportunities</p>	<p>More frequently than quarterly</p>	<p>-A description of the forests-related topics that are reported to the board</p> <p>In 2022, the ESG Managing Committee set new goals as shown in forest-related. These goals, their 2021 results and other forest-related activities were reported to the Board of Directors.</p> <p>-Details on the forest-related responsibilities of the individual/committee selected</p> <p>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 2022 the contents were supervised by the Board and deliberated more than six times. The Internal Control Committee is responsible for summarizing results, identifying risks, managing mitigation activities, and responding when risks become apparent.</p> <p>The ESG Managing 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 times in 2022. The scope of responsibility of the ESG Managing Committee is Reviewing and guiding corporate responsibility strategy, -major plans of action, -strategy, and Setting performance objectives. The chairman of both committee is CEO.</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>

**(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	<p>Kao's directors and executive officers can receive long-term incentive compensation according to ESG strength metrics, including achievement of forest-related targets indicated below. Here, the evaluation of the ESG strength evaluation index is determined by the evaluation by external indicators such as DJSI and CDP and the degree of achievement of internal goals. Long-term incentive rewards are paid 0-40% of the basic reward depending on the outcome.</p> <p>Kao recognizes that timber and palm oil are important areas of activity in the ESG strategy Kirei Lifestyle Plan, and for "Responsibly sourced raw materials", increased the ratio of certified paper products and pulp for consumer products by 100%. We have set a 2025 goal to complete traceability checks to small palm plantations and an annual goal to manage progress.</p> <p>Kao recognizes that timber and palm oil affect not only its own operations but also the entire value chain, so it used Sedex and others to make its suppliers aware of the risks of forest and palm oil. We have the goal of conducting "supply chain engagement" and completing risk studies of all suppliers by 2025.</p>

## 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	Contribution of incentives to the achievement of your organization's forests-related commitments	Please explain
Monetary reward	Director on board Corporate executive team Chief Officer (CEO) Chief Procurement	Increasing commodity volumes with credible third-party certification Increasing traceability of commodity volumes	<p>Kao's directors and executive officers can receive long-term incentive compensation according to ESG strength metrics, including performance of water activities. The evaluation of the ESG strength evaluation index is determined by the evaluation by external indicators such as DJSI, CDP, Climate Change, Water Security, and Forest, as well as by the degree of achievement of goals such as "10% reduction in full lifecycle water use per unit of sales (Base year: 2017)" and others. Long-term incentive rewards are paid 0-40% of the basic reward depending on the outcome. Kao's Chief Procurement Officer (CPO) are eligible to receive long-term incentive compensation according to ESG strength metrics, including performance of water activities. The evaluation of the ESG strength evaluation index is determined by the evaluation by external indicators such as DJSI, CDP, Climate Change, Water</p>	<p>i) Kao recognizes that timber and palm oil are important areas of activity in the ESG strategy Kirei Lifestyle Plan, and for "Responsibly sourced raw materials", increased the ratio of certified paper products and pulp for consumer products by 100%. We have set a 2025 goal to complete traceability checks to small palm plantations and an annual goal to manage progress.</p> <p>Kao recognizes that timber and palm oil affect not only its own operations but also the entire value chain, so it used Sedex and others to make its suppliers aware of the risks of forest and palm oil. We have the goal of conducting "supply chain engagement" and completing risk studies of all suppliers by 2025.</p> <p>ii) iii) The ratio of certified paper products and pulp has been 100%, traceability confirmation to small palm plantations has been completed, and risk surveys for all</p>

	Officer  (CPO)		Security, and Forest, as well as by the degree of achievement of goals such as “% of certified paper products and pulp for consumer products” “Confirm traceability to oil palm smallholders” and others. Long-term incentive rewards are paid 0-20% of the basic reward depending on the outcome.	suppliers have been completed. The progress of each is evaluated. 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 target (2020: (2020-2015)/(2020-2015) x100=100%) (in this case, 100%/100%=100%), and if this ratio exceeds 100%, it is considered successful.
Non-monetary reward	No one is entitled to these incentives	<Not Applicable>	<Not Applicable>	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) 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. Row 1****Scope**

Company-wide

**Commodity coverage**

Palm oil

Timber products

**Content**

Commitment to eliminate conversion of natural ecosystems Commitment to no land clearance by burning or clearcutting Commitment to eliminate deforestation

Commitment to no deforestation, to no planting on peatlands and to no exploitation (NDPE) Commitment to remediation, restoration and/or compensation of past harms

Secure Free, Prior and Informed Consent (FPIC) of indigenous people and local communities Adoption of the UN International Labour Organization principles

Commitment to resolving both social and environmental issues in own operations and supply chain Commitment to protect rights and livelihoods of local communities

Commitments beyond regulatory compliance Commitment to transparency

Commitment to stakeholder awareness and engagement Commitment to align with the SDGs

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 ecosystems

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

**Document attachment**

biodiversity-basic-policy.pdf

ESG Promotion Activities with Suppliers.pdf

“High-Risk” Supply Chain Management and Sourcing.pdf Partnership

Requirements for Suppliers.pdf

**Please explain**

Kao states that Kao Way's mission is “As one, we create a Kirei life for all—providing care and enrichment for the life of all people and the planet”. 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) “providing care and enrichment for the life of all people and the planet” means “comprehensiveness”. Because Kao values this comprehensiveness, so the following items are included in 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
- Description of forests-related standards for procurement

Kao confirms the need for policy revision every year at the ESG Management Committee. When it is necessary to revise it, it is formulated by the ESG Management Committee and approved by the Board.

Kao is conducting the following activities to implement the Policy.

Conducted social and environmental due diligence for all suppliers, including those provided by Forest-related commodities. Conducted a third-party audit of suppliers evaluated as high risk as a result of due diligence. We are asking more important Forest-related commodity suppliers for CDP responses through the CDP-SC Program.

#### F4.6

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**(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?**

Forest risk commodity	Public commitments made
Palm oil	Yes
Timber products	Yes

#### F4.6a

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**(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

#### F4.6b

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

**Forest risk commodity**

Timber products

## Criteria

No conversion of natural ecosystems Zero gross deforestation/ no deforestation Zero net deforestation  
No new development on peat regardless of depth  
Restoration and compensation to address past deforestation and conversion No trade of CITES listed species  
No land clearance by burning or clearcutting  
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 Operations are in accordance with the UN Declaration on the Rights of Indigenous Peoples 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  
Restricting the sourcing and/or trade of forest risk commodities to credible certified sources Recognition of legal and customary land tenure rights

## Operational coverage

Direct operations and supply chain

## % of total production/ consumption covered by commitment

100%

## Cutoff date

1993-1997

## Forest risk countries/areas that the cutoff date applies to

Applied globally

## Reason for selecting cutoff date

Sector-wide agreement/recommendation

## Commitment target date

2021-25

## 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, no conversion of natural eco system ). 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".

Kao is promoting the procurement of certified products to carry out FPIC. Because promoting the procurement of certified products is the activity of 'No conversion of natural ecosystems', 'Zero gross deforestation / no deforestation' and 'Secure Free, Prior and Informed Consent (FPIC) of indigenous people and local communities'. Because it also serves as.

In order to purchase as a certified product, it is necessary to satisfy the following two certifications.

- (1) Certification to examine whether forests are managed responsibly (FM certification)
- (2) Certification that has been examined Certification that examines the processing and distribution process until the certified material harvested from the forest reaches the hands of consumers (COC certification)

This (2) COC certification goes through a long and complicated processing and distribution process until it reaches the consumer, but it is necessary to confirm that it will not be mixed with ineligible wood in the process. In addition, since all organizations involved in production, processing, and distribution must be certified before the certified products reach consumers, we have obtained COC certification for all suppliers in this supply chain. You need to do it.

When we checked the COC certification on the supply chain, we found that some suppliers could not obtain the COC certification, and we have endeavored to understand the importance of the COC certification and request the acquisition of the COC certification from these suppliers.



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.

In 2021, Kao has obtained COC approval from a supplier of paper materials that are used in some of the sanitary products procured mainly in Indonesia. Furthermore, in order to advance the certification paper acquisition target as planned, both the local subsidiary and the head office share information on the timing and amount of switching to certified products.

As a result of implementing these measures, the percentage of certified products in 2022 reached 97% of the total products, an increase of 3 points from 94% in 2020. Kao's share of FSCs and PEFC certified products is increasing year by year.

It involves Tier 2 and beyond suppliers in the supply chain, holds regular dialogues with paper manufacturers, and discusses initiatives to end deforestation. In December 2022, we visited bases in the Kanto region for dialogue with two of Japan's largest paper and paperboard producers, confirmed that deforestation was not actually occurring, and were able to obtain understanding and agreement on conducting site visits and audits. Regarding the timing of the audit, we plan to visit the logging site of the plantation by the end of 2023 and confirm that there is no actual deforestation.

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### Forest risk commodity

Palm oil

### Criteria

No conversion of natural ecosystems Zero gross deforestation/ no deforestation

No new development on peat regardless of depth

Restoration and compensation to address past deforestation and conversion No land clearance by burning or clearcutting

No conversion of High Conservation Value areas No conversion of High Carbon Stock forests

Implementation of Nature-based Solutions that support landscape restoration and long-term protection of natural ecosystems 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

### Forest risk countries/areas that the cutoff date applies to

Applied globally

### Reason for selecting cutoff date

Sector-wide agreement/recommendation

### Commitment target date

2021-25

### Please explain

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 'No conversion of natural ecosystems', 'Zero gross deforestation / no deforestation' and 'Secure Free, Prior and Informed Consent (FPIC) of indigenous people and local communities'.

(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.

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 /FPIC at their own companies, its group companies, and palm kernel mill (Tier-2) in the supply chain, and palm oil mill(Tier-3).

In 2021, we confirmed the compliance status of Malaysian and Indonesian oil and fat suppliers (Tier-1) by investigating and confirming the activities of NDPE, HCSA, and FPIC compliance. As of December 2022, 93% of palm oil purchases have been surveyed for compliance with the NDPE policy. We will continue these activities in the future.

We launched a support program for small-scale palm farmers (SMILE) to provide technical guidance to improve productivity, curb the development of new plantations to increase yields, support the acquisition of RSPO certification for sustainable palm oil, and improve livelihoods through dialogue with producers. It is a plan to continue until 2030 and has the effect of suppressing (compensating) new deforestation.

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## F5. Business strategy

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### F5.1

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

so how?

	Are forests- related issues integrated?	Long- term time horizon (years)	Please explain
Long- term business objectives	Yes, forests- related issues are integrated	11-15	<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.</p> <p>For palm oil, traceability to palm oil mill was confirmed almost 100% in 1st step.</p> <p>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).</p> <p>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 97% was certified products in 2022.</p> <p>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>
Strategy for long- term objectives	Yes, forests- related issues are integrated	11-15	<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,</p>

			<p>Indonesia, in 2019 on traceability to small farms.</p> <p>Kao launched SMILE (Smallholder Inclusion for better Livelihood &amp; 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 (97% in 2022).</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. 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 forests-related timebound and quantifiable targets that were active during the

**reporting year?**

Yes

**F6.1a**

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**(F6.1a) Provide details of your forests-related timebound and quantifiable target(s) and progress made.****Target reference number**

Target 4

**Forest risk commodity**

Palm oil

**Year target was set**

2014

**Target coverage**

Company-wide

**Target category**

Traceability

**Metric**

% of volume traceable to traceability point

**Traceability point**

Crushing facility

**Third-party certification scheme**

<Not Applicable>

**Base year**

2014

**Base year figure**

0

**Target year**

2022

**Target year figure**

100

**Reporting year figure**

100

**% of target achieved relative to base year [auto-calculated]**

100

**Target status in reporting year**

Achieved

**Is this target linked to a commitment?**

Zero net/gross deforestation

**Please explain**

In 2020, Kao will establish 100% traceability of the palm oil supply chain up to the palm oil mill (Tier-3) and post the palm mill list on our website. Kao aims to ensure traceability to palm plantations (Tier-4) by collaborating with oil refineries (Tier-1) and NGOs. To achieve this goal, we confirmed the traceability to the palm oil mill

(Tier-3) by the following procedure. Kao obtains and prepares supply chain information such as names of palm kernel oil factories (Tier-2) and palm oil factories (Tier-3), parent company names, and locations (latitude and longitude) from oil refineries (Tier-1). List of palm mills. Kao has refineries (Tier-1), refinery group companies, palm kernel oil mills (Tier-2), and palm oil mills (Tier-3) in the supply chain. We will continue activities after 2021 and confirmed 100% traceability in 2022. We publish the latest mill list and mill map on our website.

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**Target reference number**

Target 6

**Forest risk commodity**

Palm oil

**Year target was set**

2020

**Target coverage**

Company-wide

**Target category**

Engagement with smallholders

**Metric**

Number of smallholders engaged

**Traceability point**

<Not Applicable>

**Third-party certification scheme**

<Not Applicable>

**Base year**

2020

**Base year figure**

0

**Target year**

2025

**Target year figure**

781

**Reporting year figure**

628

**% of target achieved relative to base year [auto-calculated]**

80.4097311139565

**Target status in reporting year**

Underway

### Is this target linked to a commitment?

Zero net/gross deforestation

### Please explain

Kao Corporation, Apical Group, an oil and fat product manufacturing and sales company, and Asian Agri, a plantation company, are implementing the SMILE Program (SMallholder Inclusion for better Livelihood & Empowerment program) to support small-scale palm plantations in Indonesia to improve productivity and obtain certification for sustainable palm oil, with the aim of building a sustainable supply chain for palm oil. This activity aims to improve the living standards of local farmers and curb deforestation. By 2030, about 5,000 farms will be provided with technical guidance by a specialized training team of plantation manufacturers to improve productivity (double the target yield) and training to acquire RSPO certification (RSPO basic principles, safety education, yield management methods), thereby improving the living standards of the farms. Furthermore, if the productivity of all small-scale palm plantations in Indonesia doubles, it can be expected to have the effect of suppressing new deforestation equivalent to the existing palm plantations in Borneo (approximately 4 million hectares). Phase 1 of these activities, which started in 2020, aims to support 781 farms by 2025, and provided education on farmland management, occupational safety, fire management, RSPO certification, etc. for 628 farms on Sumatra. As a result, 390 farms will be RSPO certified by 2022, and Kao has purchased all certification credits for small palm farms that have obtained this certification. Starting in 2020, we have provided education on farmland management, occupational safety, fire management, RSPO certification, etc. by a plantation maker's education team for 628 farms on Sumatra. As a result, 390 farms will be RSPO certified by 2022, and Kao has purchased all certification credits for small palm farms that have obtained this certification.

Certification credits for small palm farms are a mechanism that allows the farms to directly receive the certification premium, which allows the farms to earn a stable income. In November, we started a new risk survey of 1,688 farms and a fact-finding survey of the farms.

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### Target reference number

Target 8

### Forest risk commodity

Palm oil

### Year target was set

2020

### Target coverage

Company-wide

### Target category

Traceability

### Metric

% of volume traceable to traceability point

### Traceability point

Plantation

### Third-party certification scheme

<Not Applicable>

### Base year

2020

### Base year figure

0

### Target year

2025

**Target year figure**

100

**Reporting year figure**

0

**% of target achieved relative to base year [auto-calculated]**

0

**Target status in reporting year**

Underway

**Is this target linked to a commitment?**

Zero net/gross deforestation

**Please explain**

By 2021, we have verified traceability to our own farms owned by our Tier-1 suppliers. Traceability to smallholder farmers is carried out in collaboration with Tier-1 suppliers and NGOs. Aiming for completion in 2025. The achievement rate is not disclosed.

---

**Target reference number**

Target 9

**Forest risk commodity**

Palm oil

**Year target was set**

2020

**Target coverage**

Company-wide

**Target category**

Third-party certification

**Metric**

% of volume third-party certified

**Traceability point**

<Not Applicable>

**Third-party certification scheme**

RSPO Mass

Balance RSPO

Book and Claim

**Base year**

2020

**Base year figure**

25

**Target year**

2025

**Target year figure**

100

**Reporting year figure**

34



**% of target achieved relative to base year [auto-calculated]**

12

**Target status in reporting year**

Underway

**Is this target linked to a commitment?**

Zero net/gross deforestation

**Please explain**

Kao initially set a goal of achieving RSPO certification for 100% of its consumer products by 2020. As a next step, we have set a goal of having 100% of our products RSPO certified by 2025, not only for consumer products, but also for industrial applications. We recognize that efforts to expand the supply of RSPO-certified oil are of utmost importance in order to procure sufficient oil. In 2021, Kao will engage in various industries, participate in JaSPON (Japan Sustainable Palm Oil Network), and participate in consumer awareness activities at CGF to raise awareness of RSPO-certified oils.

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**Target reference number**

Target 1

**Forest risk commodity**

Timber products

**Year target was set**

2014

**Target coverage**

Company-wide

**Target category**

Traceability

**Metric**

% of volume traceable to traceability point

**Traceability point**

Forest management unit

**Third-party certification scheme**

<Not Applicable>

**Base year**

2014

**Base year figure**

78

**Target year**

2022

**Target year figure**

100

**Reporting year figure**

100

**% of target achieved relative to base year [auto-calculated]**

100

**Target status in reporting year**

---

Achieved

### Is this target linked to a commitment?

Zero net/gross deforestation

#### Please explain

Kao promotes the procurement of sustainable paper and pulp with the aim of achieving zero deforestation. Kao recognizes that the most important thing in preventing deforestation and the conversion of natural ecosystems is to confirm that no problems have occurred at the production site, and that the first step is to establish traceability to the place of origin.

Therefore, Kao set a goal of confirming traceability by 2020 as soon as possible, and built a traceability confirmation system with the cooperation of WWF Japan. By utilizing that tool, we achieved almost 100% traceability to the place of origin in 2018 and continue to maintain it.

Kao checks traceability with a traceability confirmation system that tracks raw materials from Tier 1 suppliers using the WWF-Japan Forest Products Sourcing Checklist, identifies the forest of origin, and confirms that the forest is socially, environmentally and economically sound.

Furthermore, we utilize a third-party certification system established by Kao to guarantee confirmation of traceability between parties. By 2018, we have achieved almost 100% traceability verification through the above two efforts.

At the beginning of 2018, we mainly checked traceability using the traceability confirmation system. From 2021 onwards, in addition to verifying the traceability between the parties involved, in order to guarantee it, we will further utilize the third-party certification system and promote the switch to certified products.

In particular, if traceability confirmation indicates that the country of origin is in a forest-risk country, we will promptly switch to FSC-certified products. We have confirmed traceability to the place of origin every year so far, and we have confirmed 100% traceability in 2022.

By 2022, the certification rate will reach 97% (FSC: about 63%, PEFC: about 34%).

Kao aims for a 100% certification rate by 2025. From 2021, Indonesia, a forest risk country, will seek 100% FSC certification and is in the process of switching.

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#### Target reference number

Target 2

#### Forest risk commodity

Timber products

#### Year target was set

2019

#### Target coverage

Company-wide

#### Target category

Third-party certification

#### Metric

% of volume third-party certified

#### Traceability point

<Not Applicable>

#### Third-party certification scheme

FSC Chain of  
Custody PEFC  
Chain of  
Custody

#### Base year

2019

**Base year figure**

91

**Target year**

2025

**Target year figure**

100

**Reporting year figure**

97

**% of target achieved relative to base year [auto-calculated]**

66.66666666666666

**Target status in reporting year**

Underway

**Is this target linked to a commitment?**

Zero net/gross deforestation

**Please explain**

Kao promotes the procurement of sustainable paper and pulp with the aim of achieving zero deforestation. Kao aims for 100% third-party certification by 2025.

We will promote the switch to certified products by utilizing not only traceability verification between parties but also a third-party certification system to guarantee it.

In particular, if the traceability confirmation shows that the country of origin is in a forest-risk country, we promptly switch to FSC-certified products, which are the strictest of third-party certifications.

In order to purchase a third-party certified product, the following two certifications must be met.

(1) Certification to assess whether forests are managed responsibly (FM certification)

(2) Certification that has been examined Certification that examines the processing and distribution processes of certified raw materials collected from forests until they reach consumers (COC certification)

COC certification(2) is a certification by all organizations involved in production, processing, and distribution to ensure that unqualified wood is not mixed in the long and complicated processing and distribution process before it reaches the consumer. All suppliers in this supply chain must be COC certified. When Kao checked the COC certification of its supply chain, it was found that some suppliers were unable to obtain COC certification. Therefore, in order to achieve this goal, Kao annually asks these suppliers to understand the importance of COC approval and obtain COC approval. Paper to suppliers that are not yet FSC certified in some supply chains. As a result of our request for FSC certification (CoC), all of our supply chains agreed to obtain certification. From 2021 onwards, activities related to paper materials used in some sanitary products, specifically the use of mount paper procured in Indonesia and release paper procured in Thailand, contributed. In 2022, we shared information such as when to switch to certified products and the amount of switching, with the aim of expanding the use of third-party certified paper between local subsidiaries and the head office. As a result of these activities, the percentage of FSC-certified products is increasing year by year.

The certification rate for paper and pulp in 2022 will be 97% (FSC: about 67%, PEFC: about 30%), an increase of 1% from 2021 (96%).

**Target reference number**

Target 7

**Forest risk commodity**

Timber products

**Year target was set**

2022

**Target coverage**

Company-wide

**Target category**

Engagement with direct suppliers

**Metric**

% of direct suppliers engaged

**Traceability point**

<Not Applicable>

**Third-party certification scheme**

<Not Applicable>

**Base year**

2019

**Base year figure**

55

**Target year**

2025

**Target year figure**

100

**Reporting year figure**

99.6

**% of target achieved relative to base year [auto-calculated]**

99.11111111111111

**Target status in reporting year**

Underway

**Is this target linked to a commitment?**

Zero net/gross deforestation

**Please explain**

Through direct dialogue with various stakeholders, including suppliers, Kao

We are aware of on-site issues and carry out activities to spread certified products.

In June 2022, we revised our guidelines for "procurement from high-risk supply chains" and announced them outside the company. This guideline newly establishes cooperation with various stakeholders such as suppliers.

In addition, in order to adapt to the changing times, we have established a procurement policy to realize "zero deforestation" while reviewing it from time to time. Through direct dialogue with various stakeholders, including suppliers, we recognize issues in the field and work to popularize certified products.

At the same time, we ask our business partners to join Sedex and check their compliance with the above guidelines.

In 2022, the result was a total of 99.6% of the 265 vendors invited to the vendor summit, 60% joining SEDEX, 5% alternatives, and 34% Kao SAQ.

**(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?	Supply chain coverage	Description of traceability system	Exclusions	Description of exclusion
Timber products	Yes	Volume from direct and indirect suppliers	<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"> <li>- At the end of 2022, the ratio of certified raw material was 97%. Most of the rest was checked with WWF Japan's check list. Therefore, Kao regards almost 100% traceability was established.</li> <li>- Tier 1: Printing companies, paper package companies, cardboard companies; about 100 companies</li> <li>- Tier 2: About 50 paper companies</li> <li>- Tier 3: Sawmills, chip factories, approximately 1000 companies</li> <li>- Tier 4: Forest management unit</li> </ul> <p>If the checklist reveals a non-sustainable supplier, Kao requests improvement or discontinue trading. In 2022, no suppliers are requested for improvement nor discontinue trading.</p>	Not applicable	<Not Applicable>
Palm oil	Yes	Volume from direct and indirect suppliers	<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). Since 2019, Kao has published a list of palm oil mills (779 mills, as of the end of 2022). In 2021, Kao confirmed the compliance status of Malaysian and Indonesian oil and fat suppliers (Tier-1) by investigating and confirming the activities of NDPE, HCSA, and FPIC compliance. In 2022, we will continue to check the status of compliance with the NDPE policy at Tier 1 suppliers and request improvement guidance from risky suppliers. Activities will continue in the future.</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	<Not Applicable>
Cattle products	<Not Applicable>	<Not Applicable>	<Not Applicable>	<Not Applicable>	<Not Applicable>

Soy	<Not Applicable>	<Not Applicable>	<Not Applicable>	<Not Applicable>	<Not Applicable>
Other - Rubber	<Not Applicable>	<Not Applicable>	<Not Applicable>	<Not Applicable>	<Not Applicable>
Other - Cocoa	<Not Applicable>	<Not Applicable>	<Not Applicable>	<Not Applicable>	<Not Applicable>
Other - Coffee	<Not Applicable>	<Not Applicable>	<Not Applicable>	<Not Applicable>	<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	Countries/areas to which this traceability point applies	% of total production/consumption volume traceable
Timber products	Forest management unit	Canada China Indonesia Japan New Zealand Taiwan, China Thailand United States of America	100
Palm oil	Mill	Indonesia Malaysia	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	97
Palm oil	Yes	34
Cattle products	<Not Applicable>	<Not Applicable>
Soy	<Not Applicable>	<Not Applicable>
Other - Rubber	<Not Applicable>	<Not Applicable>
Other - Cocoa	<Not Applicable>	<Not Applicable>
Other - Coffee	<Not Applicable>	<Not Applicable>

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

**Forest risk commodity**

Palm oil

**Third-party certification scheme**

RSPO Mass Balance

**Chain-of-custody model used**

<Not Applicable>

**% of total production/consumption volume certified**

20

**Form of commodity**

Crude palm oil (CPO)

Crude palm kernel oil

(CPKO) Palm oil

derivatives

Palm kernel oil derivatives

**Volume of production/ consumption certified**

89600

**Metric for volume**

Metric tons

**Is this certified by more than one scheme?**

No

**Is embedded soy certified through this scheme?**

<Not Applicable>

**Please explain**

In 2022, Kao purchased 89,600 tons of RSPO certified oil (MB). This represents 20% of the total amount of palm-based raw materials purchased.

Since 2016, Kao has continued to promote the RSPO certification of 100% of palm-derived raw materials used for household products. Purchased 90000 MT of RSPO certified oil (MB) for 2022. This amount is enough to cover the total amount of palm-derived raw materials used for household products.

In addition, Kao is implementing the following measures to promote the spread of RSPO-certified oils.

- (1) Kao has been collecting and providing information on sustainable palm oil procurement since 2019. Kao established JaSPON (Japan Sustainable Palm Oil Network) together with NGOs and others to promote the procurement and consumption of sustainable palm oil. Kao is a director.
- (2) Kao is a member of the RSPO Standard Standing Committee.
- (3) By 2020, Kao has set a target of having 100% of the palm oil purchased, including for industrial use, certified by 2025.

In order to procure a sufficient amount of RSPO-certified oil, we recognize the importance of efforts to expand the supply of RSPO-certified oil. In 2021, in order to increase the recognition of RSPO-certified oil, we worked on various industries with the aim of expanding supply in Japan, participated in JaSPON, and participated in consumer awareness activities at CGF, aiming to further expand demand.

**Forest risk commodity**

Timber products

**Third-party certification scheme**

FSC Forest Management certification

**Chain-of-custody model used**

<Not Applicable>

**% of total production/consumption volume certified**

67

**Form of commodity**

Pulp Paper

Primary packaging Secondary packaging Tertiary packaging

**Volume of production/ consumption certified**

185000

**Metric for volume**

Metric tons

**Is this certified by more than one scheme?**

No

**Is embedded soy certified through this scheme?**

<Not Applicable>

**Please explain**

Kao annually requests suppliers to provide new FSC certified paper, which was implemented in 2022. In 2022, the rate of FSC certified paper and pulp reached 67% out of total timber product, increased 5 point from 62% in 2022.

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.

In order to purchase as a certified product, it is necessary to satisfy the following two certifications.

(1) Certification to examine whether forests are managed responsibly (FM certification)

(2) Certification that has been examined Certification that examines the processing and distribution process until the certified material harvested from the forest reaches the hands of consumers (COC certification)

This (2) COC certification goes through a long and complicated processing and distribution process until it reaches the consumer, but it is necessary to confirm that it will not be mixed with ineligible wood in the process. In addition, since all organizations involved in production, processing, and distribution must be certified before the certified products reach consumers, we have obtained COC certification for all suppliers in this supply chain. When we checked the COC certification on the supply chain, we found that some suppliers could not obtain the COC certification, and we understand the importance of the COC certification to these suppliers and request the acquisition of the COC certification every year.

As a result of requesting that they acquire FSC certification (CoC), all supply chains agreed to acquire certification. From 2021 onwards, activities related to paper materials used in some sanitary products, specifically the use of mount paper procured in Indonesia and release paper procured in Thailand, contributed. By 2022, both local subsidiaries and the head office will share information on when to switch to certified products and how much to switch to, with the aim of expanding the use of third-party certified paper. As a result of these activities, the percentage of FSC-certified products is increasing year by year.

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**Forest risk commodity**

Timber products

**Third-party certification scheme**

PEFC Sustainable Forest Management certification

**Chain-of-custody model used**

<Not Applicable>

**% of total production/consumption volume certified**



**Form of commodity**

Pulp Paper

Primary packaging Secondary packaging Tertiary packaging

**Volume of production/ consumption certified**

82000

**Metric for volume**

Metric tons

**Is this certified by more than one scheme?**

No

**Is embedded soy certified through this scheme?**

&lt;Not Applicable&gt;

**Please explain**

Kao requests its suppliers to use PEFC-certified paper every year in accordance with the latest PEFC-certified paper rules, which are revised as needed. By 2022, PEFC-certified paper and pulp will account for 30% of all wood products.

Kao gives top priority to FSC certification, but if there are no FSC-certified forests in the country of origin, we procure PEFC-certified products. The paper container supplier did not provide PEFC-certified paper, but Kao explained the background and purpose of using certified paper.

Kao continued to require FSC or PEFC certified products, and suppliers began supplying them. This activity has contributed significantly to Kao's goals. Kao's ESG strategy (Kirei Lifestyle Plan) aims to achieve 100% FSC or PEFC certified paper and pulp used in consumer products by 2025.

**Forest risk commodity**

Palm oil

**Third-party certification scheme**

RSPO Credits/Book &amp; Claim

**Chain-of-custody model used**

&lt;Not Applicable&gt;

**% of total production/consumption volume certified**

14

**Form of commodity**

Crude palm oil (CPO)

Crude palm kernel oil (CPKO)

**Volume of production/ consumption certified**

66800

**Metric for volume**

Metric tons

**Is this certified by more than one scheme?**

No

**Is embedded soy certified through this scheme?**

&lt;Not Applicable&gt;

**Please explain**

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

2022, Kao purchased 66,800 tons of RSPO certified oil (B&C). In 2021, in the SMILE project that supports small farmers in Indonesia, we will implement an initiative to purchase B&C directly from supporting farmers. In 2022, 390 farms will have obtained RSPO certification, and Kao has purchased the entire amount (approximately 4,000 tons) of certification credits for small-scale palm farms that have obtained this certification. Certification credits for small palm farms are a mechanism that allows the farms to directly receive the certification premium, which allows the farms to earn a stable income.

< SMILE >

Kao launched a support program in 2020 together with Apical Group, an oil manufacturing and sales company, and Asian Agri, a plantation company. By educating small-scale plantations to improve palm oil yields, the program aims to support 5,000 small-scale plantations in three provinces of Indonesia-Sumatra (Leau, Jambi and North Sumatra) to achieve RSPO certification by 2030.

## 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	Comment
Timber products	Yes, we have a system in place for our no conversion and/or deforestation commitments	<Not Applicable>
Palm oil	Yes, we have a system in place for our no conversion and/or deforestation commitments	<Not Applicable>
Cattle products	<Not Applicable>	<Not Applicable>
Soy	<Not Applicable>	<Not Applicable>
Other - Rubber	<Not Applicable>	<Not Applicable>
Other - Cocoa	<Not Applicable>	<Not Applicable>
Other - Coffee	<Not Applicable>	<Not Applicable>

## 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

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.

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.

### Monitoring and verification approach

Community-based monitoring Third-party verification  
Other, please specify (Utilizing WWF checklist)

### % of total volume in compliance

100%

### % of total suppliers in compliance

100%

### Response to supplier non-compliance

Suspend & engage

### % of non-compliant suppliers engaged

<Not Applicable>

### 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 would temporally stop procurement and engages the supplier to comply. If the status of non-compliance continues for long-term, Kao would also consider changing the supplier.  
If the checklist reveals a non-sustainable supplier, Kao required to switch to an FSC or PEFC certified product along with a request for improvement. If this is not done, Kao would 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.

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### 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

**% of non-compliant suppliers engaged**

<Not Applicable>

**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.**

	<b>Assess legal compliance with forest regulations</b>	<b>Comment</b>
Timber products	Yes, from suppliers	<Not Applicable>
Palm oil	Yes, from suppliers	<Not Applicable>
Cattle products	<Not Applicable>	<Not Applicable>
Soy	<Not Applicable>	<Not Applicable>
Other - Rubber	<Not Applicable>	<Not Applicable>
Other - Cocoa	<Not Applicable>	<Not Applicable>
Other - Coffee	<Not Applicable>	<Not Applicable>

**F6.6a**

**(F6.6a) For your 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 provides the suppliers with a WWF Japan's checklist and Kao confirms 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 regulations and/or laws 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, the secretariat requests the base to comply.

Kao further requests Tier 1 suppliers to answer CDP supply chain programme, 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 Thailand

### Law and/or mandatory standard(s)

General assessment of legal compliance 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 Other	Paying higher prices linked to best agricultural practices Financial incentives for certified products Purchase guarantee linked to best agricultural practices Long term contracts linked to forest related commitments Other, please specify ( · Provision of technical support and extended services · Planning skill development events · Supporting smallholder farmers to clarify and secure land ownership · Prioritize support for smallholder farmers in areas at high risk of deforestation)	991	<p>Major package manufacturers in Japan are developing and selling packages (and also certified products) using thinned wood*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.</p> <p>*1 Thinned wood is wood generated during thinning of standing trees that become dense in the growth process of forests.</p> <p>Through dialogue with Tier 2 and later paper manufacturers, Kao has confirmed that it supports small farmers involved in its supply chain.</p> <p>Tier 2 and later paper manufacturers report that partnerships with smallholder farmers contribute to job and income generation, and strengthen ties with neighbors and communities through partnership programs. Specifically, as of December 31, 2022, verification has been completed that approximately 20,000 hectares of FSC-CoC farms held by small-scale farmers in a specific area meet the criteria for FSC-controlled timber, including no alteration of natural ecosystems and no illegal logging over the past five years.</p> <p>It also confirmed that maintaining agricultural partnerships with smallholder farmers in rural areas creates alternatives to jobs and income and helps keep the population rural.</p> <p>We have confirmed that the number of support for these small farmers will be 991 after 2021.</p>

Palm oil	Yes, working with independent smallholders	Supply chain mapping Capacity building Financial and commercial incentives	Supplier questionnaires on environmental and social indicators Offering on-site technical assistance and extension services Providing agricultural inputs Disseminating technical materials Investing in pilot projects Supporting smallholders to clarify and secure land tenure Prioritizing support for smallholders in high-risk deforestation regions Purchase guarantee linked to best agricultural practices	2316	<p>Kao announced in 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, have started a program called SMILE (SMallholder Inclusion for betterLivelihood &amp; Empowerment program) to help Indonesian small-scale palm farms improve productivity and acquire certification for sustainable palm oil.</p> <p>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.</p> <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.</p> <p>In 2021, a dedicated plantation manufacturer education team conducted RSPO training sessions as well as safety, fire response, and volume and shipment bookkeeping education for approximately 700 farmers in Sumatra. We also introduced our proprietary technology, Adjuvant, and began testing its use locally in February 2022.</p> <p>Starting in 2022 we are preparing to introduce a grievance mechanism for independent small farmers in Indonesia, which will enable us to respond promptly to human rights issues. The grievance mechanism is an initiative to identify and investigate issues (complaints) in the field (farms) in collaboration with NGOs, resolve the issues proactively, and follow up to confirm resolution. From September 2022, we started operation targeting 50 farms in North Sumatra, Indonesia, and have received 100 requests and inquiries regarding the certification system, palm production, sustainable farms, etc. We are cooperating with NPOs.</p>
Cattle products	<Not Applicable>	<Not Applicable>	<Not Applicable>	<Not Applicable>	<Not Applicable>
Soy	<Not Applicable>	<Not Applicable>	<Not Applicable>	<Not Applicable>	<Not Applicable>

Other - Rubber	<Not Applicable>	<Not Applicable>	<Not Applicable>	<Not Applicable>	<Not Applicable>
Other - Cocoa	<Not Applicable>	<Not Applicable>	<Not Applicable>	<Not Applicable>	<Not Applicable>
Other - Coffee	<Not Applicable>	<Not Applicable>	<Not Applicable>	<Not Applicable>	<Not Applicable>

## F6.8

**(F6.8) Indicate if you are working with your direct suppliers to drive action on forests-related issues and if so, provide details of the engagement.**

### Forest risk commodity

Timber products

### Are you working with direct suppliers?

Yes, working with direct suppliers

### Action(s) on forests-related issues driven by engagement

Ending deforestation and/or conversion of other ecosystems

### Type of engagement

Supply chain mapping Capacity building

Financial and commercial incentives Innovation and collaboration

Other

### Details of engagement

Supplier questionnaires on environmental and social indicators Supplier audits

Organizing capacity building events

Support suppliers to set their own no deforestation/conversion commitments across their entire commodity operation

Support suppliers to develop public time-bound action plans with clear milestones

Financial incentives for certified products

Collaborate with suppliers on innovations to reduce forest-related impacts in products and services Encourage suppliers to work collaboratively in sectors, landscapes, or jurisdictions

Other, please specify (CDP Supply Chain Program)

### Description of engagement

Kao's Purchasing Division gathers its major business partners every year to hold a vendor summit to promote overall ESG activities, including Kao's forest-related products (timber, palm, etc.).

In addition, Kao requires Tier 1 suppliers to meet Sedex SAQ or Kao SAQ (social and environmental). The survey rate in 2022 was 88% (value basis).

#### - Main strategy of engagement

Kao respects the "10 Principles of the United Nations Global Compact" in procurement with the aim of "contributing to the realization of a sustainable society", requires suppliers to consider "social responsibility" and "environment", and gives priority to procurement from Japan. We will inform our business partners who follow these guidelines and all business partners, strive to understand the status of compliance, and in the event of a violation, we will take appropriate measures such as guidance for improvement including audits and suspension of transactions. It governs environmental, safety, legal and other initiatives for all Tier-1 suppliers. We ask our suppliers to complete this self-assessment and monitor the results to ensure compliance with our guidelines.

In June 2022, Kao renewed its procurement guidelines and reviewed its strategy. We identified high-risk supply chains from the three perspectives of business, area, and ESG, and positioned paper pulp as a high-risk supply chain.

Therefore, as an initiative to understand and improve the risks in the supply chain for paper pulp, we ensure 100% traceability to the place of origin, and to guarantee that, we are promoting a 100% switch to third-party



certified products.

Through vendor summits and dialogues with each company, we share the progress of these initiatives with our direct suppliers and work together to promote them.

We ask our major suppliers to complete a survey under the CDP Supply Chain Program. As a concrete example, Kao asks its major Tier-1 suppliers to complete the CDP Supply Chain Program survey. Kao asked 38 forest-related Tier-1 suppliers (37 companies responded) to complete a survey in 2022 in order to conserve forests throughout the supply chain.

### **% of suppliers engaged by procurement spend covered by engagement**

97

### **Explain the impact of your engagement on the selected action**

Every year, Kao shares and dialogues directly with suppliers about these initiatives and strategies at vendor summits. In addition, we encourage improvements through dialogue with individual suppliers. As a result, the Tier 1 supplier CDP response rate improved to 97% in 2022. Compared to 2021, it improved by 13 points.

### **Is this engagement helping your suppliers engage with their suppliers on the selected action?**

Yes

### **Does this engagement contribute to achieving a reported target?**

Yes, please specify target ID(s) (Target1, Target2, Target7 )

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### **Forest risk commodity**

Palm oil

### **Are you working with direct suppliers?**

Yes, working with direct suppliers

### **Action(s) on forests-related issues driven by engagement**

Ending deforestation and/or conversion of other ecosystems

**Type of engagement** Supply chain mapping Capacity building  
Financial and commercial incentives Innovation and collaboration  
Other

### **Details of engagement**

Supplier questionnaires on environmental and social indicators Developing or distributing supply chain mapping tool  
Organizing capacity building events  
Paying higher prices linked to best agricultural practices Financial incentives for certified products  
Other, please specify (CDP Supply Chain Program)

### **Description of engagement**

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).

In addition, Kao requires Tier1 suppliers to respond to Sedex SAQ or Kao SAQs (social and environmental). The survey rate in 2022 was 88% (on a value basis).

#### **· Main strategy of engagement**

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.

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.

As a specific example, Kao requests its main suppliers to respond to a survey of the CDP supply chain program. In 2022, Kao requested that 38 forest-related suppliers respond to the survey (37 companies responded) in order to conserve forests throughout the supply chain. In 2022, Kao procured about 90 thousand tonnes of RSPO certified palm oil at premiums.

**% of suppliers engaged by procurement spend covered by engagement**

97

**Explain the impact of your engagement on the selected action**

Every year, Kao shares and dialogues directly with suppliers about these initiatives and strategies at vendor summits. In addition, we encourage improvements through dialogue with individual suppliers. As a result, the Tier 1 supplier CDP response rate improved to 97% in 2022. Compared to 2021, it improved by 13 points.

**Is this engagement helping your suppliers engage with their suppliers on the selected action?**

Yes

**Does this engagement contribute to achieving a reported target?**

Yes, please specify target ID(s) (target4, target8, target9)

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F6.9

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**(F6.9) Indicate if you are working beyond your first-tier supplier(s) to drive action on forests-related issues, and if so, provide details of the engagement.**

**Forest risk commodity**

Palm oil

**Are you working beyond first tier?**

Yes, working beyond first tier

**Action(s) on forest-related issues driven by engagement**

Ending deforestation and/or conversion of other ecosystems

**Type of engagement**

Supply chain  
mapping Capacity  
building  
Innovation and  
collaboration

**Details of engagement**

Developing or distributing supply  
chain mapping tool On-site  
meetings with indirect suppliers  
Supplier audits  
Offering on-site training and  
technical assistance Investing in  
pilot projects  
Collaborate with suppliers on innovations to reduce forest-related impacts in products and services

**Description of engagement**

Kao's strategy for practicing responsible sourcing beyond Tier-1 suppliers is engagement. Specific engagement

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methods are confirmation of traceability by Tier-1 suppliers and direct dialogue by Kao. For palm oil, working with stakeholders in the country of origin is especially important.

(1) Kao conducts traceability studies from palm kernel factories (Tier 2), palm oil factories (Tier-3), plantations (Tier-4) to refineries (Tier-1), and high-risk mills. By 2019, Kao had conducted on-site inspections and third-party audits of eight palm oil mills (Tier-3) and requested improvements.

(2) Kao is investigating the actual conditions of Tier 4 independent small farms through direct dialogue with local communities. In 2019, Kao participated in the SHE (Stakeholder Engagement) program sponsored by Caux Round Table Japan (CRT Japan) and held direct dialogue with smallholder farms in Jambi Province, Indonesia.

In 2020, Kao launched the "SMILE Program" to support small-scale palm plantations in Indonesia to improve productivity and obtain certification for sustainable palm oil, as described in F6.7.

The aim of this activity is to improve the living standards of local farmers and curb deforestation. By 2030, the plantation maker's training team will provide technical guidance for improving productivity (doubling the target yield) and education for obtaining RSPO certification (RSPO basic principles, safety education, and yield control methods) on approximately 5,000 farms. Phase 1 of these activities, which started in 2020, aims to support 781 farms by 2025, and provided education on farmland management, occupational safety, fire management, RSPO certification, etc. for 628 farms on Sumatra.

Furthermore, from 2022, we have started the Grievance Mechanism as a means of swiftly responding to human rights issues in small-scale palm plantations in Indonesia supported by the SMILE Program. The grievance mechanism is an initiative to confirm and investigate issues (complaints) at the site (farm) with NPOs, proactively take measures to resolve them, and follow up. From September 2022, we started operation targeting 50 farms in North Sumatra, Indonesia, and have received 100 requests and inquiries regarding the certification system, palm production, sustainable farms, etc.

### **Explain the impact of your engagement on the selected action**

In 2022, 390 farms have received RSPO certification, and Kao has purchased all certification credits for small palm farms that have obtained this certification. Certification credits for small palm farms are a mechanism that allows the farms to directly receive the certification premium, which allows the farms to earn a stable income.

### **Does this engagement contribute to achieving a reported target?**

Yes, please specify target ID(s) (target 6)

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### **Forest risk commodity**

Timber products

### **Are you working beyond first tier?**

Yes, working beyond first tier

### **Action(s) on forest-related issues driven by engagement**

Ending deforestation and/or conversion of other ecosystems

**Type of engagement** Supply chain mapping Capacity building Innovation and collaboration Other

### **Details of engagement**

Supplier questionnaires on environmental and social indicators On-site meetings with indirect suppliers

Supplier audits  
Offering on-site training and technical assistance Participating in workshops  
Collaborate with suppliers on innovations to reduce forest-related impacts in products and services Encourage suppliers to work collaboratively in sectors, landscapes, or jurisdictions  
Other, please specify (Gather information on the environment and society of indirect suppliers)

### Description of engagement

Kao's strategy for practicing responsible sourcing beyond Tier-1 suppliers is for Kao to engage directly with Tier 2 and beyond suppliers.

Specific engagement methods include confirmation of traceability by Tier-1 suppliers and Kao's guarantee of zero deforestation through direct dialogue with Tier 2 and higher suppliers.

Kao is promoting activities aimed at sustainable paper and pulp procurement. As an initiative to understand and improve risks in the supply chain, we will ensure traceability to the place of origin and promote a switch to third-party certified products. Furthermore, through direct dialogue with our indirect suppliers, we have obtained their understanding and agreement to cooperate in activities aimed at zero deforestation.

Specifically, by purchasing certified products and using the WWF Japan Forest Products Sourcing Checklist, Kao ensures that its forests are socially, environmentally and economically sustainable through Tier-1 and Tier 2 and above suppliers.

As of the end of 2022, the ratio of certified raw materials is 97%. Most of the rest were checked against the WWF Japan checklist. Therefore, we confirm almost 100% traceability every year.

- Tier 1: Printing companies, paper packaging companies, cardboard companies. About 100 companies

- Tier 2: about 50 paper companies

- Tier 3: sawmills, chip mills, about 1000 companies

- Tier 4: Forest Management Unit

If the checklist reveals that a Tier 2 or Tier 3 supplier is unsustainable or does not respect the rights of indigenous peoples, Kao will encourage the Tier 1 supplier to make improvements. If no improvement is expected, Kao will consider canceling the transaction. There will be no such cases in 2022.

In December 2022, we visited a major Tier 2 or later paper manufacturing company, explained Kao's procurement policy and traceability status, asked them to continue to comply with Kao's policy, and investigated traceability.

Kao has also invested more than 300 million yen and has applied for more than 400 patents on pulp molding technology. Kao provides the technology of Kao, an indirect contractor, based on the recognition that this technology is also a technology for forest conservation and prevention of deforestation, and a method for effectively utilizing virgin pulp and waste paper pulp.

### Explain the impact of your engagement on the selected action

Every year, Kao shares and communicates with indirect suppliers about these initiatives and strategies through individual dialogues. As a result, the usage rate of FSC-certified products in 2010 increased to 97%. This is a one-point improvement over 2021.

We also continue to confirm almost 100% traceability every year.

### Does this engagement contribute to achieving a reported target?

Yes, please specify target ID(s) (Target 2)

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**(F6.10) Do you engage in landscape (including jurisdictional) approaches to progress shared sustainable land use goals?**

	<b>Do you engage in landscape/jurisdictional approaches?</b>	<b>Primary reason for not engaging in landscape and/or jurisdictional approaches</b>	<b>Explain why your organization does not engage in landscape/jurisdictional approaches, and describe plans to engage in the future</b>
Row 1	Yes, we engage in landscape/ jurisdictional approaches	<Not Applicable>	<Not Applicable>

F6.10a

**(F6.10a) Indicate the criteria you consider when prioritizing landscapes and jurisdictions for engagement in collaborative approaches to sustainable land use and provide an explanation.**

	<b>Criteria for prioritizing landscapes/jurisdictions for engagement</b>	<b>Explain your process for prioritizing landscapes/jurisdictions for engagement</b>
Row 1	<p>Commodity sourcing footprint</p> <p>Opportunity for increased human well-being in area</p> <p>Opportunity to protect and restore natural ecosystems</p> <p>Risk of deforestation, forests/land degradation, or conversion of other natural ecosystems</p> <p>Risk of fires</p> <p>Risk of issues related to land tenure rights</p> <p>Risk of supplier non-compliance in area</p> <p>Stakeholder/investor request</p> <p>Supply of commodities strategically important</p>	<p>Global production of palm oil stands at 75 million tons per year and is expected to be 111.3 million tons by 2025 . There is now a greater focus in Indonesia on improving palm oil productivity while minimizing the need for the extensification of existing agricultural land. This not only helps to safeguard food security, but serves to balance social, environmental and economic needs. Kao believes that small-scale farms play a major role in increasing demand. Therefore, it is important to be aware of the risks that are likely to involve small farms.</p> <p>Kao has confirmed from past surveys that many small-scale palm plantations exist in Indonesia.</p> <p>Three leading companies in the palm oil industry – Kao Corporation, Apical Group, and Asian Agri – have launched a new sustainability initiative to help independent oil palm smallholders in Indonesia to improve their yields, acquire international certification, and eventually secure sales premiums from selling certified palm oil.</p>

**(F6.10b) Provide details of your engagement with landscape/jurisdictional approaches to sustainable land use during the reporting year.**

**Landscape/Jurisdiction ID**

LJ1

**Country/Area**

Indonesia

**Name of landscape or jurisdiction area**

North Sumatra, Riau, Jambi

**Types of partners engaged in the initiative design and implementation**

Local communities

Local producers/smallholder International company(ies) National/local company(ies) Direct supplier(s)

Indirect supplier(s) External consultants

**Type of engagement**

Partner: Shared responsibility in the implementation of multiple goals

**Goals supported by engagement**

Avoided deforestation/conversion of natural ecosystems and/or decreased degradation rate Forest fires monitored and prevented

Adequate water availability and quality (e.g. Water, Sanitation and Hygiene (WASH) services) Increased and/or maintained protected areas

Natural ecosystems conserved and/or restored Biodiversity protected and/or restored Respect, protect, and fulfill human rights

Rights to land and resources recognized and protected, and related conflicts reduced Improved standard of living, especially for vulnerable and/or marginalized groups

Increased adoption of sustainable production practices (e.g., input use efficiency and water management practices)

Increased uptake of certification

Improved and/or maintained soil health

Reliable commodity traceability and landscape monitoring/data collection system(s)

**Company actions supporting approach**

Share information on supplier non-compliance, supply chain mapping and traceability with other stakeholders in the landscape/jurisdiction

Support communities and smallholders in gaining access to incentives (e.g. support achieving certification, group formation, getting land title, packaging access to loans, preferential sourcing etc.)

Capacity building for farmers, smallholders and local communities to implement good agricultural practices (including improved efficiency, crop diversification and adoption of certification)

Collaborate on commodity traceability

**Description of engagement**

Kao collaborates with palm oil product manufacturers and plantation companies to implement projects to support smallholder farmers. Kao Corporation, Apical Group, and Asian Agri, three major players in the palm oil industry, have launched sustainability initiatives. This is to help small independent oil palm farmers in Indonesia improve yields, obtain international certification and ultimately secure a sales premium from selling certified palm oil. . Known as the SMILE program. SMallholder Inclusion for Better Livelihoods and Empowerment Programs is a collaboration with downstream producer Kao Corporation, midstream processor, exporter and trader Apical Group, and upstream producer Asian Agri. This 11-year initiative aims to continue to build a more sustainable palm oil value chain by working with independent smallholder farmers.

Independent smallholders contribute more than 28% of the total palm oil market in Indonesia.

The SMILE program brings together a team of experts with extensive experience in plantation management and agronomy to work with 5,000 independent smallholder farmers managing approximately 18,000 hectares of plantations in North Sumatra, Riau and Jambi provinces. Through customized seminars and workshops, the team will:

- Educate farmers on how to improve yields and sustainably manage their farms and the importance of staying committed to sustainable practices such as zero deforestation, zero burning and zero exploitation.
- Provides support for RSPO certification.
- Provide training on how to implement robust safety measures throughout the property and safety equipment (including safety helmets, gloves and fire extinguishers).

**Engagement start year**

2020

**Engagement end year**

Please specify (2030)

**Estimated investment over the project period (currency)**

500000000

**Is a collective monitoring framework used to measure progress?**

Yes, progress is monitored using an internally defined framework

**State the achievements of your engagement so far, and how progress is monitored**

Annually, we confirm the RSPO acquisition rate and yield of the small-scale farmers we support.

F6.10c

**(F6.10c) For each of your disclosed commodities, provide details of the production/consumption volumes from each of the jurisdictions/landscapes you engage in.**

Indicate landscape/jurisdiction ID	Does any of your commodity production/consumption volume originate from this landscape/jurisdiction, and are you able/willing to disclose information on this volume?	Commodity	% of total production/consumption volume from this landscape/jurisdiction
LJ1	Yes, we do produce/consume from this landscape/jurisdiction, and we are able/willing to disclose volume data	Palm oil	0.7

**(F6.11) Do you participate in any other 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

**Country/Area**

Japan

**Subnational area**

Not applicable

**Initiatives**

Forest Stewardship  
Council (FSC) Other,  
please specify (JBIB)

**Please explain**

Kao sponsored the FSC Forest the third Award 2022 campaign to convey the importance of forest protection sponsored mainly by FSC Japan. FSC Forest the third Award 2022 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. The role of Kao in FSC Japan is to raise awareness of FSC in Japan, because Kao is one of main users of FSC certified paper and hopes to expand FSC certified paper consumption in Japan. So 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 Statement" together with the eco-activities carried out under the eco-slogans. This strategy is based on the idea that environmental activities should be carried out not only by Kao, but also with various stakeholders. Kirei Lifestyle plan

In Kao Environmental Statement, Kao utilize original Lao -developed technologies to minimize the impact they have on the environment, not just in the manufacturing, to distribution, sales, usage and final disposal, we want to engage in eco-together with stake holders including consumers worldwide, FSC is an activity that is carried out together with suppliers, consumers, and other stakeholders, and is in line with "Kao Environmental Statement".

In addition, in 2022, we are planning internal training by a third-party certification body, and are working to understand the latest situation and disseminate its content to stakeholders.

**Forest risk commodity**

Palm oil

**Do you participate in activities/initiatives?**



Yes

### Activities

Involved in multi-partnership or stakeholder initiatives

### Country/Area

Japan

### Subnational area

Not applicable

### Initiatives

Roundtable on Sustainable Palm

Oil (RSPO) Other, please specify (JBIB, SUSTAIN, JaSPON)

### Please explain

Kao has been a member of RSPO to eliminate deforestation associated with producing palm oil and contribute to the sustainability of the palm industry since 2007. 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). These activities support the achievement of Kao's goal of 100% RSPO certified palm oil by 2025. The role of Kao in JaSPON is to raise awareness of RSPO in Japan, because Kao is one of main users of palm oil and important player to expand RSPO certified palm oil in Japan.

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 including Kao 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 slogan set out in Kao's environmental strategy "Kao Environmental Declaration" together with the eco-activities carried out under the eco-slogans. This strategy is based on the idea that environmental activities should be carried out not only by Kao, but also with various stakeholders. JaSPON is an activity that is carried out together with suppliers, consumers, and other stakeholders, and is in line with "Kao Environmental Statement".

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## F6.12

### (F6.12) Is your organization supporting or implementing project(s) focused on ecosystem restoration and long-term protection?

Yes

**(F6.12a) 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**

Afforestation

**Expected benefits of project**

Creation of green jobs and sustainable livelihoods Increase in carbon sequestration Reduce/halt biodiversity loss

**Is this project originating any carbon credits?**

No

**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.

**Where is the project taking place in relation to your value chain?**

Project based in area with direct operations

**Start year**

2012

**Target year**

2022

**Project area to date (Hectares)**

44

**Project area in the target year (Hectares)**

44

**Country/Area**

Thailand

**Latitude**

20.2206

**Longitude**

100.20355

**Monitoring frequency**

Six-monthly or more frequently

**Total investment over the project period (currency)**

32000000

## For which of your expected benefits are you monitoring progress?

Increase in 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 2021-2022, Kao planted trees and planted trees. The area planted in 2021-2022 was 3 hectares. As a result of these activities, 44 hectares of plantations were developed, and the carbon dioxide sequestration in the forests was 5,969 ton-CO<sub>2</sub>.

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## F7. Verification

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### F7.1

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

Yes

### F7.1a

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#### (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.

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## F8. Barriers and challenges

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### F8.1

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**(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**

Inexistent or immature certification standards

**Comment**

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**Forest risk commodity**

Palm oil

**Coverage**

Supply chain

**Primary barrier/challenge type**

Value chain complexity

**Comment**

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### F8.2

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**(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**

Kao manufactures and sells paper products in its sanitary business. We also use paper packaging containers for our consumer products. Kao's activities are promoted when customers recognize forest issues and support and purchase certified products.

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**Forest risk commodity**

Palm oil

**Coverage**

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Supply chain

**Main measure**

Greater supplier awareness/engagement

**Comment**

Kao uses palm oil derivatives in almost all of its businesses. Kao's activities are promoted when supply chain customers become aware of forest issues, support certified products, and increase distribution.

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F17 Signoff

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F-FI

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**(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

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

	<b>Job Title</b>	<b>Corresponding job category</b>
Row 1	President and Chief Executive Officer	Chief Executive Officer (CEO)