

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



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

Kao's creating value to address social issues

Social issues we are aware of

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

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

Kao's creating value

Our business is greatly dependent on natural capital. ESG management requires us to conduct our procurement with full consideration for both the environment, including resource conservation, climate change, and preservation of biodiversity, and society, including human rights. At the same time, flexible response to a changing market and changing demand will require the deployment of digital technology and operational innovation that transcends existing categories. With these two considerations as priorities, our Procurement Division is promoting ESG-driven *Yoki-Monozukuri*.

Risks related to realization of our vision by 2030

Procurement risks include supply risks relating to the stable procurement of raw materials and other goods, and reputational risks, which have the potential to manifest in the event of not appropriately responding to social issues.

Although we have taken measures such as drafting BCP for supply risks, addressing reputational risks in terms of social and environmental issues has taken on greater importance in recent years.

Opportunities related to realization of our vision by 2030

To appropriately address the aforementioned risks, we are conducting human rights due diligence based on the Kao Human Rights Policy, and supplier risk assessments based on the Guidelines for Supplier's Assessment for social issues, and promoting procurement of palm oil, paper and pulp based on the Guidelines for Sustainable Procurement of Raw Materials for environmental issues. We believe that this approach will resonate with consumers and facilitate stable procurement that preserves good relations with suppliers, and as such can even lead to corporate growth and enhancement of corporate value.

Contributions to the SDGs





Policies

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

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

Our standard contract with suppliers clarifies provisions concerning the aforementioned issues including the environment, human rights and labor.

We are also pursuing sustainable procurement based on the Guidelines for Sustainable Procurement of Raw Materials, which takes into account environmental problems including global warming and the loss of biodiversity as well as resource constraints, human rights and other pertinent issues.

We understand that our business depends on natural capital, and that a natural resource-dependent supply chain entails a risk of damage to that capital. We commit to zero deforestation at the source in our procurement of raw materials including palm oil and paper. Over the medium and long term, we will be taking measures to reduce the amount of raw materials that needs to be used, and other measures to switch over to the use of

non-food biomass sources such as algae, striving to promote sustainable and responsible procurement that gives due consideration to the ethical issues that have been thrown into relief by the process of globalization.



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

Education and promotion

To carry out responsible procurement, each of our Procurement Division employees must acquire the needed knowledge, and ensure that they understand and adhere to the Policies for Procurement and related guidelines. To this end, we not only conduct a wide range of seminars and awareness promotion activities, but also hold an annual Global Procurement Meeting.

Collaboration and engagement with stakeholders

We are promoting opinion exchanges with suppliers through vendor summits, quality improvement meetings and other initiatives. We utilize Sedex for supplier monitoring, and by mandating Sedex membership and response, we are undertaking to assess risk for our entire supply chain. We are strengthening coordination with our suppliers through various initiatives including

the CDP Supply Chain Program, and developing our global procurement activities.

Moreover, we are continuing our dialogue with NGOs, and through programs such as those hosted by Caux Round Table Japan, we are carrying out meetings with local NGOs and visiting small-scale palm farms.

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

Framework

The Procurement Division formulates strategy to conduct sustainable and responsible procurement. It has set up the Sustainability Group in the Planning Division and the Sustainable and Responsible Procurement Panel, which meets five times a year.

Under this strategy, the Raw Materials Division and the Packaging Materials Division conduct procurement in accordance with the Guidelines for Sustainable Procurement of Raw Materials. Meanwhile, the Indirect Materials & Services Division conducts green purchasing of office and other supplies, and the Machinery & Equipment Division is introducing environmentally friendly equipment and fixtures.

The strategy and activities of the Procurement Division are reported to the Board of Directors via reports to the Management Committee.

The Global Procurement Meeting is held once a year.

Furthermore, in January 2020 we revamped our organizational structure. With ESG and stable procurement as priorities, the division will pursue procurement activities with a policy of acting as a strategic coordinator to preserve competitive advantage.



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Kirei Lifestyle Plan

Making my everyday more beautiful

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Mid- to long-term targets and performance

2020 mid-term targets

1. Promoting the sustainable procurement of raw materials

With the goal of realizing zero deforestation, we are aiming to switch to procuring palm oil, paper and pulp from sustainable sources by 2020.

With regard to procurement of palm oil and palm kernel oil, besides joining the RSPO*1 and promoting the obtainment of SCCS*2 certification and the procurement of certified sustainable palm oil, we are also aiming to confirm zero deforestation in the producing areas and 100% procurement of palm oil and palm kernel oil traceable to the source by 2020.

Regarding procurement of paper and pulp, we are aiming to ensure that, by 2020, all paper, pulp and packaging materials used in our products, and all paper used in the offices, are either recycled paper or paper from a sustainable source. In particular, in the case of pulp, by 2020 we aim to purchase only pulp that has traceability back to the area where the timber was logged.

2. Human rights initiatives

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

To conduct this risk assessment, in 2014 we joined Sedex, a platform for sharing information on ethical practices by global companies. We have been also encouraging our suppliers to join Sedex. By 2020, we aim to achieve a 70% rate of Sedex participation (for suppliers in Japan, on a purchasing value basis).

Starting from 2017, we have also implemented supplier risk assessment using Sedex.

3. Green procurement

With regard to purchasing of indirect materials such as stationery and office supplies, in line with the Ministry of the Environment's calls to implement green procurement, we have formulated Green Procurement Standards, which give priority to purchasing environmentally conscious products.

We are also pursuing the introduction of environmentally friendly equipment and fixtures such as LED lighting, and signing contracts with electric power companies that have low CO₂ emissions factors.

*1 RSPO (Roundtable on Sustainable Palm Oil)

A roundtable group to promote the production and use of sustainable palm oil.

www.rspo.org/

*2 SCCS (Supply Chain Certification System)

A supply chain system created for the purpose of producing, selling and delivering products to customers using sustainable palm oil harvested at plantations certified by the RSPO that meet rigorous standards for biodiversity preservation.

Anticipated benefits from achieving mid- to long-term targets

Business impacts

Reduced costs of addressing criticism from NGOs and NPOs, improved brand image, improved social credibility.

Social impacts

Contributions to the sustainability of the world through raw materials procurement.



Performance in 2019

Performance

1. Promoting the sustainable procurement of raw materials

- Palm oil and palm kernel oil procurement
Confirmation of traceability to the palm oil mills based on supplier information
- Paper and pulp procurement*1
100% confirmation of traceability
Of this, 91% of certified paper/pulp materials*2

*1 Covers paper/pulp used in Kao products (excludes some products).

*2 For corrugated board in Japan, this is calculated based on the respective procurement amount and the ratio of certified materials for the first half and the second half of 2019. The ratio of certified materials among paper/pulp materials apart from corrugated board in Japan is tabulated based on the ratio by weight of certified materials for each procured item.



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→ p. 78 Our initiatives: Initiatives toward sustainable procurement of paper and pulp

2. Human rights initiatives

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

- Overall evaluation of supplier risk assessment based on Sedex (as of November 2019: S evaluation: 25%, A evaluation: 40%)



→ p. 78 Our initiatives: Using Sedex in supplier monitoring

3. Green procurement

The percentage of our total procurement conforming to the Green Procurement Standards in 2019 was 90%.

4. CDP evaluation



→ p. 89 Making the world healthier & cleaner > Decarbonization: CDP evaluation

Reviews of performance

We completed confirmation of traceability to the palm oil mills.

Regarding palm oil mills determined to need observation in our risk assessment, we are conducting on-site visits in stages.

Regarding production areas (palm farms), we completed traceability confirmation for large palm plantations. We will continue to pursue traceability confirmation for small- and medium-scale farms in coordination with suppliers, farmers, NGOs, specialists and third-party organizations.

In 2019, we once again achieved nearly 100% traceability for paper and pulp producing areas, achieving our goal for 2020. We will continue to introduce certified products for small-scale suppliers and encourage confirmation of sustainability.



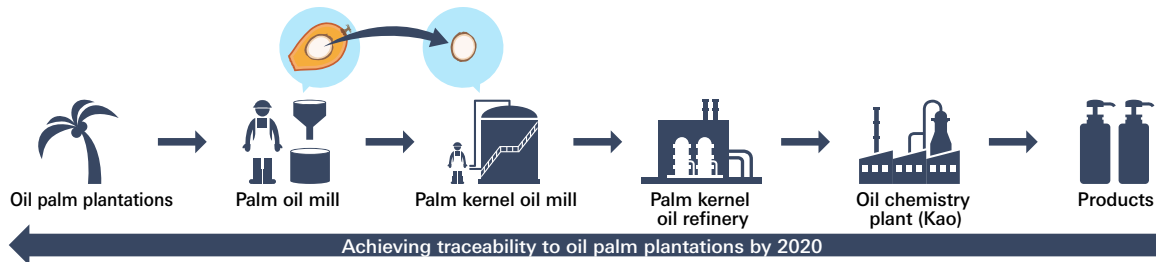
Our initiatives

Initiatives toward sustainable procurement of palm oil and palm kernel oil

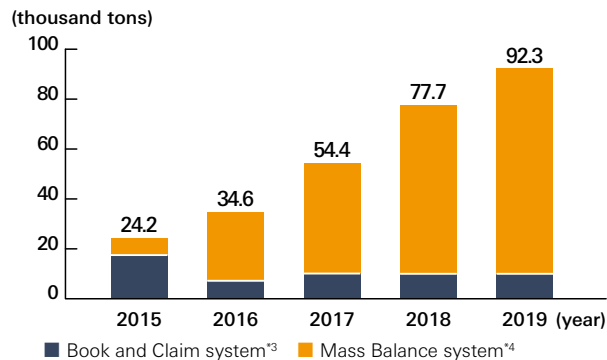
We support NDPE^{*1} in our Guidelines for Sustainable Procurement of Raw Materials. We are also working to procure palm oil and palm kernel oil, one of our principal raw materials, in a sustainable manner as required by the guidelines. We are also an RSPO member, and are working to create a traceable supply chain for palm oil.

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

Palm oil and palm kernel oil procurement



Certified palm oil purchases^{*2} (Kao Group)



*1 NDPE: No Deforestation, No Peat and No Exploitation
 *2 Total of palm oil, palm kernel oil and their derivatives.
 *3 Book and Claim system
 RSPO-certified palm oil credit trading system. By purchasing "certification credits" issued in proportion to the amount of palm oil produced and registered by plantations certified by the RSPO, users of palm oil are considered to have purchased the amount of certified palm oil corresponding to the amount of credits. This system encourages plantations to produce certified oil.
 *4 Mass Balance system
 A certification system that permits mixing of RSPO-certified palm oil with non-certified palm oil.

Sustainable Palm Oil Procurement Guidelines targets and 2019 performance

In the procurement of palm oil and palm kernel oil, we have committed to considerations relating to biodiversity conservation and support for zero deforestation, and have set four goals toward their realization.

Targets	2019 results
① By the end of 2015, purchase only sustainable palm oil traceable to the mill for use in Kao Group consumer products.	Completed traceability confirmation for the mills
② By 2020, adequately confirm zero deforestation at the source through cooperation with plantations, suppliers (mills and refineries) and third-party organizations. In addition, we will not take part in procurement activities that use high conservation value (HCV) forests, high carbon stock (HCS) forests or peatlands.	Completed mill identification, deforestation monitoring for surrounding areas Continued investigation of high-risk mills
③ By 2020, purchase only sustainably sourced palm oil that is traceable to the plantation for use in Kao Group consumer products.	Promoted 100% shift to RSPO-certified oil for consumer use in 2020 Promoted expanded use of RSPO-certified oil for industrial use Completed traceability confirmation for large-scale palm plantations Continued traceability confirmation for small- and medium-scale plantations Conducted a pilot SUSTAIN survey for small oil palm farmers traceability
④ By 2020, work to obtain RSPO SCCS certification of Kao Group manufacturing sites in order to build a traceable supply chain for the group.	Completed acquisition in 2018 of RSPO SCCS certifications for 35 sites, including group plants and offices globally

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Traceability progress of palm kernel oil ★ Activities to 2018 ○ Activities in 2019

Scope	Specific activities	Progress								Results
[Quaternary suppliers] Small-scale agricultural producers	Exploring methods to confirm traceability	★	★	○						★ Conducted pilot Bluenumber survey of small-scale agricultural producers ○ Conducted SUSTAIN pilot survey
[Tertiary suppliers] Palm oil mills (862 mills)	On-site investigation of high-risk mills	★	★	★	★					★ Conducted 3 on-site investigations, verified information for 5 primary suppliers
	Risk mapping Identification of high-risk mills	★	★	★	★			★		★ Identified 89 high-risk mills
[Secondary suppliers] Palm kernel oil mills (90 mills)	Verified information on palm oil mills	★	★	★	★	★			★	★ Verified 11 palm kernel oil mills that are representative of each region
[Primary suppliers] Palm kernel oil refineries (7 companies)	Conducted survey of guidelines for small oil palm farmer engagement	○		○					○	○ Conducted pilot surveys of 3 companies
	Verified supply chain information for palm kernel oil refineries	★	★	★	★	★				★ Verified 5 major companies
	Collected location information for palm kernel oil mills, palm oil mills	★	★	★	★	★	★	★	★	★ Collected location information for each mill, conducted mapping
		Co. A	Co. B	Co. C	Co. D	Co. E	Co. F	Co. G		

Traceability to small oil palm farmers

In September 2018, we became a founding member of SUSTAIN* to promote traceable and transparent palm oil procurement. In 2019, we participated in a project to create a mechanism for confirming traceability for plantations. We also participated in the Sustainability Assurance Working Group, which uses SUSTAIN blockchain technology. With regard to traceability for small oil palm farmers, SUSTAIN performed a pilot survey in Jambi Province, Indonesia. We will further promote traceability confirmation via these mechanisms in 2020.

We also plan to collaborate with stakeholders to begin offering new types of support to small farmers.

* SUSTAIN (Sustainability Assurance & Innovation Alliance): An initiative that uses blockchain technology to have actors in the palm oil industry share supply chain information.

Dialogue with small oil palm farmers

In 2018 and again in 2019, we participated in the Stakeholder Engagement (SHE) Programme hosted by Caux Round Table Japan (CRT Japan), visiting small oil palm farmers in Indonesia and engaging in dialogue with them. We also participated in a meeting with local NGOs to discuss efforts to address environmental and human rights issues.



→ Sustainability topics: Kao Holds Dialogue with Small Oil Palm Farmers as Part of Efforts to Establish a Sustainable Palm Oil Supply Chain
www.kao.com/global/en/sustainability/topics/sustainability-20191002-001/

Attack laundry detergent with the RSPO logo launched in Taiwan

In November 2019, Kao (Taiwan) launched *Attack* laundry detergent powder (nine product types) bearing the RSPO certification mark. This was the first product in the Taiwan market, and the first for the Kao Group, to display the RSPO certification mark. This

certification mark differentiates and verifies that the product was produced in a manner that is environmentally friendly and compatible with sustainable social and economic growth. We plan to expand the range of products bearing this logo in 2020.



Participation in JaSPON

On April 11, 2019, 18 companies and organizations, including retailers, consumables manufacturers and NGOs, established the Japan Sustainable Palm Oil Network (JaSPON) to accelerate the sustainable procurement and consumption of palm oil in the Japanese market. We participate in JaSPON as a director.



→ Sustainability topics: Participation in the Japan Sustainable Palm Oil Network (JaSPON)
www.kao.com/global/en/sustainability/topics/sustainability-20190527-001/



→ The Future of Algae Research: a source of raw materials that is more sustainable than natural fats and oils
www.kao.com/jp/en/environment/lca/02/

Initiatives toward sustainable procurement of paper and pulp

Sustainable Pulp and Paper Procurement Guidelines targets and 2019 performance

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

Targets	Performance in 2019	Rate of achievement (%) of the 2020 target
By 2020, we will purchase only recycled paper and paper produced with due consideration for sustainability for the paper and pulp used in Kao Group products, packaging materials and office paper. When using pulp other than waste pulp (virgin pulp), we will purchase only pulp that is traceable to the source, and confirm zero deforestation at producers of wood materials through cooperation with suppliers and third-party organizations.	Traceable paper and pulp: 100% (certified paper and pulp: 91%)	100%
	Copy paper (green procurement product: domestic): 98%	98%
	Introduced FSC-certified paper towels at 8 domestic offices Introduced FSC-certified toilet paper at 7 domestic offices	—

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

Regarding the adoption of FSC-certified paper, we began using the paper for our product packaging in 2013. In 2016 we became the first company in Japan to start using FSC-certified corrugated paper.

As of 2019, the ratio of certified paper/ pulp materials* (FSC, PEFC or other certification) among our paper and pulp products was 91%.

In Japan, 98% of the copy paper we now use is produced sustainably (green procurement).

In addition, we promoted the use of FSC-certified paper towels and toilet paper in our Japan business locations.

* Covers paper/pulp used in our products (excludes some products). For corrugated board in Japan, this is calculated based on the respective procurement amount and the ratio of certified materials for the first half and the second half of 2019. The ratio of certified materials among paper/pulp materials apart from corrugated board in Japan is tabulated based on the ratio by weight of certified materials for each procured item.

Using Sedex in supplier monitoring

We use Sedex in confirming compliance with the Guidelines for Supplier's Assessment, which define initiatives in such areas as the environment, safety, conformance with laws and social norms, and human rights and labor problems, and in risk assessments. We request that suppliers join Sedex, respond to Sedex questionnaires, and set up data access rights.

The number of sites for which data access rights have been established worldwide as of the end of 2019 is 1,812. Within Japan, data access rights have been established for 566 sites, which represent 66% of overall procurement value. In 2019, we conducted risk assessments using the Sedex assessment tool for suppliers that have established access rights with Kao (as of November 2019).

We gave back the results of our assessment to the suppliers. We will request revisions to items that require improvement so that the suppliers can receive an overall evaluation of A or better. In particular, we asked suppliers with an overall evaluation of C to reply to SAQ, and suppliers with an overall evaluation of – to confirm the status of their link to Kao.

For suppliers who have difficulty joining Sedex, we also use our original survey form as an evaluation tool to supplement Sedex.

We have fully revised the items involving confirmation of corporate social responsibility such as compliance, human rights and business practices, as well as items involving confirmation of environmental protection such as environmental policies,



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environmental objectives and various categories of environmental management, including pollution prevention (air, water, etc.). In 2018, we began to apply this revised standard to some direct material suppliers to our group companies outside Japan, to domestic machinery suppliers, and to indirect material suppliers (gift item manufacturing and sales companies). In 2019, we expanded the standard to some domestic direct material suppliers.

We are also performing this assessment when onboarding new suppliers.

Results of 2019 supplier risk assessments based on Sedex

Overall evaluation	SAQ response rate*1	Sedex risk assessment*2	Kao evaluation	Percentage
S	80% or more	Low	Excellent	25%
A	80% or more	Low	Good	40%
B	80% or more	Medium or High	Needs improvement	15%
C *3	Less than 80%	-	Needs response	10%
—*4	-	-	-	10%

*1 Response rate to Sedex self-assessment questionnaire for suppliers.

*2 Evaluation using the Sedex assessment tool that uses three levels (low, medium, high) of potential risk manifestation.

*3 SAQ without responses are evaluated as high risk, so all cases of a SAQ response rate of less than 80% uniformly receive a C evaluation.

*4 Not evaluated due to inaccessible response results.

Kao vendor summits

We hold vendor summits to provide a venue for sharing information and exchanging opinions with suppliers within and outside Japan. Each year, a specific theme is chosen for the vendor summits, and we seek to foster communication in regard to that theme.

At the Japan vendor summit in 2019, we asked suppliers to actively cooperate with the CDP Supply Chain Program*1, which is an initiative for sustainable and responsible procurement, and to join Sedex. In 2016, we began to present awards to suppliers for excellence in the areas of Quality, Cost, Delivery, Information Sharing, and Company Management and Sustainability.

In 2019, we invited attorney Teruyo Endo to give a lecture regarding compliance internal reporting systems. We also invited Hiroaki Oshima of Nittsu Research and Consulting to a lecture on the environmental changes related to product distribution, and future ways of responding to them.

Number of companies that participated in the vendor summits (Unit: firms)

	Held in Japan	Held outside Japan	Total
2015	214	285	499
2016	246	279	525
2017	245	258	503
2018	243	230	473
2019	239	267	506

CDP (Carbon Disclosure Project) Supply Chain Program

We recognize risks associated with sustainable development based on resource constraints, loss of biodiversity, global warming and other environmental problems as well as problems such as human rights, and are working to sustainably procure raw materials. These initiatives must be managed across the entire supply chain. With regard to climate change, water and forests, we are participating in the CDP Supply Chain Program and asking our key suppliers to disclose relevant information. In 2019, the supplier response rate was 73% in regard to climate change, 70% in regard to water, and 85% in regard to forests.

In regard to forests, we are conducting risk assessments by providing information to the CDP Forest Program*2.

*1 CDP (Carbon Disclosure Project) Supply Chain Program

CDP is an international NPO (with its headquarters in London) that is sponsored by institutional investors. CDP implements various activities to encourage business enterprises, etc. to disclose information relating to climate change, water resource use and forest resource use. The CDP Supply Chain Program is an initiative in which participating enterprises ask the firms that make up their supply chain to disclose information relating to climate change, water resource use and forest resource use via the CDP platform.

*2 CDP Forest Program

A CDP initiative in which enterprises are asked to disclose information regarding forest resource management and usage status, etc.



Surveying supplier satisfaction

We conduct supplier satisfaction surveys every three years in order to ensure that we are carrying out procurement activities fairly and equitably. Most recently, we conducted a supplier satisfaction survey in 2016 and received valuable feedback on topics including vendor selection, quality, ordering, service and communication. In terms of ordering, we confirmed there were issues including rush deliveries and request to change order amounts as well as response to proposals and consultations. To address these issues, the Procurement Division is working to spread awareness of the Kao Compliance Hotlines, and building a new supply and demand process coordinated with the SCM Division and the Information Technology Division.

Implementation was moved from 2019 to 2020 due to structural changes carried out in the Procurement Division.

Examples of education and promotion

Employee training and awareness-raising (Japan)

We educate new Procurement Division employees in our basic approach to procurement, which includes fairness and equity, adherence to laws and ethics and social responsibility. Through such education, we strive to encourage our employees to understand global social issues such as human rights and labor, which are fundamental to the United Nations Global Compact (UNGC) and ISO 26000 principles.

In 2019, nine employees newly assigned to the Procurement Division received education in our basic approach to procurement.

Promoting certification testing (Japan)

So that all Procurement Division employees understand the relationship between society and the environment, and as education to modify their behavior accordingly, we encourage them to take certification examinations.

In 2019, we encouraged employees to take the Certification Test for Environmental Specialists® (Eco Test®*). As of the end of the year, 79% of current employees had passed the test.

* Eco Test®
This test promotes an environmentally and economically sustainable society.

Education through e-learning (Global)

We implemented an e-learning program so that all employees of the Procurement Division could acquire the knowledge required for sustainable and responsible procurement. The examination participation rate in 2019 was 100%.

Global Procurement Meeting (Global)

The Global Procurement Meeting, which is attended by procurement managers from our affiliates, is held once a year. The Meeting provides a venue for education and verification regarding the group's procurement policy and sustainable, responsible procurement.



Message from External Expert

Expectations for Kao relating to sustainable palm oil procurement free from deforestation or human rights violations



Hiroshi Ishida

Caux Round Table Japan (CRT Japan)
Executive Director

Society is moving from EsG to ESG

ESG-related initiatives have been drawing increasing attention in recent years, but ESG-focused investors note that many Japanese enterprises have fallen significantly behind with respect to S—society, and in particular, human rights-related initiatives—compared to E (environment) and G (governance). In effect, these enterprises are practicing EsG rather than ESG. Moving from EsG to ESG will require human rights due diligence, in line with the UN Guiding Principles on Business and Human Rights (UNGPs) established by the UN in 2011—in particular, to determining whether the human rights of small farmers and workers in the supply chain are being violated, and whether the rights of those living in local communities are being violated by corporations operating there. In addition, it will be necessary to build management structures capable of addressing these problems. There have been many recent cases of governments implementing national

action plans and modern slavery acts aimed at strengthening restrictions on companies involved in such human rights violations.

With respect to reinforcing of these restrictions, not only ESG-focused investors, but also stakeholders are strongly calling on enterprises doing business globally to put in place mechanisms that ensure the appropriateness of their operations.

Notable Kao initiatives

Kao aims for sustainable palm oil procurement without negative effects on local communities, deforestation or human rights violations. I therefore would point to its pursuit of the following initiatives as notable.

- It released Guidelines for Sustainable Procurement of Raw Materials at an early stage.
- It has expressed its intention to work toward sustainable procurement of natural raw materials including paper and pulp, and issues annual progress updates.
- It publishes its mapping of palm kernel oil mills and palm oil mills.
- It conducts audits and publishes results related to palm oil mills it procures from that are suspected of causing deforestation.

Expected future actions

- I would like to see Kao outline a grand design linking ESG Strategy with management strategy, with quantitative and qualitative indications of its future aims.
- While Kao carries out environmental due diligence, I would very much like to see it also carry out human rights due diligence, which it currently does not. In particular, I am most interested in seeing Kao

ascertain the conditions of life under which small farmers are living, engage in dialogue with plantation workers and others who may be subject to human rights violations, and provide them with support.

- To be prepared for latent risks, I would like to see Kao identify risks that may have a major influence on society, and build structures to deal with them based on UNGPs guidelines. Elsewhere, I would like to see a permanent, structured mechanism put into place to process complaints from workers, small palm oil farmers and others, as a means for appropriate action whenever problems occur.

ESG activities linked to management strategy

Going forward, it is to be hoped that as part of its management strategy, Kao will build the response capability necessary to cope smoothly with latent risks such as those noted above when they become reality.

In particular, European ESG-focused investors are paying close attention to whether companies have the ability to build management structures needed to identify the latent risks attaching to their business growth, and minimize negative impacts on society.

Further, while these initiatives are being implemented, regular dialogue with ESG-focused investors, and the “Quality Relationships” concept, which prioritizes high-quality information exchange and relationships, will be extremely important.