

Kao's approach

Kao conducts fair and impartial procurement activities based on legal and ethical principles. While aiming to contribute to the realization of a society with sustainable development, we fulfill our corporate responsibilities with consideration for resource protection, environmental conservation, safety and human rights.

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 largely dependent on natural capital such as palm oil, paper and pulp. Aiming to contribute to realizing a society with sustainable development, we are fulfilling our corporate social responsibility with extensive environmental considerations including resource conservation, global warming prevention and biodiversity preservation, as well as social considerations including safety, sanitation, labor conditions and human rights.

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 doing this encourages consumers to support us and helps sustain positive relationships with suppliers and the stable supply of raw materials, which in turn leads to company growth and increased 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 give priority to procurement of raw materials and packaging that give due consideration to environmental concerns.

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. In addition, we recognize that our business depends on natural capital, and 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/global/en/sustainability/procurement/supplier-guidelines/

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

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 (see right) is held once a year.

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 2018, nine employees newly assigned to the Procurement Division received education in our basic approach to procurement.

Promoting certification testing (Japan)

With the aim of educating all Procurement Division employees in the relationship between business operations, society and the environment and of encouraging them to modify their behavior accordingly, Procurement Division employees have been encouraged to take the Certification

Test for Environmental Specialists® (Eco Test®*1), the Examination of Compliance Proficiency for Practical Business (ECPBP)*2 and the Japan Business Law Examination®*3.

In 2018, the pass rates for these examinations for Procurement Division employees were 77% for the Eco Test, 69% for the ECPBP and 73% for the Japan Business Law Examination.

Education through e-learning (Global)

We are building an educational program for sustainability based on e-learning for all employees of the Procurement Division. We will begin implementing this program in 2019 for the purpose of having these employees acquire the knowledge required to engage in sustainable and responsible procurement activities. We aim to have all employees take the program in 2019.

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.

*1 Eco Test®

This test promotes an environmentally and economically sustainable society.

*2 ECPBP®

This test views compliance as fulfilling social expectations which lies behind laws and regulations, and it aims to cultivate compliance skills that embody an awareness of the social expectations that underpin compliance-related laws and regulations, and a systematic understanding of the laws and regulations that are particularly important for business enterprises.

*3 Japan Business Law Examination®

This test aims to have people acquire practical legal knowledge that forms the foundation of legal compliance competency indispensable in business.

Mid- to long-term targets and performance

2020 mid-term targets

1. Promoting the sustainable procurement of raw materials

Procurement of certified 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.

Sustainable sourcing of natural plant resources

We recognize that indiscriminate harvesting of natural plant resources has led to their depletion and resource plundering, and are continuing to diversify sourcing routes and to convert natural plants to artificially cultivated materials, giving due consideration to the natural environment and the community in the producing areas.

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.
<https://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

Cost reductions or profit increase

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

Impacts on society

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

Performance in 2018

Performance

1. Promoting the sustainable procurement of raw materials

Procurement of certified raw materials

- Palm oil and palm kernel oil procurement
Confirmation of traceability to the palm oil mill based on supplier information: Approximately 98% completed in purchased amount
Palm kernel oil mill verification by third-party organizations: 4 mills that are representative of palm kernel oil mills in their respective regions
- Paper and pulp procurement*1
100% confirmation of traceability
Of this, 86% ratio of certified paper/pulp materials*2 (as of December 2018)

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

*2 Calculated based on the ratio of certified materials as of December 2018 and the annual procurement amount for 2018.



→ p. 143 Our initiatives: Initiatives toward sustainable procurement of palm oil and palm kernel oil

→ p. 145 Our initiatives: Initiatives toward sustainable procurement of paper and pulp

- Sustainable sourcing of natural plant resources
Glycyrrhizinate derivatives used in cosmetics and quasi-drug products are produced from glycyrrhiza (licorice root), a leguminous plant. Starting from 2016, we have been switching from wild glycyrrhiza to glycyrrhizinate derivatives produced from cultivated glycyrrhiza in specified plantations to achieve biodiversity preservation and sustainable use.

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 September 2018): S evaluation: 24%, A evaluation: 40%



→ p. 145 Our initiatives: Using Sedex in supplier monitoring

3. Green procurement

The percentage of our total procurement conforming to the Green Procurement Standards in 2018 was 87%.

Reviews of performance

Traceability to the palm oil mill has almost reached our target. For derivative products whose traceability to the palm oil mill cannot be confirmed, we take supplementary measures such as purchasing RSPO-certified raw materials.

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

Confirming traceability to the production area (palm plantation) is a major challenge. There are a massive number of palm plantations including small-scale farmers. Confirming this traceability is not feasible, so we have begun exploring ways to use external initiatives.

Traceability to the paper and pulp production area has almost reached our 2020 target. We will continue to introduce certified products for small-scale suppliers and encourage confirmation of sustainability.

Collaboration with stakeholders

Sustainable procurement

We are promoting sustainable procurement in two ways: the purchasing of palm oil and paper and pulp products certified as sustainably procured, and confirming traceability. We have begun procurement of certified palm oil and certified paper by requesting that our suppliers in Japan obtain certifications.

To confirm traceability, we are conducting verifications and risk assessments by third-party organizations on information of the raw materials supply chain.

Partnering with our suppliers

We are strengthening coordination with our suppliers through various initiatives including Sedex, vendor summits, quality improvement meetings, CSR self-assessment monitoring, and the CDP Supply Chain Program, as we develop our global procurement activities.

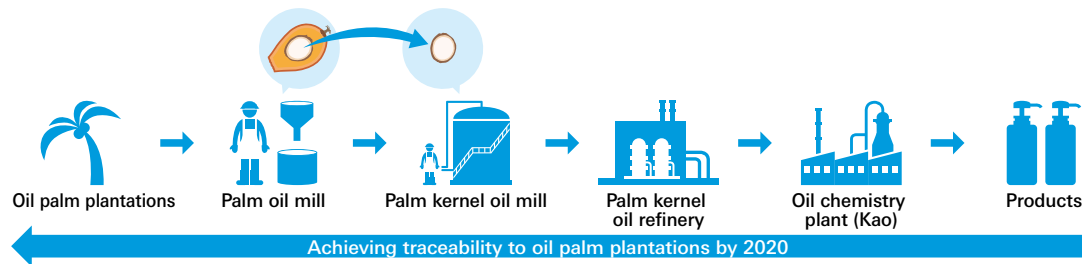
Our initiatives

Initiatives toward sustainable procurement of palm oil and palm kernel oil

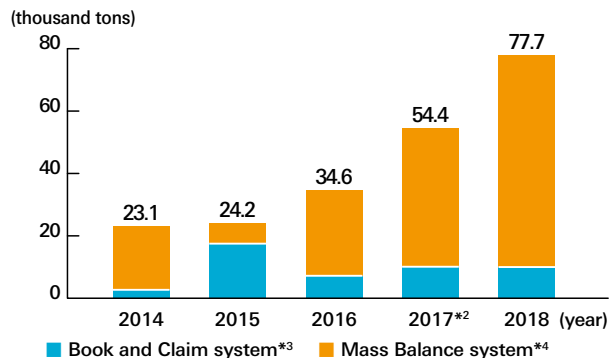
We implement sustainable raw materials procurement with respect to palm oil and palm kernel oil, which are key raw materials for Kao, in accordance with our Guidelines for Sustainable Procurement of Raw Materials.

We are also an RSPO member, and are working to create a traceable supply chain for palm oil.

Palm oil and palm kernel oil procurement



Certified palm oil purchases*1 (Kao Group)



*1 Total of palm oil, palm kernel oil and their derivatives.
 *2 Some data have been revised and figures for 2017 have been changed.
 *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 2018 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	2018 results
1 By the end of 2015, purchase only sustainable palm oil traceable to the mill for use in Kao Group consumer products.	Mapped palm kernel oil mills with confirmed traceability and released the map on our website
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*1) forests, high carbon stock (HCS*2) forests or peatlands.	On-site investigations of palm kernel oil mills determined to need observation in risk assessments by third-party organizations conducted in 2017: 2 mills Verified supplier information for 5 mills
3 By 2020, purchase only sustainably sourced palm oil that is traceable to the plantation for use in Kao Group consumer products.	Confirmation of traceability to the palm oil mill based on supplier information: Approximately 98% completed in purchased amount Mapped palm oil mills with confirmed traceability and released the map on our website Palm kernel oil mill verification by third-party organizations: 4 mills that are representative of palm kernel oil mills in their respective regions Conducted a pilot Bluenumber survey for small-scale agricultural producers that supply two palm oil mills
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.	Number of RSPO SCCS certifications obtained: We have obtained RSPO SCCS certification for 35 sites globally

*1 HCV (High Conservation Value)
 *2 HCS (High Carbon Stock)

Traceability progress of palm kernel oil

Scope	Specific activities	Progress							Results
[Quaternary suppliers] Small-scale agricultural producers	Exploring methods to confirm traceability	2018	2018						2018: Conducted a pilot Bluenumber survey for small-scale agricultural producers that supply two palm oil mills
[Tertiary suppliers] Palm oil mills (862 mills)	On-site investigation of high-risk mills	2017 2018	2018	(2018)	(2018)				2017: Conducted 1 on-site mill investigation ⇒ No deforestation problems found. Requested management system improvements 2018: Conducted 2 on-site mill investigations (2018): Verified supplier information for 5 mills
	Risk mapping Identification of high-risk mills	2016	2017	2017	2017			2017	2016: Identified 6 high-risk mills 2017: Identified 83 high-risk mills
[Secondary suppliers] Palm kernel oil mills (90 mills)	Verified information on palm oil mills	2017	2017	2017 2018	2017	2017		2018	2017: Conducted third-party verification of 7 mills that are representative of palm kernel oil mills in their respective regions 2018: Conducted third-party verification of 4 mills that are representative of palm kernel oil mills in their respective regions
[Primary suppliers] Palm kernel oil refineries (7 companies)	Verified information on palm kernel oil mills	2016	2016	2016	2017	2017			Conducted third-party verification of primary suppliers
		Co. A	Co. B	Co. C	Co. D	Co. E	Co. F	Co. G	2017: Collected information on palm kernel oil mills, palm oil mills

Traceability to small oil palm farmers

In 2017, we joined the Bluenumber*1 Initiative with the aim of helping to ensure traceability and transparency with respect to palm oil procurement. With regard to palm oil, we encourage the registration of information relating to oil palm plantations, palm oil mills, palm kernel oil mills and palm oil refineries, as well as the characteristics of their workers, the production locations, the products, and the details of the production activities, so that this information can be used to confirm traceability. We conducted a pilot study in 2018 and verified the efficacy of the system. On the other hand, this study also revealed issues with its deployment to small-scale palm plantations. In September 2018, we joined SUSTAIN*2 as a founding member.

We are collaborating with other participating companies and the NPO/NGO that is the administrative organization to be able to effectively use this system to establish traceability to small-scale palm farmers.

*1 Bluenumber

The Bluenumber Initiative was launched at the U.N. Sustainable

Development Summit on September 29, 2015.

The aim of the initiative is to promote the participation of workers, producers and inhabitants of rural communities in the digital economy.

*2 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

We joined in the Stakeholder Engagement (SHE) Programme conducted by Caux Round Table Japan (CRT Japan) in Malaysia and Indonesia and visited small oil palm farmers and to hold dialogue with them. In Indonesia, we participated in a meeting with local NGOs to discuss efforts to address environmental and human rights issues, and received information about the situation at palm plantations, the issues they face and activities aimed at resolving them. We are continuing our efforts to establish a sustainable palm oil supply chain. We will also continue dialogue to address the issues faced by small-scale palm plantations and endeavor to resolve these issues together with stakeholders.



→ 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-20180911-001/

Response to suspension of RSPO certification for the IOI Group

RSPO suspended its certification in 2016 over complaints about forest development in Ketapang, Indonesia. We suspended purchases of RSPO-certified products from IOI Group until improvements were confirmed through objective verification by the third party designated by RSPO. We continued to engage in dialogue with IOI Group even during our suspension of purchasing its certified products, and have confirmed its improvement process. In consideration also of the strong evaluation of IOI Group's supply chain transparency from other outside groups, we have resumed purchases of certified products from IOI Group. RSPO has also reported that it has concluded its complaint procedure through a complaint panel (council).

Initiatives toward sustainable procurement of paper and pulp

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 containers and packaging in 2013. In 2016 we became the first company in Japan to start using FSC-certified corrugated paper.

As of December 2018, the ratio of certified paper/pulp materials* (FSC, PEFC or other certification) among our paper and pulp products was 86%.

In July 2018, we jointly announced the Forest Stewardship Council Certified Procurement Declaration together with six other companies in Japan.

* Calculated based on the ratio of certified materials as of December 2018 and the annual procurement amount for 2018. Covers paper/pulp used in our products (excludes some products).



→ News release: Kao Announces the Forest Stewardship Council Certified Procurement Declaration in Collaboration with Six Japanese Companies
www.kao.com/global/en/news/2018/20180823-001/

Sustainable Pulp and Paper Procurement Guidelines targets and 2018 performance

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

Targets	2018 results	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: 86%)	100%
	In July 2018, we jointly announced the Forest Stewardship Council Certified Procurement Declaration together with six other companies in Japan.	-

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 2018 is 1,474. Within Japan, data access rights have been established for 503 sites, which represent 62% of overall procurement value. In 2018, we conducted risk assessments using the Sedex assessment tool for suppliers that have established

access rights with Kao (as of September 2018).

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.

For suppliers in particular that receive an overall evaluation of B and have a Sedex risk evaluation of "high," we visited them to share the issues that need addressing and requested that they conduct improvement measures.

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, environmental objectives and various categories of environmental management, including pollution prevention (air, water, etc.), and began using this with some suppliers in 2018.

When beginning to use a new supplier, we also conduct an equivalent assessment.

Results of 2018 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	24%
A	80% or more	Low	Good	40%
B	80% or more	Medium or High	Needs improvement	14%
C *3	Less than 80%	-	Needs response	12%
-*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 2018, 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 2018, Mr. Hiroshi Ishida of Caux Round Table Japan (CRT Japan) gave a lecture on Business and Human Rights, where he discussed changes in the environment around companies and the significance of CSR initiatives among other topics.

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

	Held in Japan	Held outside Japan	Total
2014	183	233	416
2015	214	285	499
2016	246	279	525
2017	245	258	503
2018	243	230	473

CDP 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 need to be managed across the entire supply chain. With regard to climate change and water, we are participating in the CDP Supply Chain Program*1 and asking our key suppliers to disclose relevant information. In 2018, we began requesting that suppliers disclose information on forests as well, and expanded the scope of suppliers of Kao group companies outside Japan. We held informational briefings for suppliers in Japan, with 153 firms attending.

In 2018, the supplier response rate was 78% in regard to climate change, 76% in regard to water, and 91% 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.

Conducting the supplier satisfaction survey

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 from suppliers 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 currently 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.

Comments from Institute of Public & Environmental Affairs (IPE)



MA Jun

Director
Institute of Public &
Environmental Affairs (IPE)

In its 2018 Sustainability Data Book, the Kao Group (Kao) demonstrates commendable efforts to integrate the United Nations Sustainable Development Goals (UN SDGs) throughout its business operations.

Characteristic to Kao's approach is a working relationship between the design, sourcing, and sustainability departments, which is exemplified by values-driven procurement for palm oil, pulp, and paper. More specifically, Kao has committed to source 100-percent of these materials from certified sustainable sources by 2020 to reduce deforestation and its contributions to climate change. This initiative follows a detailed traceability chart that monitors every phase of procurement, from oil palm plantations to mill, refineries, and chemical plants.

Such detailed product tracing supports Kao's commitment to socially responsible business; however, to meet the SDGs of responsible production, Kao is recommended to expand its traceability and sourcing model beyond the present scope.

This aim requires developing a comprehensive supplier list that includes all tiers of the value chain. By

mapping the upstream supply chain, Kao may identify high environmental impact suppliers and evaluate whether they pose risks to its operations due to environmental noncompliance, an analysis that enables the company to respond efficiently to priority areas and field issues as they arise.

To address resource consumption, Kao has practiced meaningful supplier engagement through studies on how to minimize water use and collaboration to reduce waste in manufacturing and packaging. Kao has also used the Institute of Public & Environmental Affairs (IPE) database to screen its suppliers in China and put pressure on factories found in violation of legal standards to take corrective action. In light of prior success, this same process of supplier engagement may be scaled up to include all cases of pollution or noncompliance to clean up any remaining harmful practices throughout the supply chain.

Kao might also host trainings to support suppliers through rectification, or offer incentives for good environmental performance, in the interest of long-term partnerships.

Kao presents thorough environmental awareness by completing the voluntary Japan Pollutant Release and Transfer Registry (PRTR), which documents the use and transfer of pollutants in air emissions, wastewater, or solid waste. This measuring and disclosing practice may also be expanded to suppliers outside of Japan, which will provide consumers and investors with full confidence in the social responsibility of Kao as a brand fully aligned with the SDGs. Additionally, tracking and publishing this data from the supply chain verifies year-on-year reductions within the company's total environmental footprint, the majority of which derives

from the product manufacturing process.

The Kao Group is undoubtedly an environmental leader in the household and personal care industry, and it is because of these foundational efforts that the recommendations above reach for such a high degree of supply chain management and transparency. Looking forward, Kao is recommended to focus more on its supply chain, expand green procurement to all tiers and invested companies, work with suppliers toward regulatory compliance, and practice greater corporate accountability through information disclosure.

As a leader, Kao is uniquely placed to influence others in the industry; by extending this reach beyond Japan, and educating consumers, investors, and other stakeholders on the benefits of green procurement up and down the supply chain, Kao has the opportunity to change the way today's businesses practice sustainable development.