



Special Feature

Building a Sustainable Palm Oil Supply Chain

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Toward sustainable palm oil procurement

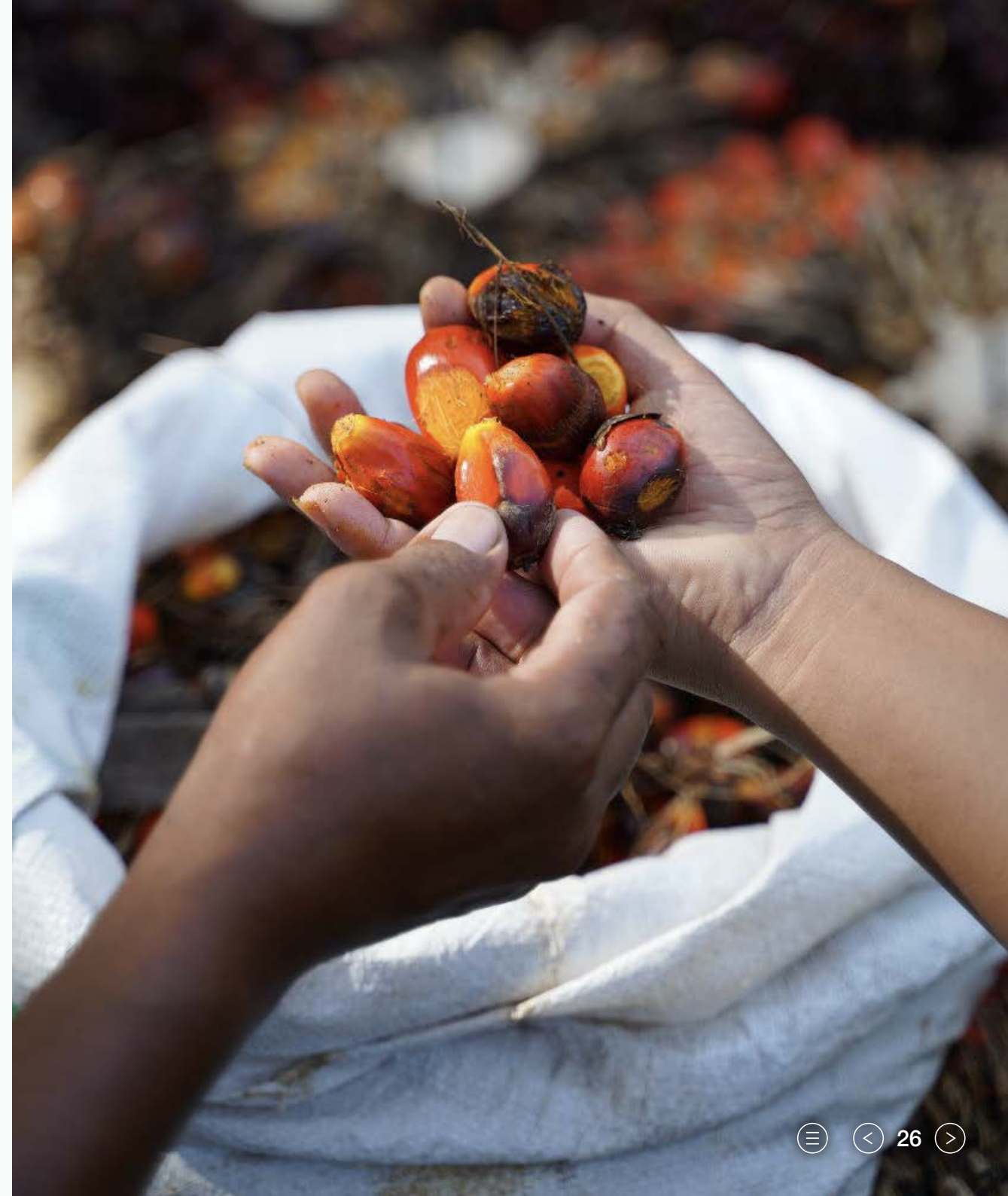
The oil derived from oil palm is an important raw material in many products that are important in our lives such as soap, detergents, and cosmetics. For Kao, palm-derived materials are among those that underpin its ability to offer products to people.

At the same time, there are sustainability risks at the origin such as deforestation, conversion of natural ecosystems including peatlands. This is precisely why Kao is committed to advancing responsible procurement through engagement all the way to the origin.

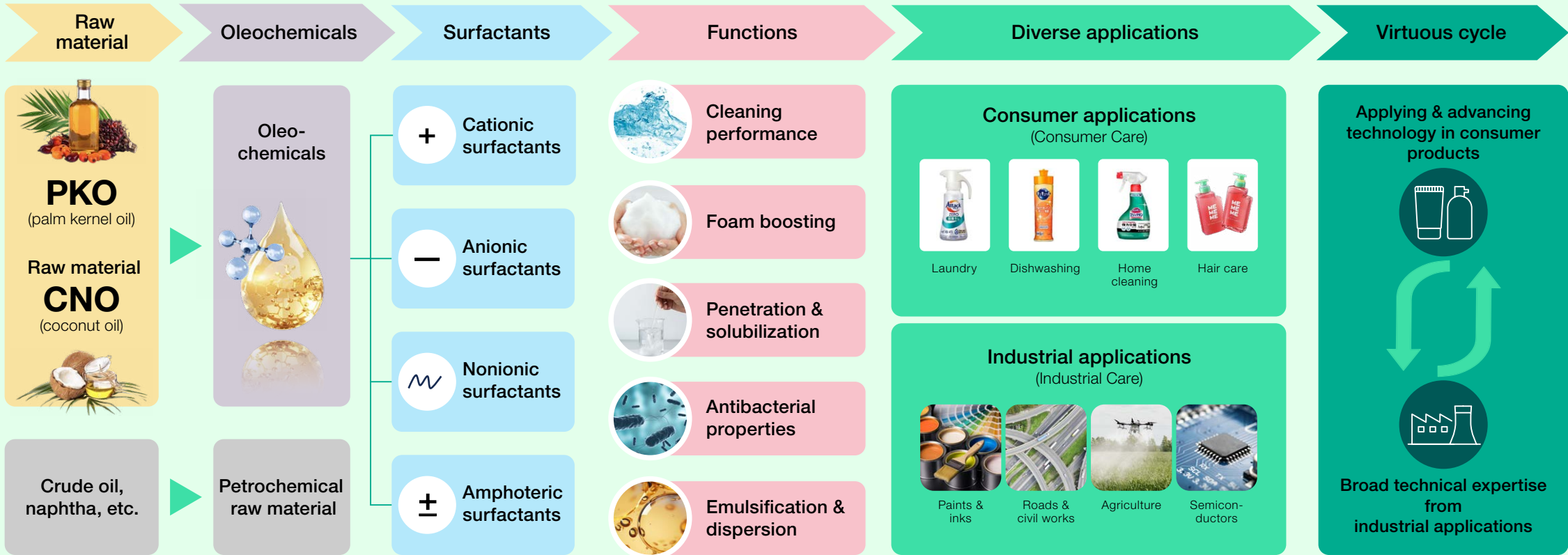
The term palm oil refers to palm oil itself, pressed from the fruit (Fresh Fruit Bunch), and palm kernel oil, pressed from the seed. Palm kernel oil makes up only about 10% of total production, yet it is the base for the raw materials in many of Kao's products.

Kao's Chemical Business, operated alongside the Consumer Products Business, produces the foundational oleochemicals and surfactants in house and supplies them for industrial use, making its business model a unique one.

This is partially what enables Kao to support palm plantations right down to the origin, strengthening responsible sourcing of raw materials.



Supporting value creation across the Kao Group by broadening functional development across industrial and consumer applications.



Kao's strengths

By integrating its capabilities across the value chain, from oil raw materials to surfactants and consumer and industrial applications, Kao maximizes its **material-creation capability** and **application-development capability** to help enrich people's lives and support industrial development.

* Depending on the application and function, petrochemical-based (petroleum-derived) raw material is also used to manufacture surfactants.

Responsibly sourced raw materials advanced through breadth and depth

Kao's approach to palm oil procurement based on the Kao Human Rights Policy, Policies for Procurement, and Kao's position on NDPE

Breadth

Initiatives across the supply chain

Kao maps its supply chain from direct suppliers through to refineries, mills, and upstream plantations beyond them, and it calls for full compliance with NDPE (No Deforestation, No Peat, No Exploitation). Kao also works to expand the adoption of RSPO certification.

Depth

Initiatives to identify local issues and provide continuous support toward improvement and resolution

For example, in Indonesia, independent oil palm smallholders account for about 40% of supply. Yet, they face unstable incomes and lack the technology or funding needed to obtain certification. To secure a stable, sustainable supply of raw materials over the medium to long term, Kao engages directly with these vulnerable smallholders, supporting them to raise productivity and obtain certification, aiding the sustainable development of smallholders while reducing risks across the supply chain.

 Palm Oil Dashboard
<https://www.kao.com/global/en/sustainability/we/procurement/palm-dashboard/>

Kao's position on NDPE (No Deforestation, No Peat, No Exploitation)

 "High-Risk" Supply Chain Management and Sourcing
<https://www.kao.com/global/en/sustainability/we/procurement/procurement-supply-chain/>

Breadth



Large-scale plantations

Primary source of procurement from both Malaysia and Indonesia



Scheme smallholders*

Smallholders operating with technical and financial support from large-scale plantation companies



Independent smallholders

Smallholders operating outside company-supported schemes

Challenges: In a vulnerable position

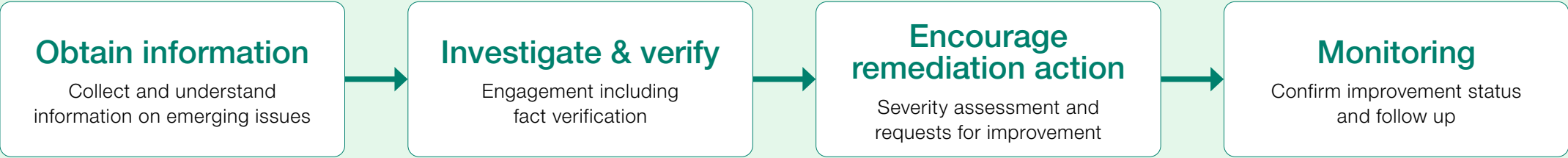
- Unstable income
- Limited access to skills and funding required for RSPO certification

Depth

* Scheme smallholders (plasma smallholders): smallholders in Indonesia that operate with technical and financial support from large-scale plantation companies

Identifying risks early, driving improvement and prevention

The supply chain management cycle



Based on the Kao Human Rights Policy, Policies for Procurement, and Kao’s position on NDPE, Kao has built a management structure for its palm oil supply chain. Starting from traceability information obtained regularly from suppliers, Kao combines satellite data with the results of NDPE surveys (surveys to assess compliance with No Deforestation, No Peat, No Exploitation) conducted with third-party organizations. The combination of these allows Kao to monitor deforestation, peatland development, and human rights and labor risks on an ongoing basis.

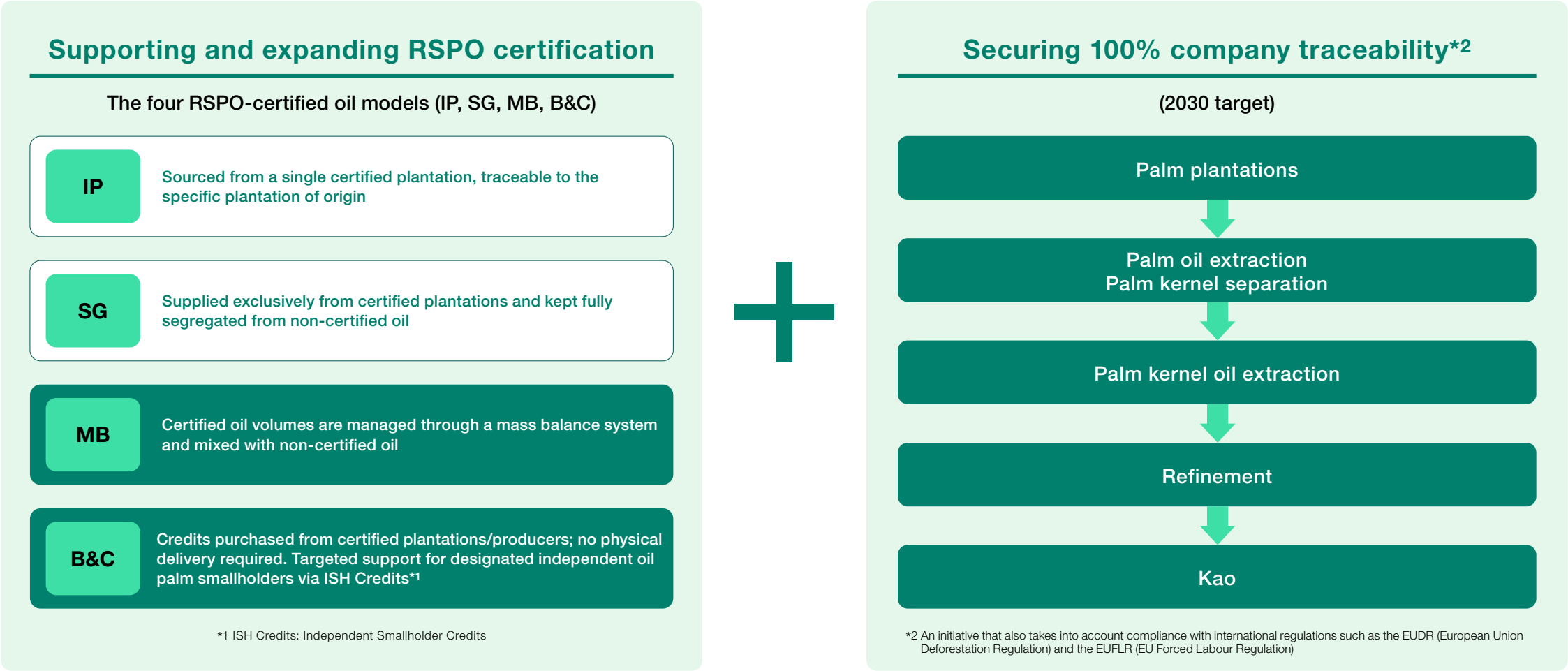
When risks or issues come to light through this ongoing management, Kao reviews them and, taking into account their severity as well as impact on stable supply, encourages improvement through dialogue with the supplier. If no improvement is made, Kao also considers suspending transactions in line with its internal procedures.

Through these efforts, Kao identifies and prevents deforestation risks early and works to prevent and mitigate negative impacts on human rights. Kao will continue to expand its disclosure of these initiatives, which are designed to improve the effectiveness of supply chain management in palm oil procurement, along with related information. For details, see the Palm Oil Dashboard.

 [Palm Oil Dashboard](https://www.kao.com/global/en/sustainability/we/procurement/palm-dashboard/)
<https://www.kao.com/global/en/sustainability/we/procurement/palm-dashboard/>



Dual approach of Supporting and expanding RSPO certification; and ensuring traceability



The four RSPO-certified oil models and how they work

There are four supply chain models for RSPO-certified palm oil, each with differing management in distribution and processing. IP and SG physically segregate certified oil, while MB mixes certified and non-certified oil and tracks certified-oil volumes in bookkeeping. Because these models require segregation facilities and volume-management systems, they tend to center on large-scale plantations and their supply chains, which can more readily implement such systems. B&C, by contrast, involves no physical segregation in distribution. It is a mechanism for trading certification credits. ISH Credits, in particular, allow credit buyers to designate specific independent oil palm smallholders to support. This provides smallholders with new income opportunities, encouraging them to obtain and maintain RSPO certification. Palm kernel oil, the key raw material for Kao, accounts for only about 10% of all palm-derived oils. Moreover, among RSPO-certified products, the amount of physically segregated IP and SG grades circulated in the market is limited. This makes it difficult for Kao to stably secure the volume we need through these models alone. Given this market structure, Kao combines B&C and MB, taking into account their respective strengths, to secure certified-oil volumes and improve sustainability. Kao uses B&C to encourage adoption and expand the RSPO-certified oil market, and as part of this, uses ISH Credits to support independent oil palm smallholders. In the Chemical Business, we use MB to meet our customers’ needs for certified oil.

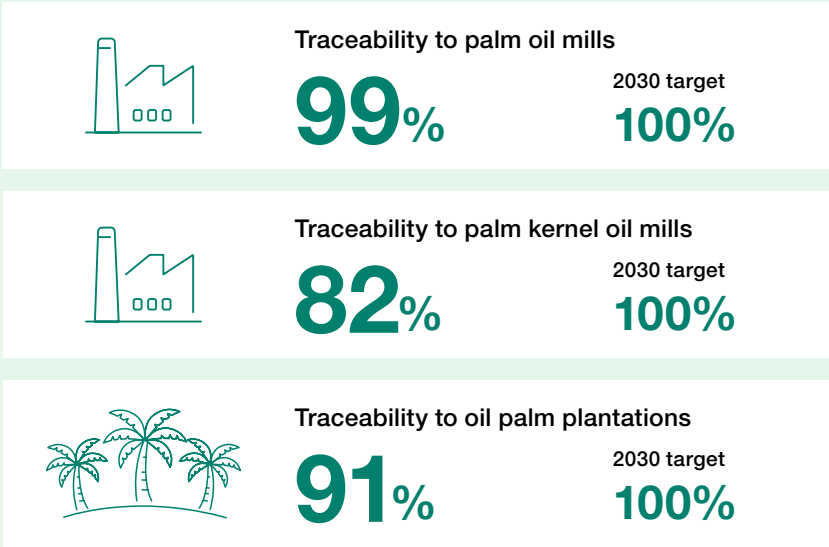
IP Identity Preserved	SG Segregation	MB Mass Balance	B&C Book & Claim
Key players Mainly large-scale plantations Requires strict segregation Mainly plantations/operators with ability to implement management systems Traceability: high Physical management: certified oil only	Key players Mainly large-scale plantations Requires segregation of certified oil only Mainly smallholders/operators with ability to implement management systems Traceability: high Physical management: certified oil only	Key players Mainly large-scale plantations Requires management of volume and record keeping Mainly smallholders/operators that have management systems Physical management: mix of certified and non-certified oil	Key players Certified smallholders /certified producers (esp. independent smallholders) No physical segregation required Independent oil palm smallholders can also participate by selling credits No physical flow: credit management

Progress on traceability back to oil palm plantations

Palm oil reaches Kao via multiple mills and refineries. With so many intermediaries involved, tracing which plantation it came from is far from straightforward. Kao pursues traceability by obtaining information regularly from suppliers. We work upstream to identify which refineries, mills, and plantations the raw materials passed through. Kao determines the products subject to traceability and scope, taking into account international regulations such as EUDR (European Union Deforestation Regulation) and EUFLR (European Union Forced Labour Regulation). We aim to achieve 100% traceability by 2030.



Traceability progress (as of end 2025)



Learn more
 [Palm Oil Dashboard](https://www.kao.com/global/en/sustainability/we/procurement/palm-dashboard/)
<https://www.kao.com/global/en/sustainability/we/procurement/palm-dashboard/>

Engagement with independent smallholders

Independent oil palm smallholders, who account for about 40% of Indonesia's palm oil supply, tend to be vulnerable due to unstable yields and incomes, and insufficient technology and funding. Kao, Apical Group, and Asian Agri are partners in the SMILE (Smallholder Inclusion for better Livelihood and Empowerment) program. Apical Group is a manufacturer and distributor of oils and fats products, and Asian Agri is a plantation company. Together, through the SMILE program, we drive direct engagement with independent oil palm smallholders, supporting them in increasing productivity (yield) and obtaining RSPO certification. This work helps expand production without deforestation, mitigates risks by raising awareness around human rights and the environment, and supports the sustainable development of independent oil palm smallholders. By 2030, Kao aims to expand both the number of supported smallholders and the number of certified smallholders to 7,000 each on a cumulative basis.

SMILE program

Aim

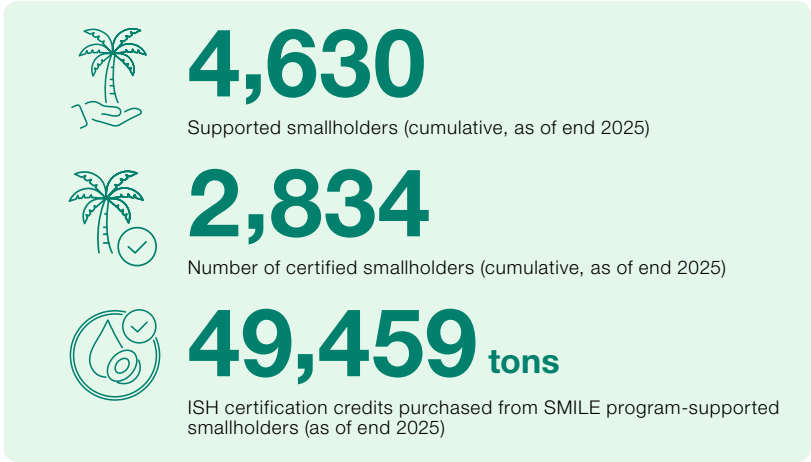
Production and adoption of sustainable palm oil

Actions

- Productivity support: increase yields on existing farmland to grow output without deforestation
- RSPO certification support: education, systems for sustainable farm management
- Use of ISH Credits: return economic value directly to those plantations supported to achieve certification, via the B&C mechanism
- Distribution of *Adjuvant* to reduce pesticide use

Impact

- Higher incomes and more stable business management for independent oil palm smallholders
- Mitigating human rights and environmental risks by embedding sustainable farm operations
- Expansion of sustainable palm oil supply chains



The Company's grievance handling framework has a two-layer structure, consisting of channels such as the "Kao Compliance Hotline," which is accessible to a wide range of stakeholders including business partners in the supply chain, and the "Kao Grievance Mechanism" (KGM), a dedicated support channel for smallholders. KGM is not intended as a substitute for grievance handling across the entire supply chain, but rather as a mechanism unique to Kao, established for vulnerable independent smallholders. KGM's track record is as shown on the right. In addition, in 2025, the Company individually addressed 28 supply chain-related grievances received from NGOs and customers through other contact points.

SMILE (Smallholder Inclusion for better Livelihood and Empowerment) program
<https://www.kao.com/global/en/sustainability/we/procurement/palm-dashboard/activities/>

Kao Grievance Mechanism (as of end 2025)

As of the end of 2025, the number of smallholders covered by KGM was 323, and the cumulative number of inquiries since its introduction in September 2022 is 291. The breakdown of inquiries is as follows: approximately 50% relate to production and revenue, approximately 30% to forest protection and certification, approximately 5% to human rights and land disputes, approximately 4% to hygiene and livelihoods, and approximately 10% to other matters.

• Kao Grievance Mechanism
<https://www.kao.com/content/dam/sites/kao/www-kao-com/jp/ja/corporate/sustainability/pdf/kao-grievance-mechanism.pdf>

132 Our Progress > Responsibly Sourced Raw Materials > Metrics and target

The SMILE program journey

Ongoing work with independent oil palm smallholders in North Sumatra, Riau, and Jambi



Nov 2021: Traceability education (North Sumatra)



Dec 2021: Registration for training (North Sumatra)



Jan 2022: Exchange with local farmers (Jambi)



Sept 2023: Dialogue with local farmers (North Sumatra)



May 2024: Distribution of fertilizer purchased with income from RSPO credits (Jambi)



Nov 2024: RSPO audit (Jambi)



Apr 2025: Meeting hall rebuilt with income from RSPO credits (North Sumatra)



Sept 2025: Herbicide quality check (Riau)

• SMILE (Smallholder Inclusion for better Livelihood and Empowerment) program
<https://www.kao.com/global/en/sustainability/we/procurement/palm-dashboard/activities/>

• Palm Oil Dashboard
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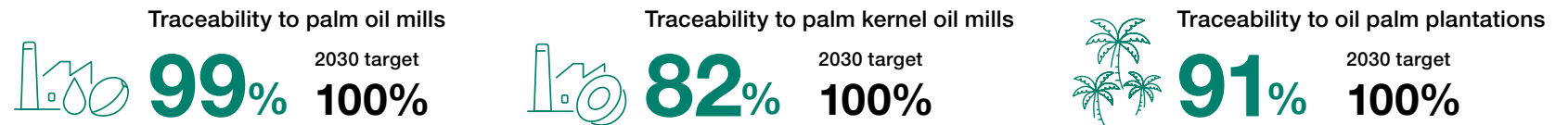
2025 progress toward our 2030 targets

Kao pursues the responsible sourcing of raw materials through initiatives across the entire supply chain.

Going forward, through continued engagement with the supply chain, Kao will continue to advance the procurement of sustainable palm oil.

Supply chain visibility (traceability)

Mapping to mills + tracing to smallholders



Support for independent oil palm smallholders (SMILE program)

Mainly independent oil palm smallholders in
Indonesia



Proactively identifying issues and implementing improvements (Kao Grievance Mechanism)

Direct engagement with independent smallholders
and early risk identification



Responsibly sourced raw materials: the foundation for Kao's business

Responsibly sourced raw materials strengthen Kao's long-term competitiveness.

Ongoing engagement at the origin helps secure a stable supply of materials.

Kao continues to support independent oil palm smallholders in increasing productivity and obtaining RSPO certification. Through these efforts, we advance sustainable farming foundations for smallholders, as well as the foundations for responsible palm oil procurement.

We pursue visibility of the supply chain from plantations through mills to products. We work to detect risks early, identify issues, and engage in dialogue and outreach for improvement.

By turning our attention all the way to the *GENBA** where raw materials are produced, we strengthen sustainability across the entire supply chain.

Through these activities, we aim to strengthen the added value in our products and the trust in our brands, to be chosen by our consumers and customers. This business structure is what makes it possible for us to continue supporting those at the origin.

Responsible procurement and the enhancement of corporate value should go hand in hand, reinforcing each other. Kao will continue to connect the origin with our business, strengthening and solidifying this virtuous cycle.

[Scope of this feature]

- Content: Kao's initiatives for and progress in responsibly sourced raw materials across its palm oil and palm kernel oil supply chains
- Scope: palm oil, palm kernel oil, and their derivatives procured by the Kao Group
- Reporting period: January–December 2025 (figures as of end 2025; some include cumulative totals from prior years)

* In Japanese, *GENBA* means the actual spot or on-site.



Related policies and disclosures

Policies and approach		Where to find it
Corporate conduct	 The Kao Way (corporate philosophy)	Kao website > About Kao > The Kao Way (corporate philosophy)
	 Kao Business Conduct Guidelines	Kao website > About Kao > Our Core of Management > Compliance / Integrity > Kao Business Conduct Guidelines
Raw material procurement	 Policies for Procurement	Sustainability Report 2026 > Our progress > Responsibly Sourced Raw Materials
	 “High-Risk” Supply Chain Management and Sourcing	
	 Partnership Requirements for Suppliers	
	 ESG promotion activities with suppliers	
	 Policies for Sustainable Palm Oil Procurement	Kao website > Sustainability > Responsibly Sourced Raw Materials > Palm Oil Dashboard
Human rights	 Kao Human Rights Policy	Sustainability Report 2026 > Our progress > Respecting Human Rights
	 Modern Slavery Act Statement	
Environment	 Basic Principle and Basic Policies on Environment and Safety	Sustainability Report 2026 > Our progress > Decarbonization
	 Kao Environmental Statement	
	 Kao Sustainable Product Development Policy	
	 Basic Policy on Biodiversity	Kao website > Sustainability > Initiatives for Nature > Initiatives for Biodiversity
	 Kao Responsible Care Policy	Kao website > Sustainability > Our Foundations > Responsible Care Activities