



**Kao Sustainability Report 2013**

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## Editorial Policy

### Editorial Policy

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The Kao Group's mission is to strive for the enrichment of the lives of people globally while contributing to the sustainability of society through *Yoki-Monozukuri*, with products and brands of excellent value.

The Group has formulated the "Kao Sustainability Statement" in order to clarify the sustainability policy and key areas of activities across the Group in order to further promote sustainability initiatives globally. This report introduces the Kao Sustainability Statement while featuring articles on Kao Group initiatives addressing social issues listed in the Statement, such as aging, health, and environmental concerns.

We also introduce various activities the Group targets for pursuing *Yoki-Monozukuri*, such as universal designs that meet diverse consumer needs, product quality management, and initiatives concerning the environment throughout the product lifecycle. We also present information concerning various initiatives to our stakeholders, including Kao's consumers and customers, employees, local communities, suppliers, shareholders, and investors.

Please note that this year's Sustainability Report is exclusively available at our website.

### Scope of reporting

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In general, this report covers the activities of the Kao Group (Kao Corporation, its subsidiaries and affiliates). We have specified if the data is collected from outside the aforementioned scope.

In this report, "Kao" means the Kao Group.

We have stated the names of individual organizations covered if it is necessary to identify the scope.

### Organizations covered

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List of Kao Group companies

<http://www.kao.com/group/en/group/gateway.html>

### Period covered

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Kao's fiscal year end was changed to December 31 from fiscal 2012; therefore, the performance data here pertains to fiscal 2012 (from April 1, 2012 to December 31, 2012). Data regarding the environment and safety, as well as some other areas, cover the calendar year 2012 (January 1, 2012 to December 31, 2012). Data that does not reflect the fiscal year is clearly labeled. Some fiscal 2013 activities are also included.

Notice Regarding Change in Business Year:

[http://www.kao.com/jp/en/corp\\_news/2011/20111025\\_005.html](http://www.kao.com/jp/en/corp_news/2011/20111025_005.html)

# Kao Sustainability Report 2013

## Independent assurance

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We have had our reports independently assured since 2003. KPMG AZSA Sustainability Co., Ltd. provides independent assurance for this report covering activities of 2012. Indicators on which assurance is provided are marked with a star (★).

## Issuing period

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Previous report issued in September 2012

Next report scheduled for issue in September 2014

## Guidelines referenced

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- GRI 2006 Sustainability Reporting Guidelines
- Environmental Reporting Guidelines (2012) and Environmental Accounting Guidelines (2005) by the Ministry of the Environment of Japan
- Environmental Accounting Guidelines for Chemical Companies (November 2003) by the Japan Chemical Industry Association
- ISO26000 (guidance on social responsibility)

## CEO Message



### Toward a sustainable society: twin goals of profitable growth and contributions to society

*Michitaka Sawada*

**Michitaka Sawada**  
Representative Director  
President and CEO  
Kao Corporation

#### Achieving our mission through twin goals of profitable growth and contributions to society

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As the world continues to change and develop rapidly, global issues such as environmental concerns, scarcity of food and water, poverty and aging continue to become more diverse and complex. Expectations of corporations as members of society to help forge a better society are also high. For corporations engaged in global business, this responsibility must be met on the global stage.

The ISO 26000 guidelines released in 2010 define the broad scope of that social responsibility and the Kao Group is committed to leveraging our strengths in business activities to help resolve social issues around the globe.

Since foundation, the Kao Group has developed and produced consumer products and cosmetics in the areas of cleanliness, beauty and health to support more comfortable and enriched lifestyles, as well as contributing to the growth of industries through our industrial products. The foundation of our business activities is *Yoki-Monozukuri*, or the creation of products that respond to the needs of the times and specific geographies through the use of innovative technology.

As we move forward, we must not only fulfil our role as a corporate citizen by continuing to create profit through sound business activities, providing employment and paying taxes, but also work toward contributing to society in a broader sense. By achieving these twin goals, we can contribute to the sustainability of society.

#### Contributing to a sustainable society

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In February 2013, in order to achieve further business development and profitable growth, we announced the Kao Group Mid-term Plan 2015 (K15), along with numerical targets for 2015. We are working toward achievement of these targets through innovation in R&D, marketing, and all other areas of the business, as well as the development of products and services offering new values.

We also created the Kao Sustainability Statement to share concrete directions both internally and externally on how our business activities should contribute to society. As our business environment rapidly changes along with Kao's global expansion, our responsibilities to stakeholders such as consumers, employees, business

partners, communities, and shareholders, also continue to expand and diversify. Through internal discussion and consultation with external experts, we formulated this statement to define how the Kao Group can—and should—contribute to global solutions in the midst of this rapid change.

The statement describes in broad terms the Kao Group's directions for contributing to the global society and clarifies Conservation, Community and Culture as three core areas of focus where we can leverage our strengths as a business to respond to the expectations and demands of stakeholders and society, as well as outlining some specific activities and goals.

In terms of Conservation, we will further pursue the environmental conservation activities promoted since the announcement of the Kao Environmental Statement in 2009 and aim to minimize the environmental impacts of our business activities as much as possible, as well as working with society as a whole toward global conservation.

In terms of Community, Kao's products aim to help solve a range of problems faced by the societies and communities in which we operate, and we have reconfirmed our commitment to the proactive partnerships we have with these communities. Social issues include the problems of aging and health faced in Japan and the heightened awareness of sanitation needs across Asia. The Kao Group provides products designed to help solve these problems, and works to raise the public consciousness.

Moreover, as a corporate citizen, Kao aims to strengthen our partnerships with local communities through cooperation with non-profit organizations to promote activities contributing to society and Kao employee volunteerism.

Finally, in terms of Culture, our statement clarifies our commitment to that most important and fundamental value of all—integrity. With that as a foundation, we aim to contribute to society through honest and sound corporate practices that encompass diverse values of individuals and organizations including our employees, our business partners and other stakeholders, as the driving force of our business activities.

With this statement as our point of reference, the Kao Group proactively seeks the trust and support of our stakeholders, aiming to enhance our contributions to a sustainable society as we aim to become a company with a global presence.

### Global initiatives support

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The Kao Group conforms with globally accepted principles and standards and conducts fair business practices. In 2005, we signed on to the UN Global Compact, which establishes 10 principles governing four areas: human rights, labor, the environment and anti-corruption. In 2011, we conducted a review of our initiatives based on ISO 26000—the world's first comprehensive guidelines for social responsibility—and we will continue to proactively promote these activities.

In terms of the supply chain, the Kao Group strives to make its sustainability initiatives understood by raw material suppliers around the world, and we proactively use materials certified by organizations such as the Roundtable on Sustainable Palm Oil (RSPO) and the Forest Stewardship Council (FSC), promoting participation in frameworks contributing to global sustainability.

As the Kao Group works toward further building our global presence and the support and trust of the global community, we will also contribute to the sustainability of society, both through our core business activities and as a corporate citizen.

Feature 1: Improving Healthy Life Expectancy in a Super-aging Society

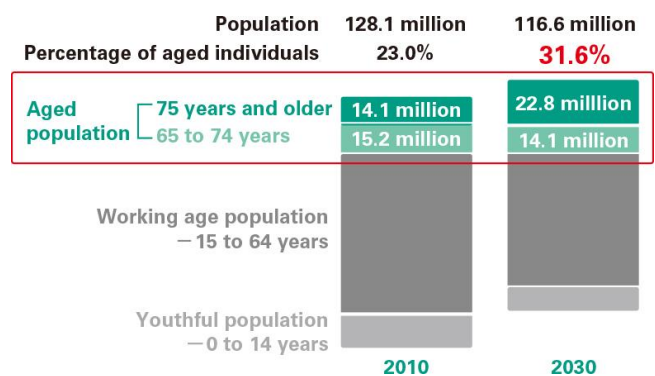
# Feature 1: Improving Healthy Life Expectancy in a Super-aging Society

## Dealing with Japan's super-aging society

Aging societies, currently centered in Japan and Western nations, are spreading throughout the world. Japan's ratio of aged citizens is the highest, with 23% of its 2010 population aged 65 or over, a figure expected to exceed 31.6% by 2030. Japan's aging population is accompanied by a declining birthrate, together indicating a shrinking working age population of those aged 15 to 64. To preserve society's future vitality and productivity, we must create an environment in which older citizens can continue working in good health; we should also substantially raise upper limits on the working age.

Amidst this rapid aging, seniors themselves are increasingly expressing the wish to remain healthy. As the rising health care costs of the government and the companies have become a serious social issue, the spotlight is on preventive care in daily life, as opposed to reactive treatment of illness, as the means of ensuring sustained health for the elderly. The topic of preserving healthy and independent lives for the older population has gained prominence in our society.

■ Japan's aging society and working population

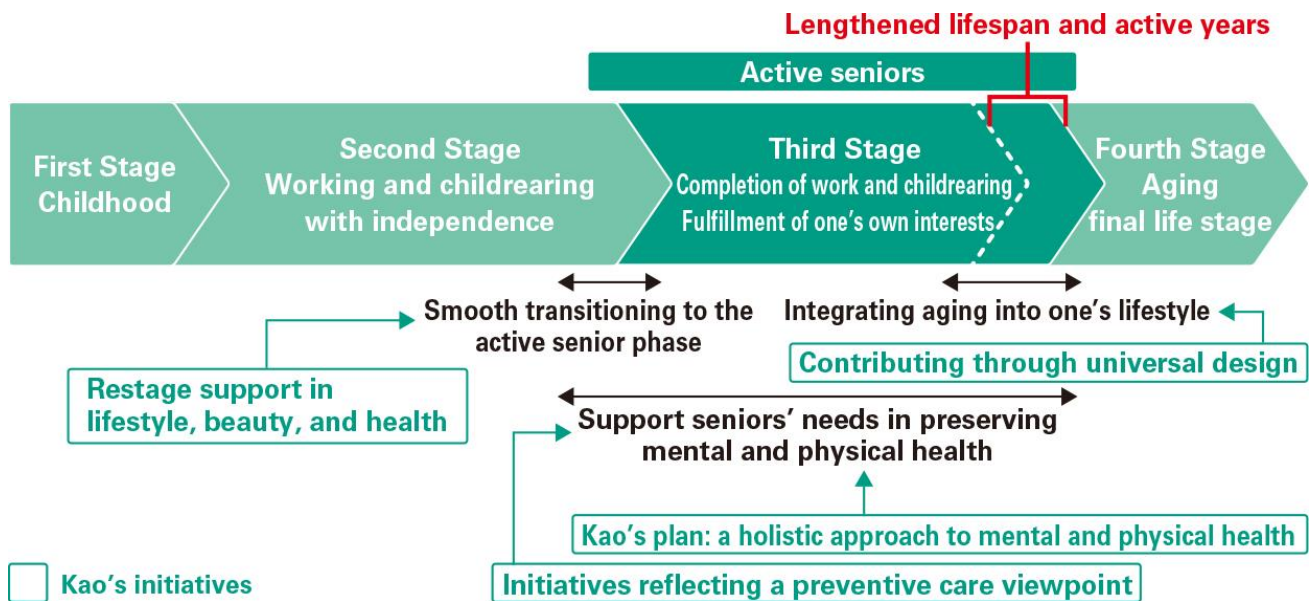


## A scientific approach to healthy aging

### Kao's initiatives for active seniors

To give due consideration to the aging problem, Kao adopts four stages of human lifespan. Moving past working and childrearing, one arrives at the third stage, in which the individual is free to spend time as he or she chooses. Among the individuals arriving at this stage, we define those who preserve their health, independence, and lifestyle as "active seniors." Although individuals differ, these seniors generally fall in the 50- to 75-year-old age bracket, and possess a strong will to achieve fulfillment, enjoying hobbies and developing new pursuits, creating new ties with their communities, and proactively preserving their mental and physical well-being.

## Active seniors: Kao's concept and initiatives



In 2012, Kao established Active Senior Business Center in recognition of a new era of vigorous older citizens eager to remain active for their own satisfaction or in support of society. The new center provides information on Kao's aging-related businesses, conducts product development from a universal design standpoint, and generates a variety of Kao initiatives.

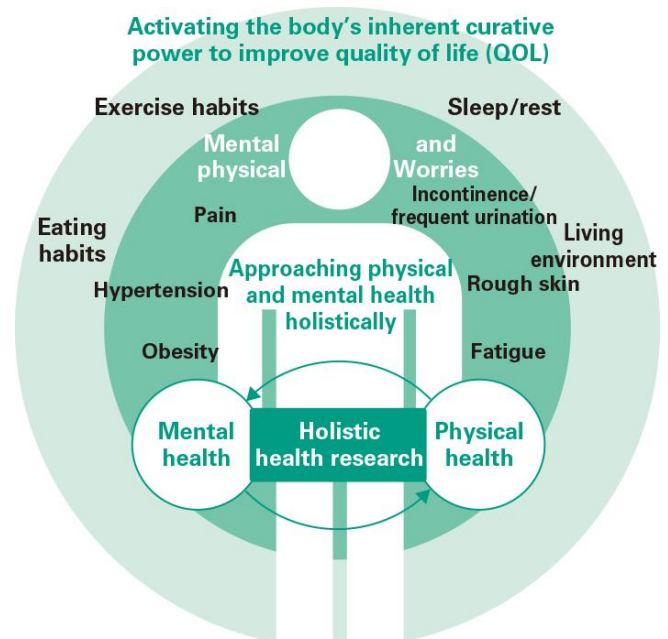
In addition to the Active Senior Business Center, Kao also conducts health care, lifestyle, and related research supporting development of health care products and preventive care programs boosting the health and happiness of active seniors in their daily lives. Kao aims to contribute to the overall improvement of seniors' healthy life expectancy through these various efforts.

### Preventive care initiatives based on holistic health research

We believe that lengthening the healthy life expectancy of seniors requires alleviation of two major hindrances: metabolic and locomotive syndromes.\* Kao initiatives take a holistic approach embracing both mind and body, with research into improving the body's own immunity and healing power. As humans age, we face issues such as obesity and muscle loss, lumbar and knee pain, and frequent urination as well as constipation. Some of these are considered as being caused by a loss of equilibrium between mind and body. We believe that readjusting that balance elevates the natural curative powers of the body. Kao conducts its health-related research based on this mind-body viewpoint.

Especially we focus on the researches of the motor ability such as walking ability—which often impacts mental health—and posture, which impacts

### Kao's holistic health research





falling and bone fractures, and also the research of maintenance of nutritional status.

\* Aging often brings on a loss of locomotive organ function involving bone, joints, and muscles, elevating the risk of requiring primary nursing care, or signifying that one is already receiving primary nursing care.

## **Research into walking ability**

Walking ability is one of the indices of a senior's health. To uncover the primary risk factor in loss of activities of daily living (ADL), the Tokyo Metropolitan Institute of Gerontology measured the walking speed of 600 seniors who were independently mobile (walking unaided) and conducted follow-up surveys for five years. Results showed a high correlation between walking speed and ADL. They found that those who walked at 5 kilometers or more per hour experienced slower ADL loss than those who walked less than 5 kilometers per hour, and, accordingly, could conduct more independent and normal lifestyle.\*<sup>1</sup> Based on that study, Kao began its own research into the walking ability of seniors, with the ultimate goal of boosting health.

Research has focused on improved walking speed for those with knee pain, achieved by exercising while wearing warm vapor sheets; improved ankle joint flexibility following a continued program of bathing with carbonic acid and stretching; and enhanced muscle elasticity for easing lower back pain and walking difficulties.

\*<sup>1</sup> Geriatrics and Gerontology International 2003;3:s6-s14

### **•Research into improved walking speed through use of warm vapor sheets:**

Results published by the American Geriatrics Society in 2012

### **•Research into bathing with carbonic acid and the body's joint flexibility:**

News Release: [http://www.kao.com/ip/corp\\_news/2012/20121121\\_001.html](http://www.kao.com/ip/corp_news/2012/20121121_001.html) (Japanese only)

## **Diapers for seniors and research into posture and fall prevention**

Measuring the muscles strain and body sway when seniors put on underclothing, we scientifically analyzed what makes clothing "easy to put on." The results helped us create *Relief*, Kao's underpant diaper for seniors, a product now recommended by the Fall Prevention Research Society. As the garments feel like normal underpants but are ultra-slim and undetectable by others, they afford seniors more peace of mind when they go out, supporting older citizens' interaction with society.

Research results presented to the Fall Prevention Research Society in October 2007

### ***Relief Haturatsu Ultra-thin Underpants***



**【Winner of the  
"Good Design" award】**

For those who occasionally do not make it to the restroom in time. Absorbs liquid produced upon relieving one's bladder twice, while boasting ultra-thin elastic material. The material itself expands and contracts, producing a feeling identical to that of wearing underpants and remaining unnoticeable under slacks.

## Offering seniors daily fulfillment through holistic health research

Yoshifumi Niki, Senior Principal Researcher, Global R&D - Human Health Care



Since the founding of our company, Kao has produced products supporting a clean, beautiful, and healthy life. These products deliver a variety of values to the consumer, including comfort, convenience, enjoyment and beauty, etc. They offer fulfillment. When we use the products, we feel happy, relaxed, or even beautiful. Our heart is fulfilled, and that resonates in our body, causing our immune system and autonomic nervous system to go to work, heightening our natural curative powers.

For example, using warm vapor sheets may ease knee muscle pain. Your body might begin to function better than before, allowing you to be out and about once again. Interacting with

others will bring you more pleasure. This in turn may have a positive effect on your body, generating better circulation.

We cannot reverse aging. However, we can slow it by preserving our health. We need not depend solely on medicine; we can elevate our body's own curative power. As our corporate message says, "Enriching lives, in harmony with nature," through our numerous products based on holistic health research, Kao seeks to lengthen the healthy life expectancy of older citizens, contributing to the active lifestyle of seniors.

## Preventive medicine initiative focusing on lifestyle related disease

Kao is working to prevent lifestyle related diseases, which impede seniors' health from an early stage. Healthcare Committee, Inc., a subsidiary of Kao Corporation, specializing in preventive medicine, offers a prevention program (QUPIO) for those belonging to organizations such as Health Insurance Societies, etc.

The program creates a health solution plan for individuals based on data received from annual physical exams, incorporating customized information into a pamphlet (QUPIO) and website (Web-QUPIO), increasing self-insight and risk consciousness, and producing a variety of solution-oriented measures. In terms of results, 40% of the individuals diagnosed with metabolic syndrome who also underwent further guidance with professionals improved their test results.



Web-QUPIO

## Healthya Coffee



Sugar-free Black  
Light-sugar Milk



This coffee contains a high level of coffee chlorogenic acid and is approved as Food for Specified Health Use (FOSHU) due to its effect enhancing the body fat utilization as energy. It provides enhanced health properties and the delicious flavor expected by those who drink coffee on a frequent basis. *Healthya Coffee* is perfect for consumers concerned with body fat, as it enhances the natural function of combusting fat as energy.

Feature 2: Contributing to Global Environmental Solutions through Eco-chemicals

## Feature 2: Contributing to Global Environmental Solutions through Eco-chemicals

### Kao's eco-chemicals

#### The role of chemical products in society

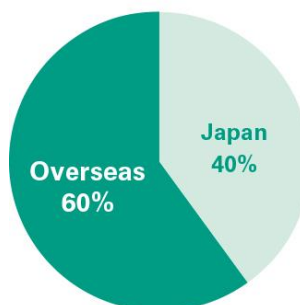
The late 20th and early 21st centuries have seen continued rapid economic growth in emerging countries as well as in nations worldwide. Chemical raw materials and products made from those materials have assumed a significant role in the expansion of economic development and industrialization. Chemical products are indispensable to society, affording individuals the enriched lifestyle they enjoy. At the same time, industrialization has produced environmental problems such as resource and energy consumption and emission of CO<sub>2</sub> and waste matter. Global warming, air and water pollution, water shortages, and food supply challenges are all environmental concerns which must be addressed proactively if international economic expansion is to proceed smoothly. Chemical products play a role in both economic and environmental spheres in the global nations experiencing continued growth.

#### Kao's chemical business produces a variety of materials

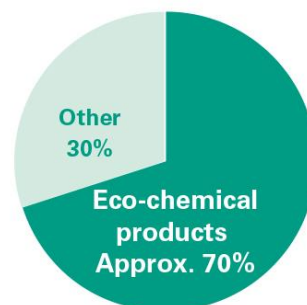
Through its chemical business, Kao provides a wide spectrum of the industrial sector with chemical products. The chemical business is Kao's most globalized division, with about 60% of sales generated overseas. Kao has captured the top global share for fatty alcohol and toner binder for photocopiers and printers, as well as the top share of surfactants in Asia, playing a significant role in global industrial circles.

Kao identifies those chemical products reducing the environmental impact during manufacture or use as eco-chemical products. Kao established the Eco-Innovation Research Laboratories in Wakayama, promoting contributions to environmental solutions across the company through its basic research. As a result, eco-chemical products have expanded to account for some 70% of Kao's total chemical business. Environmental challenges are expected to deepen as emerging nations in particular continue economic growth and social development. Kao seeks to contribute both to environmental solutions and economic growth worldwide through its globally-expanding chemical business.

Chemical business sales ratio by region



Chemical business eco-chemical product sales ratio



## Global expansion of the Kao chemical business



## Multi-faceted contributions to a reduced environmental impact

### Converting to renewable chemical raw materials

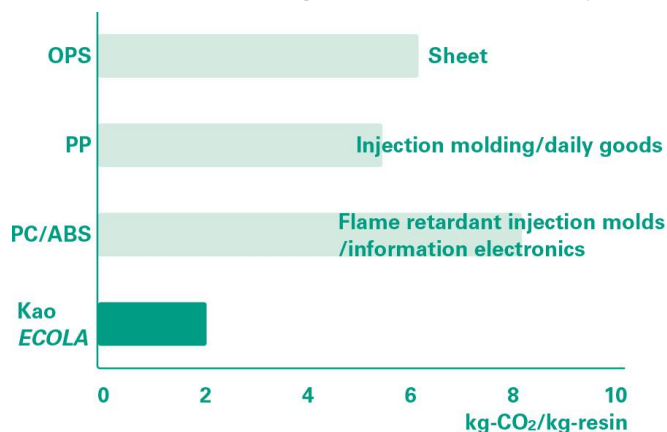
Kao is converting to renewable chemical raw materials to help realize a sustainable society. Palm oil and palm kernel oil, two of Kao's basic chemical raw materials, are excellent examples. Kao joined the Roundtable on Sustainable Palm Oil (RSPO) in 2007 and from September 2010, began purchasing certified palm oil in an effort to solve problems such as ecosystem damage through deforestation in the tropical rainforest and poor labor conditions for plantation workers.

Kao has also developed *ECOLA*<sup>®</sup>, a modified polylactide resin (a form of plastic) produced from a plant-derived chemical material, eliminating the use of petroleum. Thanks to the introduction of new crystal structure control technology combined with plasticization technology, *ECOLA*<sup>®</sup> performs well when compared to petroleum-based products, and is used in office machines and packaging. Kao is researching other ways of using high-grade biomass, and is proactively converting to renewable chemical raw materials not only in the chemical field, but also in household products.



Plant-derived plastic *ECOLA*<sup>®</sup> as used in the anterior portion of a computer (photo courtesy of NEC Corporation)

### CO<sub>2</sub> output ratio during the entire product lifecycle



## Improved productivity saves energy

Many forms of energy are used at plants during production of chemical products. Kao is reconsidering energy used during the production process of chemical products, as we continue endeavoring to conserve both power and resources. Some of our initiatives include fuel conversion to natural gas, improved boiler combustion efficiency, and storage of waste heat in heat pumps for subsequent reuse.

Moreover, Kao is researching increased efficiency of catalysts, used in the production process of fatty alcohol and tertiary amines, primary products in the chemical business. As productivity improves with new catalyst technology, more chemical products can be produced with less energy, conserving power and reducing CO<sub>2</sub> emissions.



Fatty Chemical (Malaysia)'s fatty alcohol production plant

## Customers save energy when using chemical products

Kao is improving the environmental efficiency of its chemical products, helping customers conserve energy and reduce CO<sub>2</sub> emissions simply by using these products. One example is the low-temperature fusing toner binder used in photocopiers and printers. Approximately 70% of the energy expended by copiers and printers occurs during heat treatment fusing toner to paper. Kao developed a toner binder accomplishing the same task at a lower temperature, greatly cutting power consumption for customers during product use.

In addition, Kao supplies eco-chemicals for the iron and steel industry, which is rapidly expanding in emerging nations in particular. We developed a detergent and rinse that can remove oil adhering to surfaces during the rolling of iron and steel, using hot water at temperatures lower than previously required. This has realized energy savings for the iron and steel industry.

Moreover, applying Kao's unique surfactant technology, we have developed grinding aids that improve not only grinding efficiency during finishing process, but also energy costs and CO<sub>2</sub> emissions.

■ Binder dissolves quickly and fuses at an even lower temperature

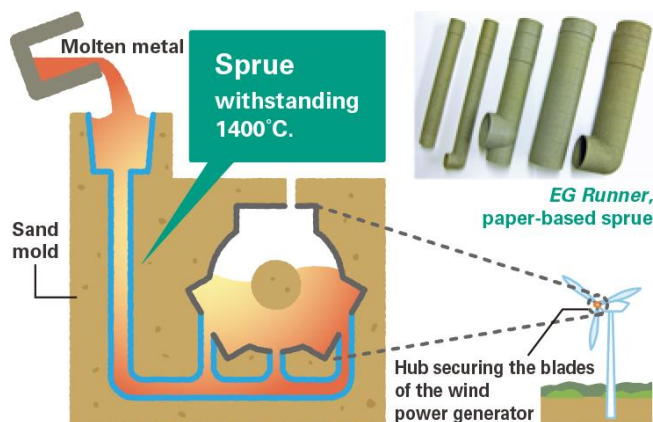
Previously 170°C → **135°C** Low-temperature fusing toner

Low-temperature fusing toner binder

## Reducing plant waste materials

Waste materials produced during manufacturing are one of the contributing factors to the environmental impact. The sprue (passage vessel) used to pour metal during casting is heavy, as it is made from ceramics, and produces a significant amount of waste material once casting is completed. Kao used old newspapers, heat-resistant resin, and fiber to develop a conjugated paper sprue called *EG Runner*. Only one-tenth the weight of its ceramic counterpart, *EG Runner* is also easy to cut. Waste material (produced by burning *EG Runner* to cinders) is reduced to one-sixteenth by comparison. Kao improved casting work operations while reducing the environmental impact, accomplishing two goals with one innovation.

### ■ Example: Casting hubs for wind power generators



## Contributing to environmental protection and quality improvement in China's casting industry

*EG Runner* has played a significant role both in environmental protection and improved quality of cast metal, contributing greatly to the overall improvement of the casting industry in China. From the perspective of environmental protection, dust, waste, and gas emissions are greatly reduced when *EG Runner* is used instead of ceramic sprues or foamed styrol sprues (foamed styrol embedded in molding sand). In terms of improved cast metal quality, *EG Runner* has significantly alleviated the junction defects generated when using ceramics and the defects generated by the gas emissions and residue when using foamed styrol.

For these reasons, use of *EG Runner* has greatly expanded in China's casting industry. We have had excellent reactions from customers, and both inquiries and orders have increased significantly.

In March 2013, at a large convention of suppliers of a foreign capital auto manufacturer held in Shanghai, all three of the top-ranked firms used the *EG Runner*. I believe this further attests to the excellence of this innovation.



Zhang Yiqi,  
Foundry Materials Division  
Kao Chemical Corporation Shanghai

Acting globally to reduce the environmental impact and contribute to growth through acceleration of the eco-chemical business

## Masakazu Negoro, President, Chemical Business Unit, Global, Kao Corporation



Kao Chemicals business integrates three domains. The oleochemical delivers a stable supply of fat- and oil-related products, while performance chemicals provide multi-function materials based on surfactant chemistry. The third business area is specialty chemicals, offering customers high-added-value products. Kao, provider of chemical products worldwide, is now aiming for rapid progress toward the eco-chemical business, taking environmental strategies and turning them into business strategies.

The world is now undergoing remarkable economic growth, particularly in emerging countries. And with continued industrialization, we face environmental problems. Kao's chemical products are used worldwide and enhance the lives of global citizens. As our chemical

business becomes increasingly ecology-minded, Kao supports a sustainable society with wide-ranging initiatives targeting social problems such as global warming, energy conservation, raw materials conservation, population issues, and environmental pollution.

One example is the initiatives undertaken by Fatty Chemical (Malaysia); reduction of natural gas consumption by boosting boiler combustion efficiency, expansions of the boiler heat recovery equipment, reduction of waste material by continuous implementation of the 4Rs (Reduce, Reuse, Recycle, Recovery), etc. This accomplishment was commended twice consecutively by the Prime Minister, as Fatty Chemical (Malaysia) received the 2008 and 2010 Hibiscus Award presented to enterprises for excellent environmental conservation and activities significantly improving the environment. In addition to its business endeavors, Kao pursues community and cultural activities in its various locations. In the Philippines, Pilipinas Kao sponsored a mangrove rehabilitation project in the vicinity of its plant, and was recognized by the Philippine Department of Environment and Natural Resources. Through its worldwide business, Kao remains aware of its social responsibilities in areas such as employment and environmental conservation, sponsoring initiatives in partnership with local communities.



Mangrove rehabilitation project near the Pilipinas Kao plant



Plaque received from the Department of Environment and Natural Resources

Response to the Great East Japan Earthquake

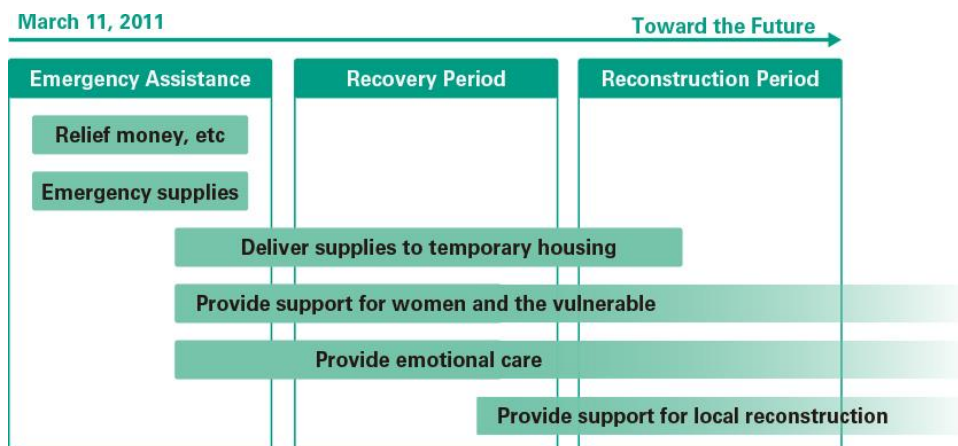
## Response to the Great East Japan Earthquake

**Kao provides support to help survivors find emotional stability.**

### Policies/goals

#### Review of past actions and future support

As a manufacturer of daily necessities, the Kao Group saw its primary task to be recovery and normalization of business activities after the Great East Japan Earthquake hit in March 2011. We also provided fiscal relief and emergency supplies to the disaster-stricken areas, and initiated employee volunteerism. In the recovery period since then, we have delivered daily necessities to those in shelters (during summer and winter), while providing victims with psychological care. However, reconstruction of the disaster-stricken areas will be a long-term process. The Kao Group will continue providing three-pronged outreach: support for women and the vulnerable, emotional care, and support for local reconstruction, while ensuring—through various opportunities—that the disaster is not forgotten.



### Women & the vulnerable

#### Pink Ribbon Campaign at disaster-stricken areas

On November 24, 2012, the Kao Group lent special corporate support to the Pink Ribbon Café in Koriyama, an activity sponsored by the Japan Society of Breast Health (NPO) at the Big Palette Fukushima (in Koriyama City, Fukushima Prefecture). The Kao Group has participated in the Pink Ribbon Campaign, which promotes early breast cancer detection, since 2007. The event, part of the “Weaving Ties with Pink Ribbons Project” supporting breast cancer screening for Great East Japan Earthquake victims, was initially held in Miyagi Prefecture in 2011.

The 2012 Fukushima “café event” offered local sweets and coffee, with Kao sponsoring a healthy skin seminar and skin care consultation. Other activities for the nearly 200 participants (primarily from Koriyama) included breast cancer seminars and lectures by physicians, consultations with doctors and pharmacists, advice plus hands-on experience with a physiotherapist, and a booth for hand massages and exercise advice.

Kao will continue proactive corporate support of women’s health through similar Pink Ribbon activities.



## Women & the vulnerable

### Beauty consultations to support single mothers and other women affected by the 2011 Earthquake Disaster

On June 15 and 16, 2012, Kanebo Cosmetics dispatched a team of beauty specialists to Iwate Prefecture to hold Beauty Café, a two-day program of beauty consultations staged at the Inclu Fair. Inclu Fair was sponsored by Inclu Iwate, a non-profit organization devoted to the support of employment, everyday living, regional solidarity, and healthy and cultured living for single-parent families.

Kanebo's beauty specialists conducted skin measurements and provided simple lotion masks and hand care for single mothers and other women affected by the 2011 earthquake disaster. Around sixty women took part in the two-day event. Kanebo Cosmetics will continue supporting women in the earthquake-affected regions through the mediums of cosmetics and beauty care.



Providing hand care to women in areas affected by the earthquake disaster

## Emotional care

### Smile Tohoku Project—Bringing smiles to disaster-stricken areas

The Kao Group lends support to the Smile Tohoku Project, promoted by three Tohoku newspapers—*Iwate Nippo*, *Kahoku Shimpō* and *Fukushima Minpo* in the Tohoku area. The project involves distribution and planting of seeds designed to encourage smiles in the disaster-stricken areas when the resulting flowers bloom, and spreading those smiles throughout Japan. More than 150 Kao Group employees participated in 15 “planting” and “blossoming” events in the disaster-impacted Iwate, Miyagi, and Fukushima prefectures between March and September in 2012.

In June 2012, we began distributing sunflower seeds to children in the three prefectures, quickly expanding the effort nationwide; 53 Kao Group offices served as bases from which seeds were offered to employees, Kao plant tour participants, and customers. Planters were also arranged at Kao Group worksites for employees to foster their sunflowers. As a cumulative result, 200,000 flowers bloomed across Japan during the summer. The blossoms, along with participants' smiles, were photographed and shared both at disaster-stricken areas and nationwide through newspapers and on websites.



Seed planting in Iwate Prefecture's Miyako City

## Emotional care

### “Mori-no Art Umi-no Geijutsu—Art in Woods, Art in Waters” Kao employees attend Summer Art Camp

Kao co-sponsored “Mori-no Art Umi-no Geijutsu—Art in Woods, Art in Waters,” a camp held at the Miyagi Prefectural Zao Nature House from August 16 to 18, 2012. The event was partnered by ARTS for HOPE, a

## Kao Sustainability Report 2013

private organization supporting psychological care for disaster-impacted children through participation in arts and crafts.

The emotional after-effects of the disaster are reflected by many children who seldom smile and who use dark colors in their artwork. The workshop offered these children the psychologically restorative chance to enjoy spacious surroundings, exploring nature and using natural materials in artwork. Ten volunteer employees from Kao joined 58 elementary school children (grades 1 through 6) from Miyagi and Fukushima Prefectures for the three-day program.



Art camp ended with happy cries of, "It was fun!" and "Let's get together again!"

### Local reconstruction

#### Collaborating with Fellow "Michinoku\*1 Revival Partners"

Kao supports disaster-stricken area reconstruction along with fellow "Michinoku Revival Partners"\*2 by offering a platform to local leaders and entrepreneurs. Established by ETIC. (Entrepreneurial Training for Innovative Communities—an NPO), the "Partners" platform focuses on gradual independent reconstruction of the disaster-stricken communities. As myriad forms of medium- and long-term support are required, the platform visualizes and matches needs with corporate resources to help facilitate local independent reconstruction.

Through participation in the program, by aggregating and providing information and know-how, Kao will continue initiatives supporting work recovery and rebuilding of communities in the affected area, in solidarity with disaster victims.



An artwork initiative at a Minami Sanriku studio

\*1. "Michinoku" traditionally refers to the southern Tohoku area

\*2. The "Partners" include Kao and four other companies (as of March 2013)

### Local reconstruction

#### Preparation and distribution of emergency sanitation manual to hospitals and nursing care facilities

Kao Professional Services Co., Ltd., a provider of medical support and care services to hospitals and nursing care facilities, supports the J Infection Control Network Best Practices Section which helps medical and care institutions with their infection management activities.

The Best Practices Section addressed the topic of sustaining sanitary practices following power and water outages caused by the Great East Japan Earthquake and Tsunami. This debate on safe and sanitary provision of water and medical care facilitated the Section's illustrated manual of Sample Best Practices for Emergency Response.

The Section's activities and the manual were introduced at the 28th



Japan Infection Control Network Best Practice Section  
Disaster Response Working Group

## Kao Sustainability Report 2013

Annual Meeting of the Japanese Society of Environmental Infections, held in Yokohama, in March 2013 and the manual was distributed to nurses, employees at nursing care facilities, and other related professionals. This unprecedented document, both helpful and easily understood, will serve its readers well.



Illustrated manual of  
Sample Best Practices for  
Emergency Response

### Employee participation

#### In-house Great East Japan Earthquake activities update meeting

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On March 6, 2012, Kao sponsored an in-house “Great East Japan Earthquake Activities Update Meeting” at its Sumida Complex. The theme of the event, attended by over 150 Kao employees from various worksites including attendees via teleconferencing, was: “One Year Later—How Can Each Employee Contribute to Reconstruction.”

Our support activities during a year after the disaster were updated. Subsequently, three employees related their on-site volunteer activities, while the NPO Kids’ Door introduced its initiatives revolving around children’s education. The event served dual purposes: employees learned the scope of Kao Group relief activities and were given the opportunity to reflect back on how the earthquake affected them, while considering their own potential future contributions.

### Employee participation

#### Employee involvement in disaster relief: Office Christmas party

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On December 19, 2012, Kao held a Christmas party at the Sumida Complex, collecting donations and creating greeting cards for elementary school children in the disaster-stricken areas. Donations were entrusted to the Japanese National Commission for UNESCO and earmarked for Japanese language dictionaries and notebooks for elementary school children living in Iwate Prefecture’s Yamada-machi.

A similar Christmas party was held at Kao’s Kayabacho Complex on December 20, 2012, for 810 employees. The party’s attendance fee was donated to disaster-stricken areas and, as a further initiative, Kao served Christmas party attendees sake purchased from a Miyagi Prefecture brewery to support Tohoku business recovery efforts. On March 4, 2013, Kao sponsored a “Reconstruction Assistance Fair” at Kayabacho Complex, featuring interaction with a Tohoku-area brewer and sale of products from disaster-stricken areas.

## Employee participation

### Christmas presents from Kao employees to elementary schoolchildren in the disaster-stricken area

Kao Group volunteers throughout Japan donated mufflers as Christmas gifts to 151 Yamada-machi Town (Iwate Prefecture) elementary schoolchildren, who had to study in rented classrooms after their school was swept away by the tsunami. Some mufflers were individually purchased by Kao employees, while others were bought with funds collected within departments. The mufflers were giftwrapped and accompanied by greeting cards from Kao volunteers.



A collection of colorful mufflers



Giftwrapping the mufflers

## Sustainability Approach

**In 2013, the Kao Group clarified its global sustainability policy by developing and announcing “the Kao Sustainability Statement.” The Statement aims to clarify the policy and key areas of activities across the Group in order to further promote sustainability initiatives globally.**

### Kao Sustainability Statement: Global basic policy for sustainability

The Kao Group defines its CSR activities broadly, including all corporate activities conducted for the “enrichment of the lives of people,” or to fulfil the mission of the Kao Way. Our activities include “Strategic CSR,” which aims to contribute to society through the core business, and “Basic CSR,” which serves as the foundation for our business activities.

In April 2010, the Kao Group clarified that the goal of its CSR activities was to “contribute to the sustainability of the world,” and clearly stated this commitment in the Kao Way. With a view to further raising the awareness of Kao Group employees and fostering Group-wide sustainability initiatives, we have formulated the Kao Sustainability Statement as our basic policy, outlining the policy and key areas to be shared across the Group in order to further promote sustainability initiatives globally.

### Stakeholder input and medium- to long-term business strategies key to development

In formulating the Statement, we initially interviewed key persons within the Group, including Kao Corporation management and top executives of Kao Group companies outside Japan, to determine key Group values and our direction concerning social issues. We also interviewed external experts to understand what is expected and requested of us from outside the Group.

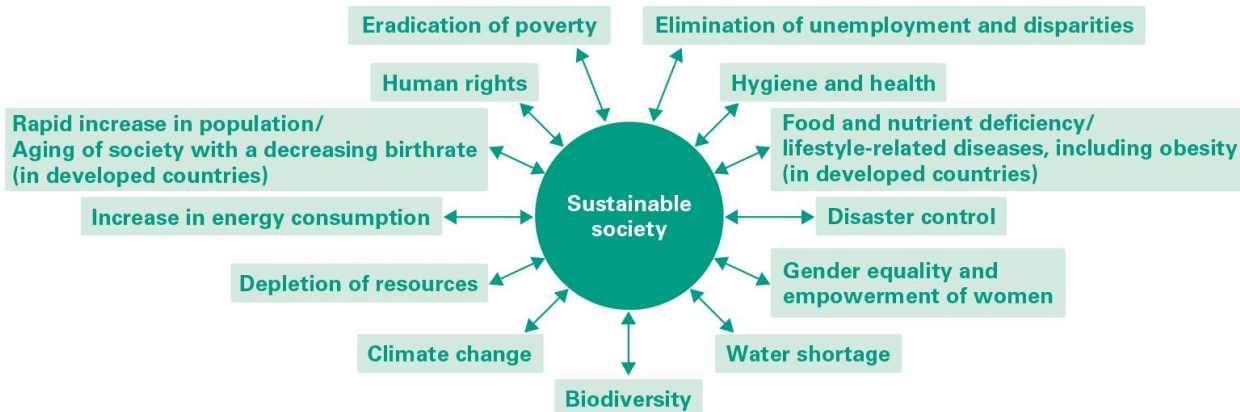
We conducted many discussions to consider and clarify priorities for the key areas and activities to be framed in the Statement, including international guidelines and criteria for socially responsible investment indexes (as outlined below), as well as consistency with Kao Group’s medium- to long-term business strategies, availability of resources to solve the issues, and relevance to the sustainability of the Kao Group. In terms of how we can contribute to global sustainability through our business activities, we considered initiatives such as continuing to develop products that help minimize environmental impact, such as water-saving products; products to help address health and hygiene problems in emerging markets; and value-added products to address issues posed by aging societies and changing health standards.



Discussion on the activities to be conducted

# Kao Sustainability Report 2013

## ■ Social Issues considered in the development of the Statement



## ■ Kao Sustainability Statement development

Jun. to Aug. 2012	Launch development process: Interview key persons within the Group, including Kao Corporation management and external experts; Create first draft
Sep. 2012	Submit first draft text to Kao Sustainability Committee.*
Oct. to Dec. 2012	Activities within each of the three key areas identified are discussed and considered by internal sub-groups from relevant departments. Main text and description of the activities included in next major draft
Dec. 2012	Draft Statement structure approved by Sustainability Committee.
Jan. to Feb. 2013	Further details of activities to be conducted for each of the key areas discussed by sub-groups.
Feb. 2013	Further details of activities reviewed by Sustainability Committee.
Apr. 2013	Final approval by Sustainability Committee

\*Sustainability Committee: Chaired by the President and CEO of Kao Corporation and primarily composed of Management Committee members

## ■ International standards and rules referred to in formulating the Statement:

- ISO 26000
- The United Nations Global Compact
- The OECD Guidelines for Multinational Enterprises
- GRI-G3 Sustainability Reporting Guidelines 2006
- etc.

## Fostering initiatives in line with the Statement

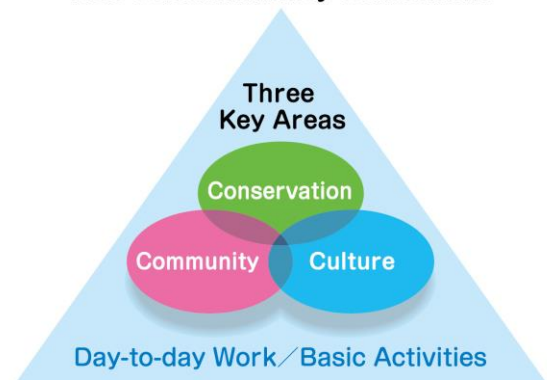
By fostering initiatives in line with the Kao Sustainability Statement, the Kao Group will aim to meet the expectations and demands of our stakeholders and contribute to global sustainability.

We will set specific milestones for the activities set in each key area and steadily implement the necessary measures through execution of the PDCA review cycle.

We will disclose our results and progress on these activities through various communication channels, including the Sustainability Report.

Related departments will also continue to take charge of global management of Group activities, to ensure that Basic CSR objectives are met through our daily business operations.

## Kao Sustainability Statement



## Kao Sustainability Statement

Kao's mission is to strive for the wholehearted satisfaction and enrichment of the lives of people globally and to contribute to the sustainability of the society. By developing innovative products and services, we work to conserve the environment and foster well-being in the communities we serve now and in the future.

To do this, in partnership with our stakeholders, we promote a culture of integrity in everything we do and we provide a workplace that maximizes the potential of each and every one of our employees.

To advance our business responsibly and sustainably, we are focusing our efforts on the three key areas of Conservation, Community and Culture.

### Three Key Areas and Target Fields

#### ●Conservation

Kao commits to reduce our environmental impacts, to conserve biodiversity and to conduct environmental activities through community engagement so that we contribute to the conservation of the planet, as stated in the Kao Environmental Statement.

- Reducing environmental impacts of our business activities

We work to understand and reduce the environmental impacts of our business activities through the whole lifecycle of the products, from raw materials procurement to production, logistics, sales, use and disposal.

- Environmental activities in partnership with stakeholders

We partner in a broad range of environmental conservation activities with consumers, business partners, and communities, in line with the theme of "eco together".

#### ●Community

Kao commits to make a positive difference in the communities we serve through our business and partnerships.

- Engaging with communities through business

We build close connections with consumers by developing products that foster well-being in the communities we serve, focusing particularly on issues related to aging populations, health, cleanliness and hygiene.

- Engaging with local communities through partnerships

We partner with local communities to improve quality of life. We empower employees to engage with their communities in the spirit of volunteerism.

#### ●Culture

Kao's people are our most important asset in successfully bringing to life our sustainability plans. We conduct business with integrity, respect diversity among our employees, and create new values for society through improvements and innovation in our products and ways of working.

- Integrity

By operating under the spirit of integrity handed down to us from our founder, we will build trust among all our stakeholders worldwide. We will promote a culture of integrity from our executives and employees, through to our external business partners.

- Diversity & Inclusion

We will build a culture that respects the diversity of each and every one of our employees and allows them to work to the full extent of their potential and commitment.

## Results of 2012

### ■ Conservation

Target Fields	Target Issues	Activities	Results of 2012	Targets of 2013		
Reducing environmental impacts of our business activities	Medium-term Objectives of Kao Environmental Statement	<CO <sub>2</sub> > 35% reduction by 2020 for consumer products (across product lifecycle, per unit sales in Japan, relative to FY2005)	Development of environmentally -friendly products •Expansion of water-saving products •Promotion of product downsizing and concentrated formulas, 4Rs* <sup>1</sup> for packaging.	17% reduction	•Expanded the number of water-saving detergents •Expanded the use of bio-polyethylene for the refill bags of shampoo & conditioner	•Expansion of water-saving products •Expansion of refill products
		Promotion of energy-saving activities at production sites, offices and in distribution	•20% reduction of emissions (in Japan compared to FY1990) •Plants: Introduction of high-efficiency turbo refrigerators and promotion of city gas usage •Distribution: Promotion of modal shift, improvement of transport and fuel efficiency		•Introduction of cogeneration system in plants •Operation of environmentally-friendly logistics centers (solar panels for in-house power generation, LED lights, etc.)	
		<Water> 30% reduction of water consumption during product use by 2020 (per unit sales in Japan, relative to FY2005)	•Expansion of water-saving products	20% reduction	Expanded the number of water-saving detergents	•Expansion of water-saving products
		<Chemical Substances>	Appropriate management of chemical substances throughout their lifecycles in line with SAICM* <sup>2</sup>	•Established SAICM Committee, launched projects to set short- and medium-term targets and control their progress	•Establishment and disclosure of SAICM policy •Select substances subject to priority risk assessment and formulate a medium-term risk assessment plan •Study and establish a lifecycle risk management method	
	<Biodiversity>	Expansion of use of certified raw materials	•Achieved 100% certification rate under Book and Claim system* <sup>3</sup> for palm oil purchased for use in Japan and continued the purchase of certified palm kernel oil. •Kashima Plant obtained RSPO SCCS certification	Switch from Book and Claim system to Mass Balance system* <sup>4</sup>		



# Kao Sustainability Report 2013

			Promotion of biodiversity conservation activities at plants	<ul style="list-style-type: none"> <li>•Wakayama Plant conducted vegetation and biological surveys, trimmed trees at its tide-water control forest</li> <li>•Sumida Complex formulated action guidelines</li> </ul>	<ul style="list-style-type: none"> <li>•Promotion of activities at Wakayama and Sumida</li> <li>•Conduct evaluations on biodiversity conservation at other plants in Japan</li> </ul>
Environmental activities in partnership with stakeholders	Environmental Education and Conservation	Promotion of environmental education at various places, such as schools, plants and stores, and cooperation with the governments, NPOs, and others	<ul style="list-style-type: none"> <li>•"eco together diaries" distributed to 350 schools</li> <li>•Environmental education classes: given at 45 schools</li> <li>•Visit to the Kao Eco-Lab Museum: 43 schools</li> <li>•Subsidies under "Kao Creating Forests for Everyone" Program: given to 23 organizations</li> <li>•Kao Earthwatch Teacher's Fellowship: 10 schools participated</li> <li>•Education provided at stores: 216 cases</li> <li>•Kao International Environment Painting Contest for Children : 7,356 applications</li> <li>•"Water saving campaign in China" (conducted jointly with Chinese governmental agencies):about 50,000 participants</li> </ul>	Continue promoting all activities	

\*1. 4Rs: Reduce, Renewable, Reuse, Recycle

\*2. SAICM: Strategic Approach to International Chemicals Management

\*3. Book and Claim: Credit trading system for RSPO-certified palm oil

\*4. Mass Balance: This system allows for mixing of RSPO-certified and non-certified palm oil

## ■ Community

Target Fields	Target Issues	Activities	Results of 2012	Targets of 2013
Engaging with communities through business	Solve the social issues such as aging society, health, and hygienic concerns	Development of the products and information in consideration of diversity (UD, TV commercials with captions, etc.)	<ul style="list-style-type: none"> <li>•Gave due consideration to UD for 63% of new/improved products</li> <li>•Established UD information intranet pages for awareness-raising</li> <li>•Fostered the pilot broadcasting of TV commercials with captions jointly with 3 TV stations, the government and 2 other companies</li> </ul>	<ul style="list-style-type: none"> <li>•Increase the percentage of new/improved products with UD consideration</li> <li>•Continue educational activities (lectures, etc.)</li> <li>•Continue activities to promote early commencement of full scale broadcasting of TV commercials with captions</li> </ul>
		Prevention and treatment of obesity and life style diseases	<ul style="list-style-type: none"> <li>•Conducted a health campaign for 12 weeks at an SNS-linked healthy habit support website :7,000 participants</li> <li>•"Walking campaign" 70,000 participants</li> <li>•QUPiO participant companies: 60</li> </ul>	Continue proposing new healthy lifestyles to contribute to the creation of an "active senior society"
		Baby health promotion in consideration of local living environment and habits	Development and sales of baby diapers based on research of the babies in the following areas: Taiwan, China, Hong Kong, Singapore, Indonesia, Russia	Expand the sales and local production of baby diapers into other countries

# Kao Sustainability Report 2013

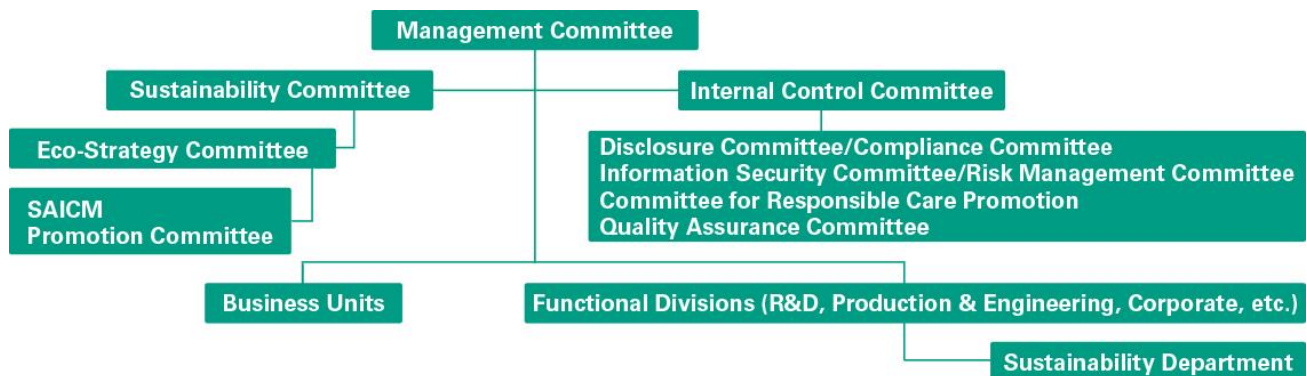
		Improvement of hygiene through hand washing education	Conducted hand washing classes in Asian countries: 95 schools in Japan and 87 in other countries (Taiwan, Indonesia and Thailand)	Expand the activities to encourage people to wash hands appropriately
Engaging with local communities through partnerships	Promote corporate citizenship activities	Further participation of employees of the whole Group in corporate citizenship activities	<ul style="list-style-type: none"> <li>• Provided volunteer information on intranet pages: 51 cases</li> <li>• Employee volunteer participation: 12,810 employees in total</li> </ul>	Expand the activities to encourage employees to volunteer

## ■ Culture

Target Fields	Target Issues	Activities	Results of 2012	Targets of 2013
Integrity	Foster the implementation of the principle of integrity	Continual enhancement of education on the Kao Business Conduct Guidelines  Appropriate management of compliance reporting and consulting hotlines	Revised BCG • Conducted simple e-learning (participation of 16,813 employees, or 80% of all targeted Group employees) • Delivered helpline card with phone numbers and "how to report or consult" (about 20,000 employees in Japan and about 5,800 overseas)	<ul style="list-style-type: none"> <li>• Revise BCG through the annual review by the Compliance Committee</li> <li>• Establish Kao Group Anti-Bribery Program</li> <li>• Plan, implement and enhance regular compliance trainings within and outside Japan</li> </ul>
	Promote sustainable procurement	Giving more consideration to the environment and human rights in procurement	<ul style="list-style-type: none"> <li>• Conducted surveys on new suppliers</li> <li>• Issued written improvement requests to suppliers who did not meet the criteria and conducted monitoring</li> <li>• Provided all employees transferred to the Procurement Division with necessary education</li> </ul>	<ul style="list-style-type: none"> <li>• Continue follow-up surveys to ensure compliance with the criteria</li> <li>• Enhance monitoring activities</li> <li>• Expand purchases of certified products</li> </ul>
Diversity & Inclusion	Foster diversity and inclusion	Enhancement of education for diverse employees at management level	<ul style="list-style-type: none"> <li>• Percentage of female managers: 23.6% (the whole Group including overseas companies)</li> <li>• Maintained the number of overseas employees participating in global leadership training</li> </ul>	<ul style="list-style-type: none"> <li>• Improve results</li> <li>• Continue activities</li> </ul>

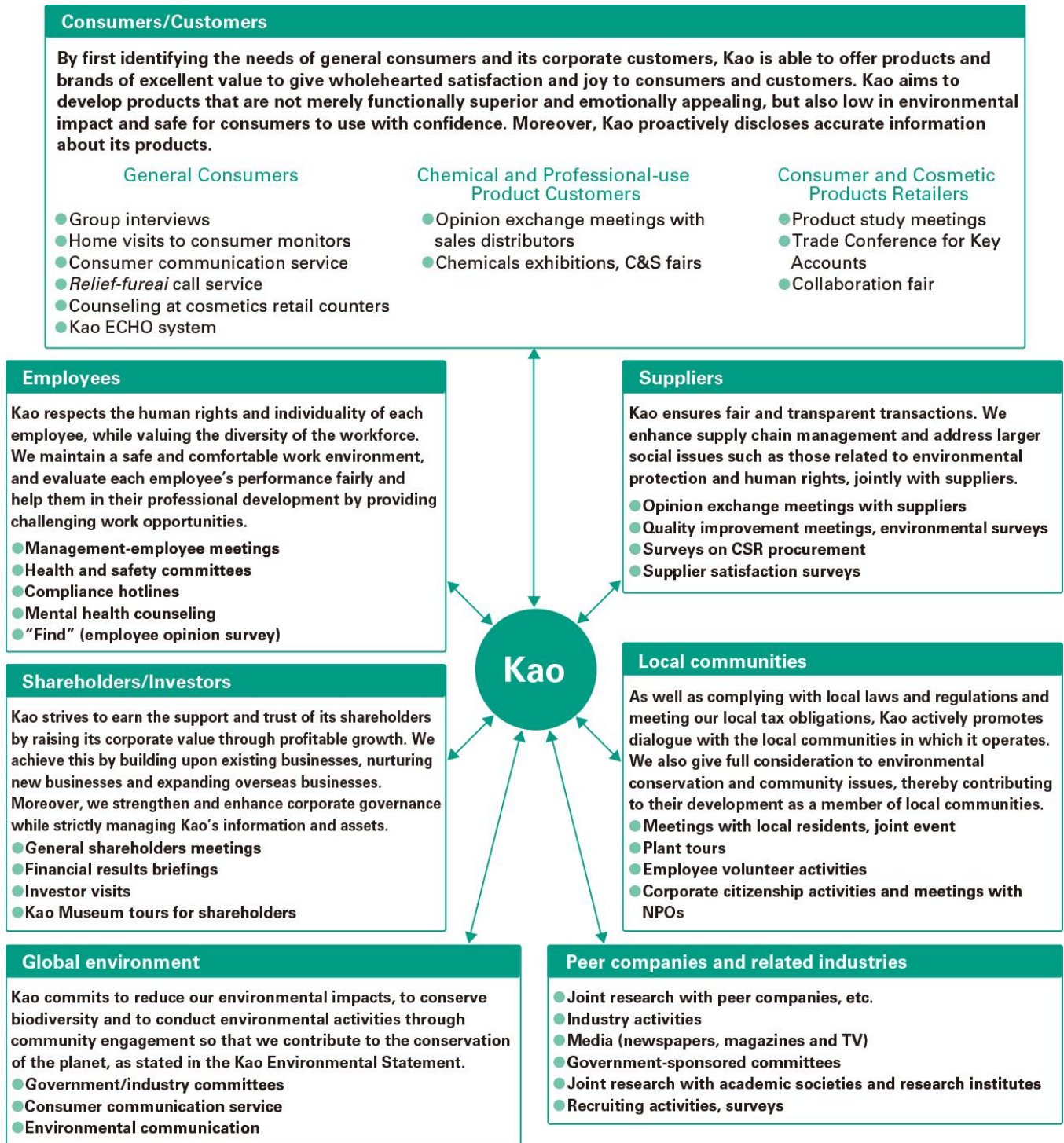
## Promotion of activities for sustainability

The Sustainability Committee, chaired by the President & CEO of Kao Corporation, has established policies and conducts discussions concerning sustainability issues and activities.



## Communication

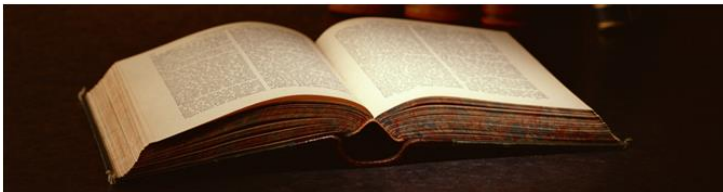
The Kao Group implements two-way communications with its stakeholders in an effort to gain an understanding of society's demands and overall issues and promote appropriate initiatives.



Management System

# Management System

## Corporate Governance



Kao develops and maintains a managerial framework and an internal control system with the aim of continuously increasing corporate value.

## Compliance



With the aim of behaving lawfully and ethically and conducting fair and honest business activities, Kao actively promotes wide implementation and establishment of compliance on a global basis.

## Risk Management



Kao continues to take appropriate measures throughout all business activities based on our Risk Management Policy.

## Responsible Care Activities



Kao vigorously implements Responsible Care (RC) activities based on the chemical industry's voluntary initiative to ensure ongoing occupational safety and environmental conservation.

## Corporate Governance

**Kao develops and maintains a managerial framework and an internal control system with the aim of continuously increasing corporate value.**

### Policies/structures

#### Corporate governance

Kao's basic position on corporate governance is to establish and operate a management and an internal control system that can realize speedy, highly efficient, sound, and transparent management with the aim of continuously enhancing corporate value. Kao considers corporate governance to be one of its most important management issues. Kao conducts annual reviews of these management issues and implements appropriate measures while integrating social trends and responding to the requests of our shareholders and all other stakeholders.

**Average attendance rate of Outside Directors/Audit & Supervisory Board Members at the Board of Directors meetings in fiscal year ending December 2012**

Outside Directors 95.2%

Outside Audit & Supervisory Board Members 100%

Kao has introduced, within the framework for the Board of Directors (including Outside Directors) and the Audit & Supervisory Board, the Executive Officer system in order to separate the supervision function from the execution function. In addition, Kao continued the reform of its corporate governance system which it implemented in 2012 (increased the number of outside Directors, decreased the number of members of the Board, and reinforced the Executive Officer system). Under its current management system following the conclusion of the 107<sup>th</sup> Annual General Meeting of Shareholders held in March 2013, Kao has: ten (10) members of the Board of Directors, including three (3) Outside Directors; five (5) Audit & Supervisory Board Members, including three (3) Outside Audit & Supervisory Board Members; and twenty-eight (28) Executive Officers, including four (4) Executive Officers, with the title of Senior Managing Executive Officer or Managing Executive Officer and without concurrent positions in the Board of Directors. All of the Outside Directors and the Outside Audit & Supervisory Board Members maintain their neutrality, independent from the company's management. The Chairman of the Board of Directors does not concurrently serve as the Representative Director and Executive Officer. The term of office for Directors and Executive Officers is one year.

Meetings of Board of Directors were held 12 times during the fiscal year ending December 2012, including extraordinary meetings. At the end of the fiscal year ending December 2012, the average attendance rate of Outside Directors was 95.2%, and Outside Audit & Supervisory Board Members 100%. To facilitate thorough discussions in each Meeting of Board of Directors, Outside Directors were informed of each agenda item in advance by the Board of Directors secretariat, including the background, objective and description of each agenda item.

Kao has established the Compensation Advisory Committee and the Committee for the Examination of the Nominees for the Chairman of the Board of Directors and the President and CEO, which fulfill functions similar to the compensation committee and nominating committee of a "company with committees."

The Compensation Advisory Committee consists of the Chairman of the Board of Directors, all Representative Directors, and all Outside Directors. This committee meets at least once a year during the

remuneration revision period to examine and evaluate the appropriateness of the remuneration system and the level of remunerations for the members of the Board of Directors and Executive Officers after considering the input from the company. A meeting of the Compensation Advisory Committee was held in February 2013, where the current remuneration system and the level of remuneration for the members of the Board of Directors and the Executive Officers presently in office were examined and evaluated as being appropriate, and this opinion was reported at a meeting of the Board of Directors held in March of the same year.

The Committee for the Examination of the Nominees for the Chairman of the Board of Directors and the President and CEO, on the other hand, consists exclusively of all Outside Directors and all Outside Audit & Supervisory Board Members. This committee examines the nominees prior to the election or re-election of the Chairman of the Board of Directors and/or the President and CEO, and submits its evaluation of the nominees' qualifications to the Board of Directors. The Chairman of the Board of Directors and the President and CEO contribute by submitting necessary and sufficient documents for a thorough examination (information on the nominees and the new management including the respective duties of the members of the Board of Directors and Executive Officers) to the committee members in advance of the meeting of the Committee for the Examination of the Nominees for the Chairman of the Board of Directors and the President and CEO. A meeting of the Committee for the Examination of the Nominees for the Chairman of the Board of Directors and the President and CEO was held with the attendance of all committee members, in advance of the election of Chairman of the Board of Directors and the President and CEO following the reelection of the Board of Directors at the 107th Annual General Meeting of Shareholders in March 2013. The committee subsequently submitted to the Board of Directors its opinion that there were no problems in the appropriateness of the nominee for the Chairman of the Board of Directors and the President and CEO.

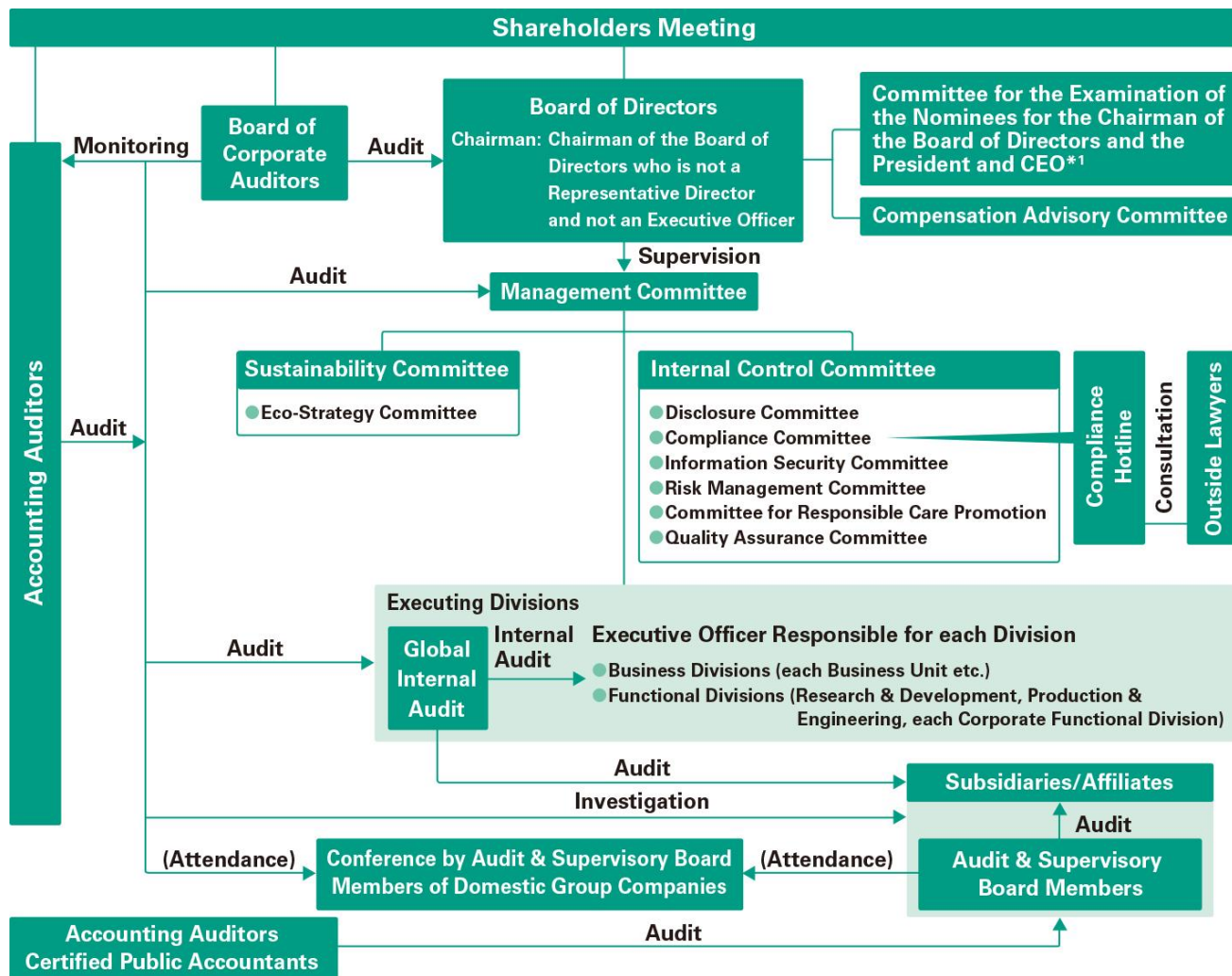
Audit & Supervisory Board Members exchange opinions regularly with Representative Directors, attend the meetings of the Board of Directors, attend meetings of the Management Committee and other important meetings, participate in regular Conferences by Audit & Supervisory Board Members of Domestic Kao Group companies, and share auditing information with the internal auditing division and Kao's Accounting Auditor. Audit & Supervisory Board Members also conduct hearings with internal divisions and subsidiaries regularly or as necessary.

Reference: "Report Concerning Corporate Governance"

[http://www.kao.com/jp/en/corp\\_imgs/corp\\_info/governance\\_001.pdf](http://www.kao.com/jp/en/corp_imgs/corp_info/governance_001.pdf)

# Kao Sustainability Report 2013

## ■ Corporate governance organization including internal control system



\* Our policy is to ask experts, such as lawyers, for their advice as reference in making business judgements, if necessary, concerning business management and daily operations.

(Report Concerning Corporate Governance)

\*1 Consists exclusively of all Outside Directors and Outside Audit & Supervisory Board Members.

## Kao Group in Japan

### Ensuring the independence of Outside Directors/Outside Audit & Supervisory Board Members

In February 2010, Kao established and announced the Standards for Independence of Outside Directors/Outside Audit & Supervisory Board Members of Kao Corporation. In July 2012, these standards were revised to reflect partial revisions made to the Securities Listing Regulations of the Tokyo Stock Exchange, etc. All of Kao's incumbent Outside Directors and Outside Audit & Supervisory Board Members satisfy the standards and are registered with the Tokyo Stock Exchange as independent directors/Audit & Supervisory Board Members.

Reference: "Standards for Independence of Outside Directors/Corporate Auditors of Kao Corporation."

[http://www.kao.com/jp/en/corp\\_imgs/corp\\_info/governance\\_002.pdf](http://www.kao.com/jp/en/corp_imgs/corp_info/governance_002.pdf)

## Policies/structures

### Internal control

Kao formulated its Policies Regarding the Development of the Internal Control System in May 2006 and reviews them every year and revises them as needed after confirming the level of compliance. The Internal Control Committee (chaired by the Representative Director, President & CEO) reviews and approves system maintenance and operational planning, periodically evaluating, and revising as necessary.

In addition, six committees (see the column on the right) have been placed under the Internal Control Committee to analyze and comprehend the situation surrounding internal control and make necessary improvements by employing the PDCA (Plan, Do, Check and Act) cycle.

Executive Officers who sit on these six subcommittees as key members also serve on the Secretariat of the Internal Control Committee to confirm the status of maintenance and promotion of the internal control system, including the status of individual subcommittees' activities.

In response to the Internal Control Report System under the so-called J-SOX legislation, Kao has established the J-SOX Secretariat and works to promote the development, operation and efficient evaluation of its internal control system and enhance the reliability of financial statements.

Kao will continue to improve its internal control system.

#### Six Committees under the Internal Control Committee

- Disclosure Committee
- Compliance Committee
- Information Security Committee
- Risk Management Committee
- Committee for Responsible Care Promotion
- Quality Assurance Committee

## Kao Group in Japan

### Basic policy to eliminate antisocial forces and its maintenance

In efforts to eliminate antisocial forces, Kao has declared not to engage in antisocial activities in the Kao Business Conduct Guidelines and has stated its system of eliminating antisocial forces in the Basic Policy Regarding the Internal Control System. Kao has familiarized all employees of Kao Group companies with the Kao Business Conduct Guidelines and Basic Policy Regarding the Internal Control System, both of which are posted on its website.

On the basis of provision above, Kao promotes cooperation with governmental agencies etc. and collection and management of information regarding antisocial forces and establishes and maintains its internal system.

Furthermore, Kao also conducts contractual risk management throughout the Kao Group, such as entering into signed contractual obligations with long-term business partners concerning the elimination of antisocial forces.



## Global

### Global harmonization of internal control

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In efforts to promote the global integration of business operations, each branch and function of the company, including the six committees under the Internal Control Committee, is conducting activities to achieve global harmonization in each field of responsibility.

The Committee for Responsible Care Promotion established the Kao Responsible Care Policy and promotes the global expansion of related activities based on these policies.

The Quality Assurance Committee developed a quality assurance management system to support global harmonization and has held two quality assurance meetings with overseas affiliates.

## Compliance

**With the aim of behaving lawfully and ethically and conducting fair and honest business activities, Kao actively promotes wide implementation and establishment of compliance on a global basis.**

### Policies/goals/structures

Kao upholds the principle of integrity, passed down from the company's founder, as one of the core values of its corporate philosophy, the Kao Way. "Integrity" means to behave lawfully and ethically and conduct fair and honest business activities. Kao regards this word as the starting point of compliance and promotes it as a guideline to be followed so that the company continues to earn the respect and trust of all stakeholders.

To implement "Integrity" in its daily activities, Kao has defined three compliance priorities: (1) annual review of the Kao Business Conduct Guidelines (BCG), (2) implementation of educational activities to promote each employee's understanding of the BCG (including the receipt of signed oaths from employees), and (3) maintenance and operation of compliance hotlines for timely and appropriate resolution of possible legal or ethical violations. Kao has established a firm structure to promote compliance focusing on the following three items and are conducting related activities in order to promote this structure throughout the entire Kao Group. In fiscal 2012, there were no serious violations of any laws or regulations in the business operations of the Kao Group.

#### 1. Compliance Committee

Kao has established a Compliance Committee, chaired by a Managing Executive Officer and member of the Board of Directors, and comprised of representatives of relevant divisions and affiliates. The Compliance Committee discusses revisions of the BCG, implements activities to promote wider penetration of corporate ethics both domestically and outside of Japan, and reviews and monitors operations of the compliance hotlines and hotline responses. The committee reports important matters, decisions, and an activity overview, and makes proposals to the Board of Directors.

#### 2. Secretariat meeting of the Compliance Committee

The Compliance Committee has established a secretariat and holds a secretariat meeting every month. At the meeting, members of the secretariat review and discuss the responses to inquiries made to both domestic and overseas hotlines, consider new efforts to promote compliance and make plans to provide compliance education.

#### 3. Compliance audits and monitoring

At the Kao Group, internal audits on compliance are conducted by Kao Global Internal Audit, the internal audit function of the Kao Group, and the following monitoring is regularly conducted to gather employees' opinions on compliance status and to take necessary measures.

### ●Internal audits conducted by Kao Global Internal Audit

Kao Global Internal Audit regularly conducts business audits of the Kao Group as a whole, as well as of its various divisions, and includes as an audit item compliance with rules governing corporate entertaining and gift-giving.

### ●Self-appraisal of individual divisions

Compliance Committee members of individual divisions conduct self-appraisals once a year concerning whether or not there are any violations of the BCG and the progress of activities to promote compliance in their own divisions. According to the results of such self-appraisals, Kao implements improvements to its activities and conducts additional training, if necessary.

### ●Employee opinion survey “Find”

One of the goals under “Find,” a Kao Group global employee opinion survey conducted every other year, is to confirm employee compliance status and related issues.

### ●Supplier satisfaction survey

Kao regularly conducts business partner satisfaction surveys of suppliers and other business partners, providing Kao an opportunity to reflect on its own corporate stance.

[> p. 149 “Partnering with Our Suppliers”](#)

### ●Self-check exercises at compliance seminars

Compliance seminar participants are required to do self-check exercises to improve compliance awareness.

●If serious violations of any law or regulation by any Kao Group company were to occur, they will be reported externally in the Sustainability Report or other appropriate document, except when such violations are subject to confidentiality, legal, privacy or other similar restrictions preventing such public disclosure.

Kao Business Conduct Guidelines

[http://www.kao.com/jp/en/corp\\_info/compliance.html](http://www.kao.com/jp/en/corp_info/compliance.html)

## Global

### Publicize the BCG revision and review prior to the coming fiscal year

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Society’s expectation of a company’s role evolves in line with society’s changing views on sustainability. Kao remains aware of and responsive to these changes through its Compliance Committee. The Compliance Committee re-examines on at least a yearly basis the Kao Business Conduct Guidelines, which covers interactions with government officials, corporate entertaining, gift-giving, and political donations, and other compliance-related policies, implementing revisions when necessary.

In fiscal 2012, (1) in order to facilitate worry-free hotline use, Kao clarified a prohibition of retaliation for hotline use in the Principles of Corporate Ethics section of its BCG and (2) Kao altered the BCG to reflect a priority shift in its social contribution activities. The BCG is available to the public in Japanese and English on the Kao website,

with translations in Chinese, Thai, Indonesian, Vietnamese, German, Spanish, French, Italian and Russian distributed to Kao Group employees around the world. Kao Group employees in Japan have accessed the revised BCG through the intranet (Kao has secured view confirmations from approximately 11,000 individuals as of December 2012) and the revised BCG has been explained at certain regular meetings. Employees of Kao Group consumer and chemical companies in Asia, and chemical companies in Europe and the U.S. took a simple test to confirm understanding of the revised BCG. European salon and beauty care business employees submitted signed oaths agreeing to comply with the revised BCG, and American salon and beauty care business employees took online tests to verify understanding of the revised BCG.

Kao also gave consideration to recent enhancement and policing of anti-corruption laws in the U.S., China, and the U.K. during its annual review of the BCG, identifying revisions to be made in 2013. As its goal for 2014, Kao will focus on establishing a system to prevent bribery in Kao Group companies in Japan and overseas, including each division, through appropriate internal rules, accounting approval systems and the implementation of self-checks through a PDCA cycle.

## Global

### Operating compliance hotlines

#### ● Domestic and overseas Group companies

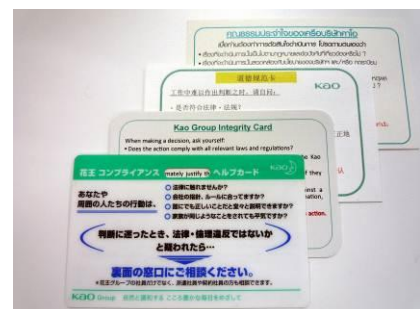
Kao has established and operates two kinds of hotlines: one internal and one external. Both respect individual privacy, strive to ensure that callers suffer no disadvantage as a result of their good faith consultation, and receive caller consent when a third party needs to be involved. In fiscal 2012, companies across the Kao Group saw an average of 13 calls per month to hotlines, none of which presented a serious risk.

#### ● Domestic Group companies

The domestic Kao Group companies have established both internal compliance hotlines operated by the Compliance Committee secretariat members and external hotlines operated by outside specialists, including lawyers and counselors, to provide a means for reporting compliance-related matters, including legal or ethical violations. Certain internal and external hotlines serve not only employees, but also suppliers and other business partners.

#### ● Overseas Group companies

Kao has established and maintains two hotlines for each overseas Group company: an internal hotline allowing employees to consult with the company president or head of personnel, and an external hotline operated by an outside service provider. The latter, known as "Integrity Lines," have been established successively in overseas Kao Group companies since 2007, and allow callers to confer in their native language 24 hours a day, 365 days per year. Anonymous calls are accepted, but since the ability to investigate such matters would be limited, Kao encourages callers to use their real names whenever possible. In order to disseminate information concerning the compliance hotlines to employees in each overseas Kao Group company, Kao has provided such employees



Compliance Cards (Integrity Cards)

with Integrity Cards in 2012. These cards are similar to the Compliance Help Cards distributed to employees of all domestic affiliated companies featuring 4 key reflection points to guide employees through difficult decisions. The Integrity Cards also feature internal and external hotline numbers, all written in English and the native language spoken by the employees. The Kao Group plans to expand these dissemination activities in 2013.

## Global

### Implementing the Integrity Workshop on a global basis

Following the revision of the BCG in 2008, Kao continued its expansion of the Integrity Workshop. In fiscal 2012, Kao Group companies continued to hold workshops, mainly in Vietnam, China, Europe, the U.S., Canada, and Japan, with 1,092 total participants. Altogether, 7,013 individuals have participated in the workshops since they began in 2008.

Training focuses on the 11 Fundamental Rules of the BCG, and are presented through case studies which illuminate areas requiring caution and action in one's daily activities. Furthermore, participants are expected to gain insights through group discussions of such case studies. Specific areas covered include antitrust laws, anti-corruption, rules governing corporate entertaining and gift-giving, interactions with government officials specific to each country, handling of product recalls, handling of confidential and personal information, conflicts of interest, reporting to one's superiors, environmental protection, respect for human rights, child labor laws, copyrights, social media use and other issues. Integrity Workshops cover 15-20 case studies over the course of a half-day, leading to better understanding of the BCG.



Sales promotion team at Kao Vietnam experiences an Integrity Workshop

#### ■ The status of implementation of the Integrity Workshop (totals as of the end of December 2012)

Region	Number of workshops held	Number of participants
Japan	10	248
Asia	212	4,887
Americas and Europe	87	1,878
Total	309	7,013

## Global

### Seven consecutive years on the World's Most Ethical Companies list

In March 2013, Kao was named as one of the World's Most Ethical Companies 2013 by the U.S. think tank, Ethisphere Institute. Kao has been on the list for seven consecutive years, since the award's inception in 2007. Kao is the only Japanese company, and the only manufacturer of fast-moving consumer goods as well as chemicals, to be honored all seven years.

Selection of companies is based on the evaluation of five factors: Ethics and Compliance Program; Reputation, Leadership and Innovation; Corporate Citizenship and Responsibility; Governance; and Culture of Ethics. Among these factors, Kao was particularly well evaluated for its activities related to the promotion of ethics and compliance as Kao systemically offers an environment in which employees can perform their duties confidently and responsibly. This environment emerges from regular revisions of the Kao Business Conduct Guidelines (BCG), implementation of the Integrity Workshop, familiarizing Kao Group employees with regulations, and Kao Group-wide compliance hotlines for employees to seek advice or report possible legal or ethical misconduct.

For the list announced on March 2013, over 1,000 companies were surveyed, with 140 companies representing 36 industries being selected.



Awards ceremony honoring the World's Most Ethical Companies

## Kao Group in Japan

### Measures ensuring full compliance in daily activities

Kao assigns employees trained as "laws and regulations experts" to monitor trends in enforcement and amendments to laws and regulations related to its business, and to distribute information and educate as needed through various means, such as in-house workshops.

In addition, various internal rules that are useful in putting Kao Business Conduct Guidelines (BCG) into practice are available on the intranet at Kao Group companies in Japan.

#### Laws and regulations revised in fiscal 2012 for which laws and regulations experts conducted relevant activities:

- Defined-Contribution Pension Law
- Defined-Benefit Pension Law
- Health Insurance Act (enforcement ordinance)
- Laws stabilizing employment of senior citizens
- Law concerning prevention of radiation hazards from radio-isotopes, etc.

#### Number of laws for which laws and regulations experts have been appointed and the number of internal regulations registered as of the end of December 2012

Number of laws for which laws and regulations experts have been appointed: 337 laws in total  
Number of internal regulations registered: 536 regulations

### Safeguarding intellectual property

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Kao conducts its business activities while protecting its industrial property rights, such as patent, design, and trademark rights for intellectual property including new technology and product concepts, package designs, and product and brand names.

The Intellectual Property Center focuses on patent rights, which indicate key company values such as capacity for technological development, as it promotes strategic applications in a broad range of fields. Brand Legal Management collaborates closely with the business divisions, considering cost-effectiveness while submitting and managing applications for design and trademark rights (some design rights are handled by the Intellectual Property Center). Kao also actively pursues the acquisitions of the rights outside of Japan, while vigorously protecting the company against any infringements of its legal rights, both in Japan and overseas. Most recently, Kao has been pursuing measures against counterfeit products in Asia and other regions.

At the same time, we strive to respect the industrial rights of other companies in Japan and overseas, to avoid infringing upon them from the initial stages of our R&D activities, re-confirming existing patents before new product launches and taking action as necessary, and examining product packages in advance to avoid any rights-related issues.

## Protection of Information Security and Personal Information

### Policies/goals/structures

Kao has established Guidelines on Handling Trade Secrets, Kao Guidelines for Handling Personal Information, and IT Security Guidelines, based on its Information Security Policy to ensure business activities are carried out in accordance with the relevant laws. The Information Security Committee, divisional members for protection of trade secrets (TS), and supervisors who handle personal information are required to ensure comprehensive information security management when performing their respective roles. Kao provides these personnel with necessary training and education on an ongoing basis. In response to global sharing of information, Kao endeavors to improve the Kao Group's level of TS and personal information management.

Kao strictly protects personal information in accordance with the guidelines produced by the Japanese Ministry of Economy, Trade and Industry. When transactions involve outsourcing of operations, including handling of personal information, to other companies, Kao exercises thorough oversight of such companies by means of detailed execution of contracts and auditing procedures. Pursuant to the Japanese Ministry of Health, Labour and Welfare's guidelines, the personal information of Kao employees in Japan is also managed properly.

### Kao Group in Japan

#### Implementing divisional self-patrols

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Every year, divisional members for protection of TS and supervisors who handle personal information conduct voluntary investigations to examine the conditions under which such information is managed within their own divisions. Issues uncovered as a result of the self-monitoring are shared at the TS & Personal Information Protection Promotion Meeting held in the following September, and deficiencies are designated as problems to be solved during the next fiscal year.

### Kao Group in Japan

#### The 19th TS & Personal Information Protection Promotion Meeting

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Domestic Kao Group companies regularly hold study meetings attended by divisional members for protection of TS along with supervisors who handle personal information in order to promote the protection of TS and personal information. During the 19th TS & Personal Information Protection Promotion Meeting, held in fiscal 2012, a speaker from a major manufacturing group company undergoing broad international expansion addressed participants, educating them on information security management from a global perspective.



## Risk Management

**Kao continues to take appropriate measures throughout all business activities based on our Risk Management Policy.**

### Policies/structures

In order to practice Kao's corporate philosophy of *Yoki-Monozukuri*, we should manage risk appropriately by visualizing risks attending ongoing business and implementing measures to minimize their frequency and influence. Meanwhile, we must remain prepared during normal conditions to minimize emerging damage and loss if such risk occurs. Kao conducts risk management activities by prioritizing risk management and measures based on the order of priority specified in the Kao Risk Management Policy (1. Protection of human life, 2. Environmental conservation, 3. Continuation of operations, and 4. Protection of assets).

Kao's Managing Executive Officer in charge of risk management chairs the Risk Management Committee, which comprises members assigned by the chairman. The Risk Management Committee is responsible for promoting and advancing risk management activities companywide by: 1. Determining basic policies for risk management activities, 2. Determining infrastructure and operating plans for risk management activities, 3. Supporting expansion of the risk management mindset and activities throughout Kao and its subsidiaries, and 4. Ensuring intra-corporate communication of each division's risk management activities.

In addition, the Board of Directors is expected to confirm and supervise the companywide risk management system and validate basic policy concerning management and responsive measures for the most serious risks.

Among the various risks related to overall business activities, risks related to management strategies that affect business opportunities are evaluated by the relevant divisions and countermeasures are developed. When necessary, the Management Committee and Board of Directors check and oversee these countermeasures.

For the management of operational risks, each division assigns a dedicated staff member responsible for promoting risk management, clarifying, evaluating, avoiding, and minimizing risks on a regular basis.

Risk Management, Corporate Strategy promotes a risk management PDCA cycle in order to understand the risk management activity status of each division and support further improvements as well as strengthen risk management from a companywide perspective. Risk Management, Corporate Strategy also acts as the secretariat for the Risk Management Committee.

## ■ Risk management system



## Goals

Kao defines risk as an event and its factors for occurrence which may directly or indirectly impede business activities and the achievement of business objectives of Kao's divisions. Activity targets are set to appropriately manage such risk and Risk Management, Corporate Strategy is in charge of promoting those activities.

### 1. Identify at the global level risks that could affect *Yoki-Monozukuri* and the continuation of operation, and strengthen countermeasures

Carry out a risk study on main divisions of domestic business as well as overseas Group companies. For the events that may seriously affect *Yoki-Monozukuri* and business continuity, or the factors of such events, the divisions responsible for the risks take priority actions of countermeasures to reduce the impact on business activities.

### 2. Strengthen the emergency response system

We continually review our emergency response system for disasters, accidents or problems caused by product quality, prioritizing respect for human life and the prevention of harm to people. Rapid changes in the business environment, including globalization, diversification of market needs, and the advancement of networks, greatly increases the impact on the customer, by its scale or speed, when operations in one location are interrupted by disaster or accident, or a quality issue with a product sold worldwide happens. Kao strives to strengthen our response to meet the demands of such an impact.

### 3. Maintain and enhance the business continuity plan (BCP)\*

Kao has reviewed and revised our business continuity plan based on events that could seriously impact the continuity of our business activities, such as an epidemic outbreak or operational shutdown due to a large-scale earthquake. As a result, we have identified additional issues and are strengthening our processes to ensure continued delivery of products to the customer.

\* Business continuity plans (BCP)

A plan for continuing important corporate operations based on predetermined procedures to ensure selected operations and functions are maintained in selected ways, depending on the situation in the event of interruption and/or shutdown of business activities due to unexpected events

#### Global

#### Identify the risks that could affect *Yoki-Monozukuri* and the continuation of operations, and strengthen countermeasures

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In the fiscal 2012 risk management survey, we focused on identifying risks that may impact the continuation of operations. Countermeasures for risks that require companywide discussions are developed by the Risk Management Committee, while the risk management related divisions are in charge of implementing risk reduction initiatives and related activities. In addition, each department reports on their progress of management activities to the Risk Management Promotion Liaison Meeting, encouraging the sharing of risk reduction methods and further advancing our risk management effectiveness.

We are also revising our risk survey method, as we need to further strengthen our abilities to identify and manage risks and factors closely tied to business activities in order to implement *Yoki-Monozukuri* on a global level in such times of change.

Our objective for fiscal 2013 is to contribute to stabilized business activities based on our new risk survey method, managing risks that could affect *Yoki-Monozukuri* and the continuation of operations on a global level based on our new risk survey method.

Risk Management, Corporate Strategy will also encourage opportunities to exchange risk-related information across the Kao Group, reinforcing risk reduction activities.

#### Global

#### Strengthen emergency response system

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In fiscal 2012, Kao strengthened first response capabilities for global Beauty Care Business bases in Europe and the Americas, with simulation training concerning crisis level assessment and first reporting to the related divisions when product-related issues occur.

In fiscal 2013, we are promoting to strengthen the organized first response capabilities to critical product trouble in the Fabric and Home Care Business and the Human Health Care Business in China and ASEAN countries.

## Global

### Maintain and enhance the business continuity plan (BCP)

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In fiscal 2012, continuing to learn from responses to the Great East Japan Earthquake, we strengthened our supply chain, reevaluating priority products and procurement of raw materials, production, and logistics, to “ensure delivery of products to our customers.”

For procurement of raw materials, the Kao Group is purchasing from multiple vendors and standardizing specifications to enable flexible purchasing according to conditions.

To strengthen our manufacturing system, we have taken measures such as seismic strengthening and liquefaction countermeasures to make plants more disaster resistant. In addition, we are restructuring our manufacturing bases from a global perspective to accommodate priority products.

Aware of the possibility that an earthquake with an epicenter in Tokyo or other natural disaster could damage the head office, we have also studied significant works and their method which should be continued to keep the head office functions under emergency conditions.

In fiscal 2013, in order to establish a stronger business continuity framework, we will enhance our response to emergencies by conducting initial response trainings such as those where head office function in Tokyo will be transferred to Wakayama Plant in case of a big natural disaster.

## Responsible Care Activities

**Kao vigorously implements Responsible Care (RC) activities based on the chemical industry's voluntary initiative to ensure ongoing occupational safety and environmental conservation.**

### Policies/goals

Kao carefully safeguards individuals and the environment at every step of our business, from product development to manufacturing, logistics, use, and disposal, aiming to contribute to the realization of a sustainable society. To achieve this objective, we have established Environment and Safety Division, formulated the "Kao Responsible Care Policy" based on the basic elements of the Responsible Care (RC) Activities\* (self-monitoring efforts governing the environment, safety and health set out by the chemical industry), set annual goals, and are currently implementing activities based on our annual plan.

Activities include holding a meeting of the Committee for Responsible Care Promotion biannually. Until fiscal 2011, the meetings occurred in December and March, but due to modifications made to the accounting period in 2012, RC activities and the activity timeframe changed to January through December, with meetings held in September and December. This committee comprises 12 members: 10 RC Promotion Members selected from the 10 divisions and business companies promoting RC activities, plus one representative each from the Environment and Safety Division and the Product Quality Management Division. The Executive Officer in charge of environment and safety management chairs the committee.

During the committee meeting in September, members plan initiatives to clarify our course of action and strengthen the management system, and deliberate the Kao Group's medium-term goals as well as the following year's activity goals based on the results of the RC Office's audit conducted every August.

At the meeting in December, based on these activity goals, individual RC Promotion members report their respective division's plan for the next year, which the committee then deliberates. The RC Promotion members convey the deliberation results to their respective divisions, relating the detailed contents to their activity units in an effort to enhance and advance RC activities relevant to the worksite.

\*Basic elements of RC activities

Five objectives ("Environmental protection," "Process safety and disaster prevention," "Occupational safety and health," "Chemicals and product safety," "Distribution safety") and "Communication with society"

### Kao Responsible Care Policy

● Occupational Safety and Health

We shall strive to eradicate occupational accidents and reduce potential risks, as well as provide comfortable working environments and promoting employee health.

● Process Safety and Disaster Prevention

We shall strive to prevent fires, explosions and chemical spills while maintaining safe and stable operations.

We shall also implement the appropriate facilities and periodical training to prepare for emergency situations such as natural disaster and security issues.

● Chemicals and Product Safety (Product Stewardship)

We shall strive to evaluate and reduce the risks associated with chemical substances through the whole life cycle of our products, as well as strive to develop technologies and bring to market products that reduce our impact on the environment, thereby contributing to the peace of mind of our business customers and consumers.

● Distribution Safety

We shall strive to prevent and minimize the effects of accidents and crises, as well as prevent environmental pollution, through the responsible management of distribution of chemicals and products.

● Environmental Protection

We shall strive to continue to reduce the environmental impact of our business operations by promoting reduction of uses of resources such as water and energy, as well as reducing, reusing and recycling waste and disposing of wastewater and waste gas appropriately.

● Compliance with Regulations and Voluntary Management Standards

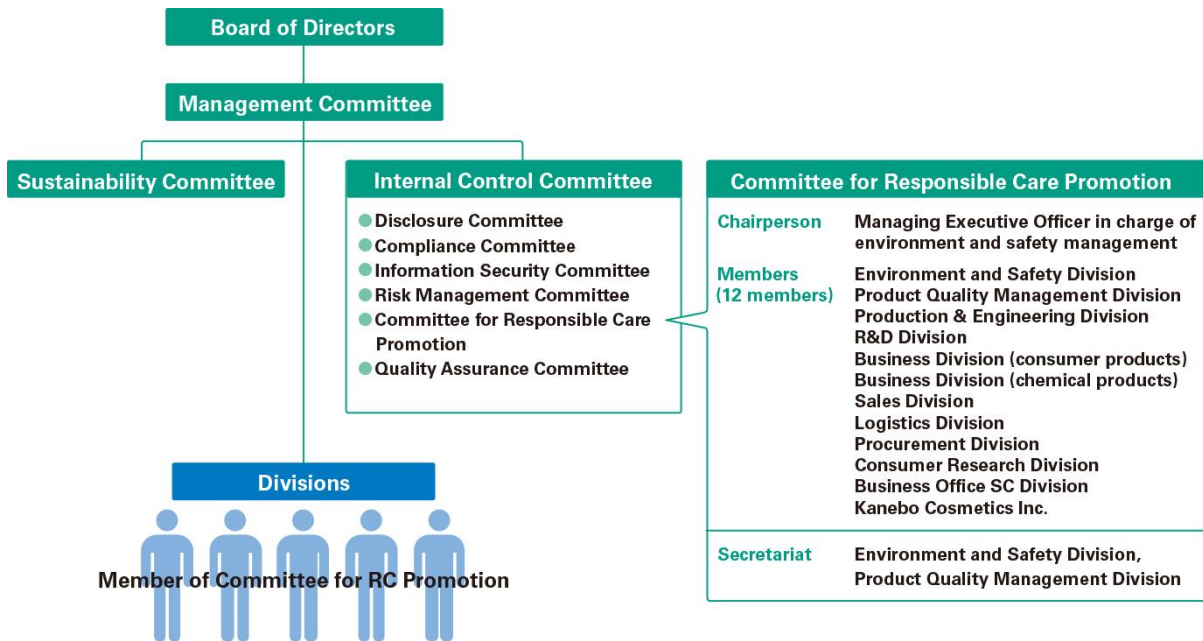
We will comply with national regulations, international rules and chemical industry association policies within each country of operation, as well as strive to improve our voluntary initiatives.

● Communication with Society

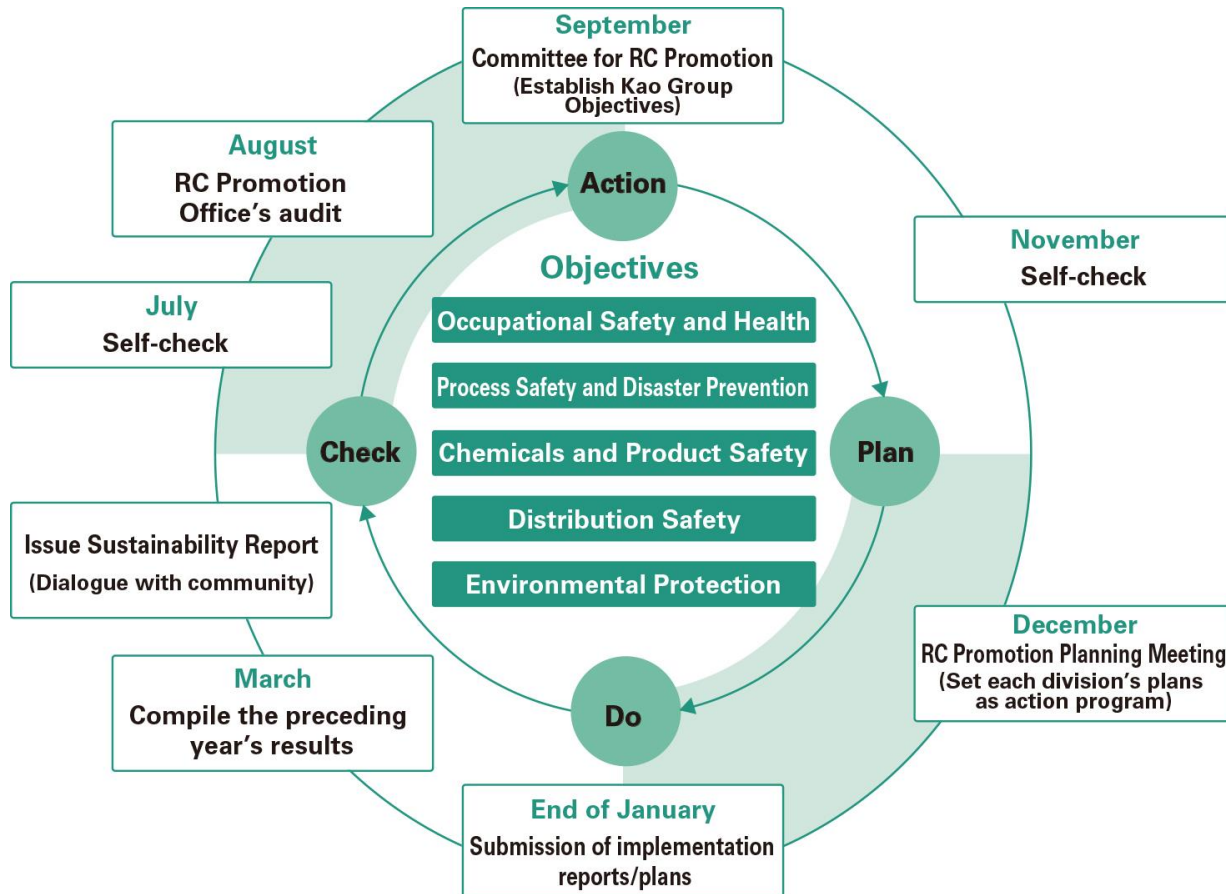
We shall proactively disclose our policies and activities related to the environment, health and safety and strive to build relationships of support and trust with all our stakeholders through communication with consumers, business customers, employees, communities and other stakeholders.

# Kao Sustainability Report 2013

## RC promotion system



## Annual schedule for RC activities



## Global

### Standardizing RC activities

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Kao is promoting the global expansion of RC activities as part of the Kao Group corporate governance. We are working on unifying and standardizing Kao Group RC activities, integrating environmental and safety efforts usually implemented independently by Group companies in each country.

In 2012, Kao revised the “Responsible Care Promotion Committee Rules” and specified that the Rules would henceforth apply to all Group subsidiaries overseas as well, and established the “Kao Responsible Care Policy” outlining individual RC activities under Kao’s “Basic Philosophy and Policies on the Environment and Safety” which form the basis for RC activities.

Moreover, Kao Group companies with manufacturing plants in Asia and chemical plants in Europe and North America in particular will continue systematizing and promoting activities not only in plants, but throughout the company. PT. Kao Indonesia Chemicals and Fatty Chemical (Malaysia) reported their activities in the meetings of the Committee for Responsible Care Promotion (held in Japan) in March and September 2012, respectively. Kao plans to include Europe and North America, making RC activities truly global, by 2015.

## Global

### Utilization of environmental safety database

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Kao has developed an overseas version of the Environmental & Safety Data Management System (KANCHAN System),\* and is expanding implementation to overseas subsidiaries, in a further effort to reduce both environmental impact and occupational accidents. Currently, data can only be entered by plants; the system will be expanded to allow input from offices and research labs as well.

Due to the modified accounting period implemented in 2012, data accumulation periods for statistical analysis span January through December from 2012 forward.

The KANCHAN System automatically calculates Kao’s total Greenhouse gas emissions, annual frequency and severity rate of occupational accidents, along with other data—practical information used in reducing our environmental impact and eliminating occupational accidents.

\* Environmental & Safety Data Management System (“KANCHAN” System)

Data shared among the Kao Group under this system includes those related to energy consumption, greenhouse gas emissions, soot and dust emissions, water consumption, wastewater amounts, wastewater concentration measurements, soil and groundwater measurements, PRTR material amounts and transfer and emissions, waste materials generated, discharged, and finally disposed of to landfill, occupational accident statistics, and traffic accident statistics.

## Kao Group in Japan

### Conducting Responsible Care Promotion Office’s audits

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The Responsible Care Promotion Office implements audits of RC activities each August (as of 2012), conducted by the individual divisions handling RC promotion to determine progress and current challenges. The divisions also audit their own activity units. These results are reported to the official serving as chairperson at the Committee for Responsible Care Promotion meeting held each September and help formulate the next year’s



## Kao Sustainability Report 2013

activity goals. In 2012, the individual divisions handling RC promotion conducted self-check in July, and the Responsible Care Promotion Office conducted audits in August. Although a few targets had not yet been reached, the audits identified no significant problems.

### ■ Results of audits by Responsible Care Promotion Office conducted in 2012

	Production & Engineering	R&D	Business Units	Corporate	Affiliates*
No. of questions	47	25	76	65	150
No. of items requiring continued observation	4	3	7	14	19
Average evaluation score (5-point scale)	4.81	4.96	4.89	4.77	4.75

\*Affiliates: Kanebo Cosmetics Inc., Kao Customer Marketing Co., Ltd., Kao Transport & Logistics Co., Ltd.

## Kao Group in Japan

### Implementing continuous RC education

The Responsible Care Promotion Office and RC promotion staff of the individual divisions in charge of RC promotion regularly provide RC education on ISO and conduct occupational safety and health activities for Kao's employees and the staff of its business partners.

In 2012, the Responsible Care Promotion Office held 22 RC training sessions for employees, with a total of 371 participants.

### ■ Results of RC education conducted in 2012\*

	Production & Engineering	R&D	Business Units	Corporate	Affiliates	Total
No. of training sessions	10	1	3	5	3	22
No. of participants	124	10	124	92	21	371

\*For Kao Group in Japan

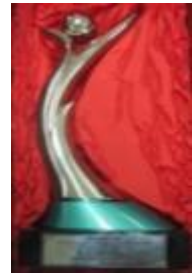
For details, refer to Kao's List of ISO Certifications:

[http://www.kao.com/jp/en/corp\\_csr/eco\\_activities\\_02\\_11.html](http://www.kao.com/jp/en/corp_csr/eco_activities_02_11.html)

## TOPICS PT. Kao Indonesia receives green rating in the Indonesian Ministry of Environment's "PROPER"\* program

To promote eco-efficiency throughout the nation, the Indonesian Ministry of Environment established a program known as "PROPER" to evaluate corporate environmental activities. The results are disclosed, with the Minister of Environment presenting the certificates. PROPER is comprised of 5 levels, each color-coded to indicate ascending levels of quality. PT. Kao Indonesia began striving for the second-highest rating of green ("excellent") in 2010, and succeeded in achieving that rating in the third year.

A green rating involves 100% compliance with environmental standards and three consecutive years of favorable CSR activities. PT. Kao Indonesia pioneered development of non-phosphorus detergent, has maintained ISO14000 certification, and has pursued initiatives involving energy and natural resource conservation as well as waste reduction. Moreover, PT. Kao Indonesia has engaged in tree planting activities and contributed trash compactors to benefit nearby schools and local communities, as well as conducted hand-washing programs at kindergartens. All of these activities factored into the green PROPER rating, putting PT. Kao Indonesia in the top 10% of approximately 1,300 major corporations which were evaluated for environmental activities. Construction of a second plant is scheduled for completion in Karawang in late 2013. These plants contribute to the company's community-oriented "Eco-Plants," and are part of PT. Kao Indonesia's continued initiatives as it aims for the uppermost gold PROPER rating in another three years.



Green rating trophy

\*PROPER (Performance Level Evaluation Program)

Indonesia's Ministry of Environment evaluates and ranks major corporations in a five-level program—from gold (the highest standard), down through green (excellent), blue (good), red (poor), and black (worst)—on the corporations' air quality and water quality conservation, hazardous waste management, and other factors.

To Be Closest to Consumers and Customers

## To Be Closest to Consumers and Customers

### Universal Design



With a diverse range of consumers in mind, we develop user-friendly products—making products easy for everyone to use—while we focus on the relationships between individuals, and between individuals and society, working to promote social inclusion. Kao also aims for barrier-free access to information, meeting the diverse needs of consumers everywhere.

### Communication with Consumers



We continue to strive for the enrichment of the lives of people and a sustainable society through the improvement of products and services, providing essential lifestyle information by telephone, e-mail, and interpersonal interactions.

Universal Design

## Universal Design

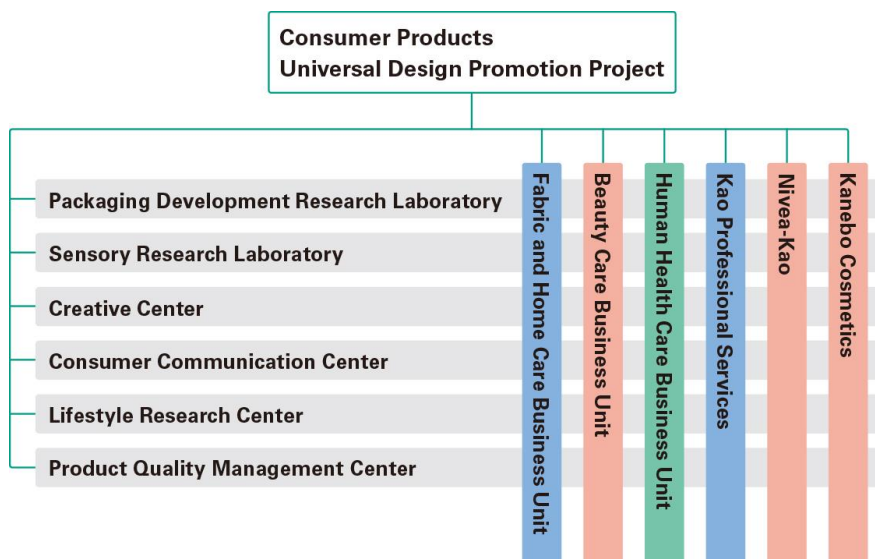
**With a diverse range of consumers in mind, we develop user-friendly products—making products easy for everyone to use—while we focus on the relationships between individuals, and between individuals and society, working to promote social inclusion. Kao also aims for barrier-free access to information, meeting the diverse needs of consumers everywhere.**

### Policies/goals/structures

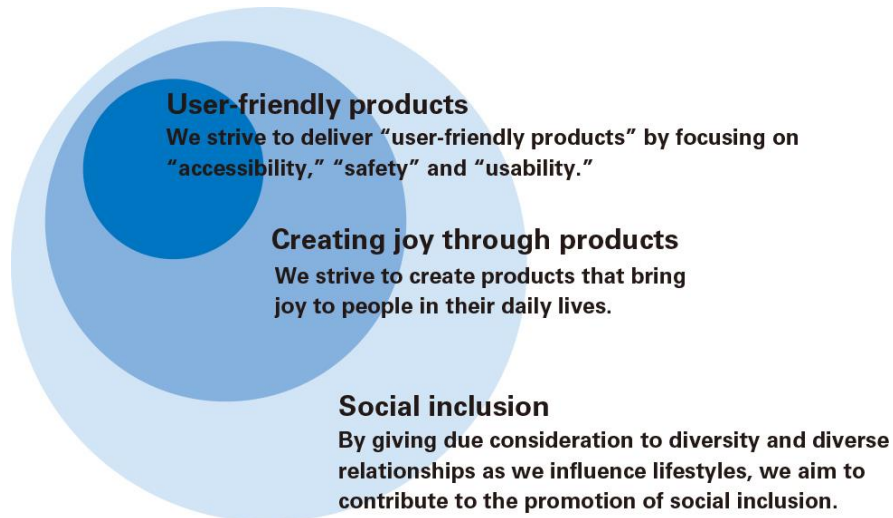
With “Consumer Driven” the foundation of our *Yoki-Monozukuri*, Kao has consistently expanded business based on products that are “easy for everyone to use.” Recently, changes in demographic composition and lifestyles, such as an aging population and more men participating in housework and childrearing, are creating a more diversified consumer group using Kao’s daily necessities and consumer goods. Providing easily-usable products is increasingly important as Kao expands to the global market, meeting the needs of people all over the world with diverse values and cultures.

To see a fuller corporate sharing and permeation of this concept, Kao launched the Consumer Products Universal Design Promotion Project in December 2010, with participants from related divisions across the company. The project encourages each division to share universal design issues concerning Kao products and updates on efforts to resolve these issues. We also visited consumer homes to gain direct understanding of their feelings and concerns toward certain products. The results helped us immensely in deepening our discussions and, ultimately, formulating Kao’s Guidelines of Universal Design.

### ■ Universal Design Promotion Project organization



## ■ Kao's Guidelines of Universal Design



Kao's Guidelines of Universal Design state that Kao strives to develop “user-friendly products” by focusing on “accessibility,” “safety” and “usability,” as well as to create the products that bring joy to people in their daily lives. By giving due consideration to diversity and diverse relationships, Kao aims to realize the enrichment of the lives of people and contribute to the promotion of social inclusion.

Kao strives to facilitate permeation of this concept throughout the company while using it as a guide to improve products and information availability. As part of this effort, we established the Active Senior Business Center in 2012, to promote business and product development across all business units, dedicated to serving the needs of older consumers.

## TOPICS

Kao received the Gold Award in the category of Business Strategy at the 4th International Conference for Universal Design in Fukuoka 2012

Kao received the Gold Award in the category of Business Strategy at the 4th International Conference for Universal Design in Fukuoka 2012, sponsored by the International Association for Universal Design (IAUD). This organization supports universal designs which may be enjoyed without regard to age, nationality, or disability. In 2010, IAUD began awarding ideas from groups and individuals aimed at realizing diffusion of universal design throughout society. Kao was awarded for its consumer-friendly *Yoki-Monozukuri*, represented for many years through development of innovations such as notches which help differentiate between shampoo and rinse containers and closed captioning television commercials.

Kao also had an exhibition booth at the event, where visitors could experience our innovations that differentiate between products, offer enhanced product usability, and help hearing-impaired elderly understand television commercials through subtitles.



2012 IAUD award ceremony



Kao's popular booth at the IAUD Conference

## Kao Group in Japan

### Examples of recent product improvement based on consumer feedback

#### Example 1. Improving refill product spouts

Kao added cutouts to the spouts of fabric softener and liquid detergent refill pouches to prevent spillage, while ensuring that the pouch could rest firmly on the original product container during refill. Kao also added a colored mark to indicate the spot where the pouch should rest. Moreover, spouts of the shampoo, conditioner, and body soap refill pouches are uniquely designed to fit exactly into the original product containers, allowing consumers to squeeze out every drop of the refill product without spillage.



Cutouts located near pouch spouts help keep the pouch rest steady on the product container. Color markings provide guidance.

#### Example 2. Improved lettering design on hair color containers

As use of *Blauné Foam Color* requires mixing two types of liquids, accurate reading of instructions is important. Kao doubled the surface area of the specially-designed label adhering to the container's curvature. The larger lettering facilitated easier reading of the instructions for product use. We also added an illustration demonstrating that vigorous shaking of the product would inhibit foaming, a problem about which Kao had received many inquiries in the past.



Prior product label (left)  
New product label featuring doubled surface area (right)

#### Example 3. Improved labeling on adult diaper package

We clarified intended users of our adult diapers with a label featuring an illustration and paired wording. As the sizes were previously difficult to differentiate, we changed the label color to pink for size M and blue for size L, and altered the lettering to UD font. Moreover, in order to facilitate easy future purchasing of the same product, we created a miniature square on the package—featuring the size, product name, and other information—which consumers can clip and take to the store.



## Kao Group in Japan

### Closed captioning television commercial

Although digitalization has enabled closed captioning of most television programs, attempts at providing closed captions for commercials, which occupy some 20% of airtime, have only recently begun. Kao continues initiatives in support of closed captioning. Closed captioning not only provides information concerning products to hearing-impaired viewers, it enables them to share common topics with friends and family and strengthen ties with society. Closed captioning is a vital service in various aspects of daily life, such as aiding the elderly who are hearing impaired and enabling use of television in public facilities where sound is inhibited.

In terms of the actual airing of Kao's closed captioning commercials, Kao surveyed the hearing impaired and their families, along with related organizations, incorporating their feedback into our research, yielding new broadcasting guidelines. Several television stations broadcast closed captioning commercials during programs sponsored by Kao. We will continue proactive initiatives to implement closed captioning commercials as a means of offering a wider range of individuals access to information. We continue proactive incorporation of closed captioning commercials, using the best methods available to relay information in a clear format to all viewers.

## Kao Group in Japan

### Making sales floors and shelves user-friendly for older consumers

Kao considers sales floor layouts in order to make purchasing easier for consumers. From fiscal 2011, Kao invested particular effort into these adjustments to assist older customers. We surveyed purchasing habits of older consumers at stores, noted the heights and locations of shelves they preferred, and concentrated the most frequently purchased items on those shelves. We also improved the size and shape of the font and lettering used in show cards and poster boards, aiming for universally-accessible sales corners. We enlisted the cooperation of stores in particular for our sales displays of household cleaners. Not only did customers tell us that shopping had become “much easier, and visually greatly improved,” but actual sales in many stores expanded, along with repeat customers.



Universally-accessible sales corner displaying household cleaners

## Kao Group in Japan

### Braille stickers for product differentiation

We provide Braille stickers for containers upon request to help visually impaired consumers distinguish different product containers. In addition to the Braille dots, stickers are printed with large black lettering, making them useful for elderly consumers as well as the visually impaired.

For household products, we have stickers indicating everything from “BODY SOAP” to “SHAMPOO,” “RINSE,” “FACIAL CLEANSER,” “MAKEUP REMOVER,” “TOOTHPASTE,” “TOILET,” “BATH,” and “CHLORINE-BASED.” Braille stickers for cosmetics clarify product type, usage conditions, target problem area,

color of lipstick and other makeup, and additional characteristics.



Braille labels used on cosmetics



Braille labels for use on household products

## Kao Group in Japan

### Product catalogue sites suitable for text-to-speech software

Pages in the online Product Catalog site introducing details such as product components and instructions for use, offer a text-to-speech software link, enabling customers to listen to the text, supplemented by descriptions of graphs, and the like.

洗濯機 水30Lに10g (10ml)

#### 一般タイプの洗たく機の場合

- 水量 65L ⇒ キャップ 1杯 (24g)
- 水量 55L ⇒ キャップ 0.8杯 (上の目盛り・20g)
- 水量 45L ⇒ キャップ 0.6杯 (太い部分の真ん中・16g)
- 水量 30L ⇒ キャップ 0.4杯 (下の目盛り・10g)

#### ドラム式洗たく機の場合

- 洗たく物量 6.0kg ⇒ キャップ 1杯 (24g)
- 洗たく物量 5.0kg ⇒ キャップ 0.8杯 (上の目盛り・20g)
- 洗たく物量 4.0kg ⇒ キャップ 0.6杯 (太い部分の真ん中・16g)
- 洗たく物量 2.0kg ⇒ キャップ 0.4杯 (下の目盛り・10g)

ドラム式 洗たく物量の 目安	一般タイプ 水量の 目安	使用量の目安 (キャップの目安)	
		1g=約1ml	
6.0 kg	65 L	1 杯 (24 g)	
5.0 kg	55 L	0.8 杯 (20 g)	
4.0 kg	45 L	0.6 杯 (16 g)	
2.0 kg	30 L	0.4 杯 (10 g)	

Product catalogue: example of chart transformed into sentence format. Chart content is shown in sentence format (with sentences read aloud).



## Kao Group in Japan

### Providing information to the Japan Braille Library's text-to-speech magazines

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Kao offers lifestyle information in *Home Life*, a monthly magazine published by the Japan Braille Library for its over 6,500 members. June 2012 featured Kao articles on “Cool-Biz” and saving energy at home, as well as avoiding ultraviolet rays, while the December 2012 issue offered lifestyle information on year-end housecleaning and tidying up after the New Year’s celebration in text-to-speech, narrated by a Kao employee.



A Kao employee narrates *Home Life*, providing lifestyle information

# Communication with Consumers

**We continue to strive for the enrichment of the lives of people and a sustainable society through the improvement of products and services, providing essential lifestyle information by telephone, e-mail, and interpersonal interactions.**

## Policies

Kao's Consumer Communication Center serves as its contact point with consumers, not only responding helpfully to specific comments and requests submitted by consumers in an "accurate, quick, and courteous" manner, but gaining a well-developed understanding of actual usage situations related through our customer's concerns and lifestyle habits.

## Goals

Kao aims to reflect consumer opinions and inquiries obtained to improve and develop its products and improve services by listening to consumers while fine-tuning its outgoing communications.

Kao also endeavors to provide a wide range of daily life information that is useful for everyone from children of the next generation to the elderly.

Kao promotes diverse educational activities by organizing various seminars and actively participating in events organized by administrative agencies. Since 2010, Kao has been providing in-school education support activities, including Environmental Education Program, Hand Washing Education Program and House Cleaning Education Program that are related to school curriculums. Kao aims to expand such opportunities, enabling us to communicate directly with more consumers.

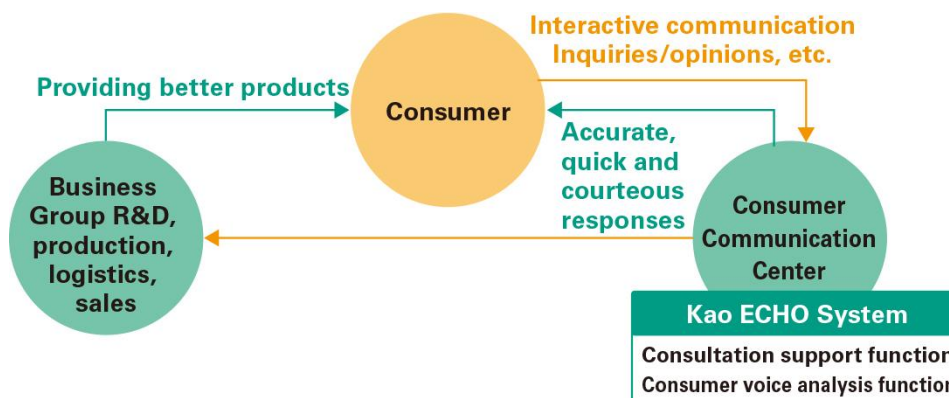
## Structures

Kao developed a database, the Kao ECHO System, in 1978. This system, which has been upgraded five times in the intervening years, enables effective communication between Kao and its consumers and provides a foundation for the entire company to share and utilize consumer feedback.

The database stores a wide range of information on all Kao products, ranging from basic product information to improvement histories and daily lifestyle information. By accessing this information, staff at the Consumer Communication Center can respond to consumer inquiries in a prompt and appropriate manner. In addition, while taking appropriate measures to protect personal information, the system makes a list of all consumer inquiries received each day and makes it available to all relevant divisions the following morning.

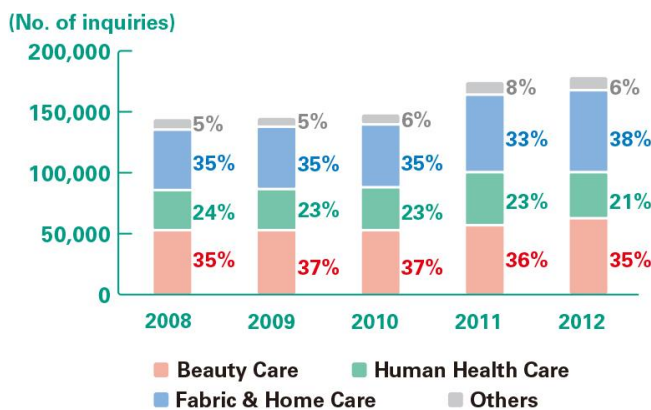
Based on this data, individual divisions analyze the trends in inquiries and the incidence (percentage of the number of inquiries to the number of pieces shipped) by product, and use the results in product development, marketing and quality improvement activities.

## ■ Mechanism to reflect consumer feedback in products



**Number of consumer inquiries that we received by phone and e-mail in fiscal 2012:**  
 Approximately 176,000 inquiries  
 (101% compared to the previous year)

## ■ Number of consumer inquiries (data for Kao and Nivea-Kao)



Because fiscal 2012 was only 9 months (April through December) due to a change in the fiscal year end, figures for January through March are duplicated in the tabulation covering January through December, 2012.

## Kao Group in Japan

### Providing information on the Kao website

Kao utilizes its website to respond to consumer inquiries, providing detailed and timely information. Our current focus is making the information printed on each product publicly available on the website.

The product catalog site provides details such as product components, usage, and product warnings, matching products with consumer needs. In particular, when improved products are launched, we describe the new enhancements in detail for regular users. We are also adding text-to-speech software to the website, enabling visually impaired consumers to listen to the text, supplemented by descriptions of graphs and the like. As our top priority is consumer safety and comfort, the website also provides essential information, such as the importance of a patch test on one's skin before using hair color, the proper use of aerosol products, and emergency treatment for when a product is accidentally ingested.

This information is also provided on our mobile site for the convenience of viewing on a cell phone.

## Inquiries:

The Customer Inquiry page offers numerous contact points reflecting the type of inquiry. Upon receiving several similar inquiries, we then publish the response as a specific topic, adding it to the Q&A site banner and other locations for quick resolution of customer concerns. In November and December 2012, the increase in food poisoning due to a norovirus outbreak led to an increase in reader access to Q&A concerning infection prevention measures.



## Inquiries

PC: <http://www.kao.com/jp/soudan/>

Mobile: <http://m.kao.com/jp/soudan>

## Products Q&A:

This is a compilation of the many inquiries received from our customers, in question and answer format.

In 2012, we expanded the wealth of information available, in particular updating detailed information concerning prevention of skin allergies due to hair coloring, including a link to the Japan Hair Color Industry Association.

Links to the product catalog provide a rich database of additional detailed information with a display of actual products for easy searching.



Products Q&A example

## Products Q&A

<http://www.kao.com/jp/qa/index.html>

## Product catalog:

Kao's consumer product catalog site offers the most complete compilation of all the information our customers may need—a sequential list of information appearing on package labels from some 1,100 items.

The catalog promotes safe use of Kao products, listing essential information such as handling and usage for hair color and aerosol products and “Emergency Treatment SOS,” a link consolidating various treatments for urgent situations including unintentional product ingestion.

For Fabric and Home Care products, Kao collaborates with industry associations to provide highly detailed ingredient information, supplementing the data displayed on product labels. As an example, a link to a Q&A entry listing scent strengths for softeners that include multiple fragrances helps us meet the needs of all consumers.

In addition to the introduction of new products, the catalog announces product discontinuation two months in advance.



Product Catalog example

## Product Catalog

<http://www.kao.com/jp/products/index.html>

## Information on discontinued products:

We continue to receive inquiries concerning products from loyal customers long after the product has been discontinued. We have therefore consolidated information concerning all discontinued products in a dedicated publication—the product catalog for discontinued products.

Information on Discontinued Products

<http://www.kao.com/jp/products/haishihin/>



Example of discontinued product announcement

## Kao Group in Japan

### Interactive events

Among our interactions with various stakeholders, Kao recognizes the vital importance of activities directly involving the consumer to deepen mutual understanding. We proactively visit key consumer groups, consumer affairs administration offices, and local authorities handling consumer affairs to facilitate the exchange of information. We invite members of consumer groups to visit our plants and museums, encouraging the sharing of ideas. We also participate in events held for various consumer groups at the request of NPOs and governmental agencies.

In fiscal 2012, Kao hosted booths at several administrative body-sponsored seminars and consumer-education events such as “Lifestyle Festa Tokyo 2012,” sponsored by the Tokyo Metropolitan Government, and “Sumida Consumer Lifestyle Exhibition 2012,” held by Sumida Ward.

Kao continues to contribute to society through such beneficial activities.



Lifestyle Festa Tokyo 2012



Sumida Consumer Lifestyle Exhibition 2012

## Global

### Globalization of consumer support activities

Kao is applying consumer support skills honed in Japan to activities carried out by overseas Kao Group companies as well. Since 2005, representatives from the nine Kao Group companies located in Asia have been meeting to share consumer support skills and consultation information, leading to more conscientious and defined responses. In 2009, Kao developed and implemented the Global ECHO System, a functionally simplified version of the Kao ECHO System used in Japan, to fortify consultation support functions throughout the Kao Group, leading to faster consumer support as well as stronger collaboration among Kao Group companies on a global basis.

As global product marketing progresses, implementation of the global ECHO system is proving helpful in enhancing consumer support capabilities across the Kao Group.

## Product Quality Management

**Based on the consumer-driven principle of *Yoki-Monozukuri* spirit, Kao manages and assures the quality of products according to its own strict standards and rules at every step, from development to manufacturing, distribution and sales.**

### Policies

The foundation of Kao quality management activities is Kao's heartfelt *Yoki-Monozukuri* commitment from the perspective of its consumers/customers as expressed in the Mission of the Kao Way. Based on this, Kao has implemented quality management activities since its establishment with the participation of all employees in all phases, from research to product development, production, distribution and sales, with the aim of achieving the basic goals set for quality management activities.

For details, refer to the "Basic Policy for Quality Management Activities"

[http://www.kao.com/jp/en/corp\\_csr/safety\\_00.html](http://www.kao.com/jp/en/corp_csr/safety_00.html)

#### Basic Policy for Quality Management Activities

- Consumers/customers decide on the quality of the products
- Providing products that users wish to continue to use
- Ensuring safe usage for consumers/customers
- Legal compliance
- Transparency and accountability

### Structures

Kao has established Quality Assurance Committee to assess the reliability and validity of the corporate quality management system. The Quality Assurance Committee is a part of Kao's Internal Control Committee; its chair is the Executive Officer overseeing the Product Quality Management Division, while committee members represent the Business, Consumer Communication, R&D, Production, Procurement, and other related divisions, their function on the committee being to set corporate-wide goals and policies concerning quality assurance.

Each of the four business units impacted by goals set by the Quality Assurance Committee holds a quality assurance conference to assess progress in meeting quality assurance goals, finding solutions to problems, and conducting activities specific to its own business area.

Each month, the respective units also sponsor a quality improvement conference to assess quality issues with new, improved, and newly-marketed products, respectively.

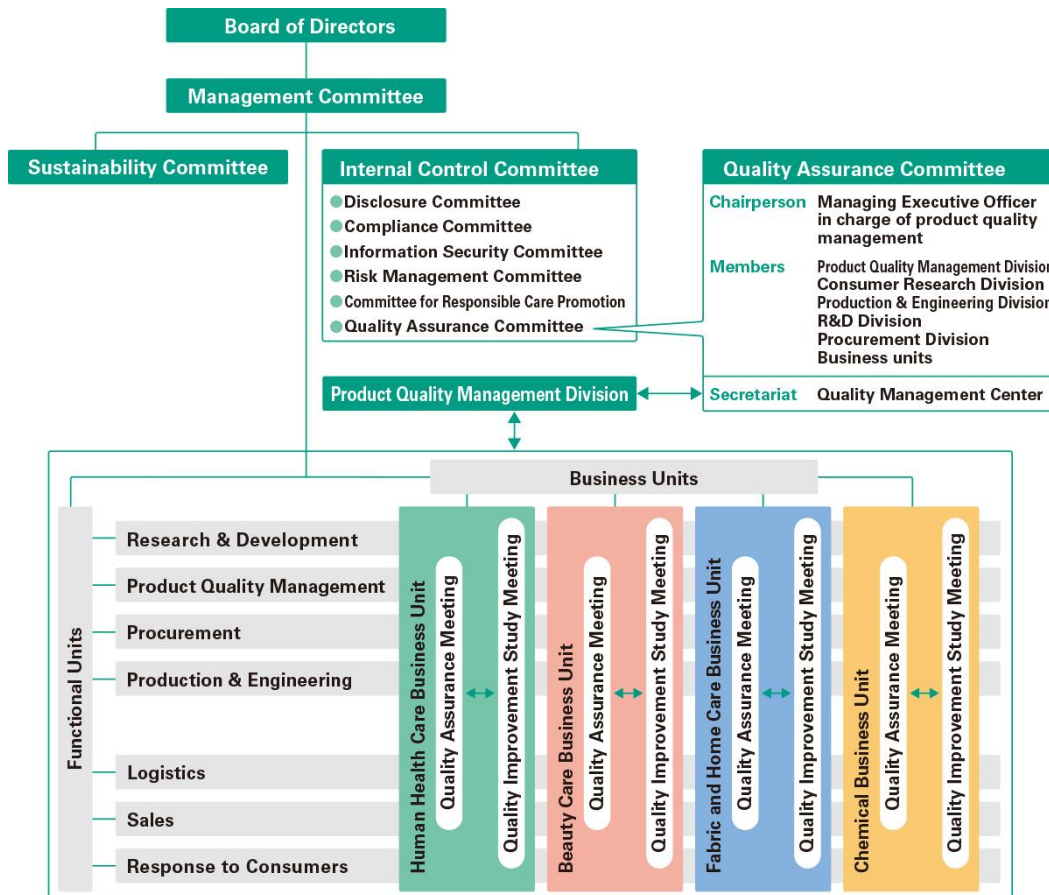
Each conference is attended by representatives from both the respective business units and the corporate divisions, with perspectives from both sides exchanged to promote matrix management. The Product Quality Management Division provides corporate-wide promotion and supervision of these quality assurance activities.

Kao strives daily to achieve *Yoki-Monozukuri*, but unforeseen problems and accidents can potentially affect product quality. Information about such problems is accumulated from customers, external organizations, and distribution sources by the Consumer Communication Center, which delivers an emergency report of any potentially serious or dangerous situations, from the consumer perspective, to the Product Quality Management Division. The Division then performs its own quick assessment of the potential for injury or escalation of the problem, informing top management and related divisions of any urgent or serious quality issues. Kao strives to

# Kao Sustainability Report 2013

maintain policies for swift fulfillment of its social, quality assurance, and disclosure responsibilities as a manufacturer not only to related in-house divisions, but also to government, related agencies, and distribution sources.

## Product quality management system



## Global

### Safety Assessment and Guarantee

Striving for the wholehearted satisfaction and enrichment of the lives of people, Kao uses cutting-edge technology to create high product value. In realizing that value, we see guaranteeing the safety of all our products as our primary social responsibility. To that end, we consider basic safety guarantees as issuing updated safety information, pursuing alternatives to animal testing, and conducting final safety verification on humans. Kao establishes strict corporate standards governing the safety of products for human use and the effect of products on the environment, scientifically evaluating the safety of all raw materials and products in our safety research division.

Furthermore, each department maintains responsibility for, and verifies, the components, characteristics, directions for usage, warning labels, and advertisement wording to ensure that products can be used safely and without misunderstanding. Whenever products feature new uses or significant improvements, Product Quality

Management Division, Consumer Communication Division, R&D, and related divisions liaise to discuss potential consumer misunderstanding upon product selection or usage, as well as risk variations dependent on nation, race, or environment, from a social science point of view.

### Global

#### Evaluating the safety of alternatives to animal testing

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For the past 20 years, since the late 1980s, Kao has proactively explored technologies providing alternatives to animal testing. Kao Corporation and Kanebo Cosmetics, Inc., which conduct cosmetics R&D, currently employ these alternatives. We also continue to research new technologies. Specifically, in skin sensitization testing, cell assays (h-CLAT) jointly developed with Shiseido Co., Ltd. began verification at an alternative testing center in Europe in 2010. The process concluded in 2012, and preparation for peer review began in December 2012. Moreover, Japan has completed verification of cells used in STE (short-term exposure) eye irritation trials, with international review scheduled for 2013. Additionally, Kao is also participating—and maintaining a key role—in a project exploring alternatives to animal testing pursued by Cosmetics Europe, an association representing the cosmetics and personal care industry.

Kao will continue cooperating with industry groups, our competitors, and others, both within Japan and overseas, in global initiatives supporting alternatives to animal testing.

### Global

#### Consumer-driven quality management activities

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Kao's Basic Policy on Quality Management is established on the foundation of our consumer-driven principle that "consumers/customers decide on the quality of the products," with the Product Quality Management Division overseeing our product quality management system. We establish strict policies governing each stage seen by a product, from R&D, production, distribution, sales and consumer usage through to storage and disposal, promoting product quality management activities throughout the entire product lifecycle.

From research through development, the R&D and product development divisions verify product technology and safety, while the production division confirms whether the intended product performance can be preserved during actual mass production, and other issues.

Kao's system ensures that the display and wording on product packaging and manuals are verified from safety, legal compliance, and comprehensibility angles, with a verification system that requires approval from related divisions concerning consumer communication, trademark, and Pharmaceutical Affairs Law, for each and every product. Kao verifies a host of product issues, such as clear labeling to prevent consumers unintended purchasing of items, problem-free storage in homes by consumers, potential for successful use through the product's natural lifetime, and whether product refills are easy to use.

For product advertising, we hold a meeting attended by representatives from our divisions in charge of advertising, product development, marketing, and related divisions. In addition, we require our sales staff to operate in compliance with relevant laws with regard to all advertising activities, including negotiations and point-of-purchase activities.



## Kao Group in Japan

### Implementing an overhaul of quality issues

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In fiscal 2012, we continued our overhaul of quality issues, reviewing those brought to our attention by consumers over the past four years and dealing with issues against which we failed to take sufficient measures. In particular, we resolved issues regarding fabric care products, such as enhancing laundry rinsing characteristics, improving scents in products such as softeners and deodorants, and addressing bathtub plug damage due to tub cleanser. The production division also continued its comprehensive review of quality risks, conducting cleaning, sterilization, and anti-bacterial activities at manufacturing facilities.

## Global

### Conducting quality management audits/self-audits

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The Product Quality Management Division thoroughly understands Kao Group product quality audit activities and implements audits and self-audits. As part of Kao's external audits in Japan, we received the audits for prefectural governments inspected authorization updates, license applications, and manufacturing and sales businesses per the Pharmaceutical Affairs Act, and we successfully passed such inspections. Kao Group companies in Asia, Europe and Americas also received the external and internal audits of ISO9001 systems, and product quality meetings with contract manufacturers and raw materials producers were conducted.

## Kao Group in Japan

### Implementation of thorough product quality management for food products

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Kao's health food products, the result of vast research on lipid nutrition metabolism and other attributes, contribute to healthy, satisfying lifestyle habits. We conduct the following product quality management activities so that such delicious foods can contribute to the health of the customer.

1. Evaluations of the safety and effectiveness of products are conducted both independently and in cooperation with external experts, and even after launch, products are subjected to numerous evaluations.
2. Kao practices thorough quality management of all aspects of our work process from raw materials to manufacturing, and ensures traceability\*<sup>1</sup> that spans the entire course, from original materials\*<sup>2</sup> procurement overseas to the final shipping destination.
3. Kao focuses on managing product freshness through its production and distribution phases, including the management of "best-before" dates of raw materials, based on a system that prevents shipment of items exceeding a set post-manufacturing period.

Tea leaves, which are raw materials, have undergone radiation inspections since 2011. Expanding on this, all beverages in the *Healthya* series, which are designated Foods for Specified Health Use, have also been checked for radioactivity since 2012 in line with management standards adhering to new values indicated by food hygiene laws. The results of these inspections are posted on the Kao website.

Information about *Econa* can be found at this link:

<http://www.kao.co.jp/econa/>

\*1 Traceability

Verifying the original materials, use, manufacturing history, and location of products and raw materials using records

\*2 Original materials

Primary agriculture, livestock, and fishery products. For example, soybeans are an original material of cooking oil.

## Kao Group in Japan

### Disclosing information on country of origin and allergenic substances contained in food products on Kao's website

Kao actively provides information regarding food product safety. On its website, Kao lists the ingredients of each of its products, as well as provides component analyses and warnings regarding allergenic substances. We are also prepared to respond quickly to inquiries about the country of origin of major ingredients and original materials. In response to frequent requests, Kao has provided additional information on specific countries of origin on our website as a matter of course.



Healthy Green Tea product information page

Protecting the Environment throughout the Product Lifecycle

## Protecting the Environment throughout the Product Lifecycle

### “eco together” with Consumers/Customers: Development of Environmentally-conscious Products



To reduce environmental impact throughout the product lifecycle, we are promoting implementation of “eco together” activities with various stakeholders.

### Product Lifecycle and Environmental Impact



Kao is pursuing efficient resource utilization throughout the product lifecycle, as well as technology to achieve further resource and energy saving.

### Environmental Targets and Results



Kao is working to achieve its three priority objectives: global warming prevention, waste reduction and CSR procurement.

### Global Warming Prevention



We are engaged in energy-saving activities in a variety of settings, including production, distribution and office work.

### Sound Chemical Management



Kao has been working actively to promote the sound chemical management in accordance with SAICM.

### Optimum Management of Waste Materials



Kao is reducing the environmental impact resulting from its business activities by minimizing wastes throughout the supply chain and through appropriate waste treatment.

### Water and Soil Protection



Kao’s business activities are closely associated with water and we recognize that water is a precious resource. We continually strive to conserve water, lessening the environmental impact when we return it to nature.

### Measures for Biodiversity



Kao realizes that our business benefits from the gifts of biodiversity, and we strive to conserve biodiversity in our business and community activities.

### Environmental Communication



We incorporate input from various stakeholders to improve our environmental activities in a variety of settings and opportunities.

### Environmental Accounting



To efficiently and effectively promote its environmental activities, Kao quantifies the costs and results of those activities in numerical terms.

“eco together” with Consumers/Customers: Development of Environmentally-conscious Products

## “eco together” with Consumers/Customers: Development of Environmentally-conscious Products

**To reduce environmental impact throughout the product lifecycle, we are promoting implementation of “eco together” activities with various stakeholders.**

### Goals

#### Kao Environmental Statement

In 2009, Kao announced the Kao Environmental Statement and set the 2020 Medium-term Objectives, and is promoting efforts to achieve those objectives. To reduce environmental impact throughout the product lifecycle, from materials procurement, manufacturing, to distribution, sales, use, and final disposal, we are promoting three types of “eco together” activities with various stakeholders, including consumers/customers, business partners, and society.

There are four Medium-Term Objectives. For additional details concerning two of these objectives (Sound Chemical Management and Measures for Biodiversity) please refer to the following pages.

#### **Kao Environmental Statement: 2020 Medium-term Objectives**

1. CO<sub>2</sub>  
Consumer products: 35% reduction [within Japan]  
(across product life cycle, per unit sales in Japan, relative to fiscal 2005)
2. Water  
Water consumption during product use: 30% reduction  
[within Japan]  
(per unit sales in Japan, relative to fiscal 2005)
3. Chemical substances  
Active implementation of the Strategic Approach to International Chemicals Management (SAICM) to promote sound chemical management
4. Biodiversity  
Implementation of measures to protect biodiversity through responsible raw materials procurement and other measures

[> p. 82 “Protecting the Environment throughout the Product Lifecycle > Sound Chemical Management”](#)

[> p. 95 “Protecting the Environment throughout the Product Lifecycle > Measures for Biodiversity”](#)

Activities supporting achievement of our Medium-term Objectives are being promoted primarily by the Eco-Strategy Committee.

## Kao Group in Japan

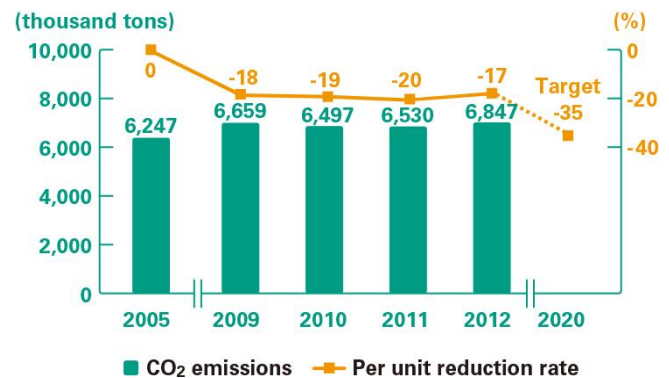
### 1. CO<sub>2</sub>

#### ●CO<sub>2</sub> reduction across the entire product lifecycle

We are aiming for a 35% reduction in CO<sub>2</sub> emissions for consumer products of Kao Japan by 2020 (per unit of sales relative to fiscal 2005). In 2012, CO<sub>2</sub> reduction reached 17%. To reduce CO<sub>2</sub> emissions, we are engaged in a variety of efforts throughout the product lifecycle, from materials procurement to manufacturing, distribution, sales, use, and final disposal.

- CO<sub>2</sub> emissions throughout the entire lifecycle of products are defined in this report as the total of emissions from production and distribution, and those from other stages calculated by multiplying lifecycle emissions, excluding those from production and distribution, of individual products by their annual sales quantity.
- Until 2011, totals were calculated from April through the following March. Due to a change in the fiscal year end to December which took effect in 2012, totals from 2012 onward are calculated from January through December, with January through March 2012 figures being duplicated.
- Some data entries through 2005 have been retroactively modified.

#### ■Changes in CO<sub>2</sub> emissions throughout the lifecycle of products★



#### ●Container and packaging initiatives

Kao aims to reduce the environmental impact imposed by containers and packaging, supports product development technology from the perspective of the 4Rs: Reduce, Renewable, Reuse, and Recycle.

In terms of “Reduce,” we welcome even minor successes in lightening product weight—for example, by making bottle walls thinner, concentrating products for more compactness, or downsizing products, all aimed at lessening overall packaging.

Our “Renewable” initiatives include converting from petroleum-based resin to renewable plant-derived raw materials such as polylactide and bio-polyethylene.

Initiative to “Reuse” products include proactive development of refill and replacement products to allow reuse of original containers.

“Recycle” efforts involve proactive efforts to use recycled materials such as recycled paper and recycled resin.

Kao’s Consumer Products business has been pursuing ways to reduce CO<sub>2</sub> emissions from containers and packaging since 2009. Packaging used in all products has been reevaluated, with efforts to shift away from heavy dependence upon plastics to materials, such as paper, which produce lower CO<sub>2</sub> emissions. We are also expanding development of refill and replacement products to items of rather small amount, such as facial cleansers. By reducing use of cardboard, Kao is aiming to cut annual CO<sub>2</sub> emissions by 5,000 tons. We also launched refill products of skin lotion, and shifted exterior packaging of lipsticks from plastic to paper.

Kao is aiming for a 10% reduction in packaging-generated CO<sub>2</sub> emissions by 2013 (compared to fiscal 2008 figures). As a result of these initiatives, at the end of December 2012, Kao’s emissions reductions stood at 6%.

## ■ Changes in containers and packaging materials used\* (Unit: tons)

	2008	2009	2010	2011	2012
Plastic	55,000	56,500	53,600	53,100	54,300
Paper	21,600	21,300	19,300	17,900	17,400
Cardboard	71,700	70,600	70,500	69,300	69,700
Others	2,700	2,300	2,000	2,000	1,900
Total	151,000	150,700	145,400	142,300	143,300

\*Scope of data: Kao Corporation

\*Until 2011, totals were calculated from April through the following March. Due to a change in the fiscal year end to December which took effect in 2012, totals from 2012 onward are calculated from January through December, with January through March 2012 figures being duplicated.

## TOPICS Development of refill pouch for powdered laundry detergent

In April 2013, Kao introduced a newly developed refill pouch for *Attack Highly-Active Bio-EX* powdered laundry detergent. Both box and spoon are reusable, representing an approximately 60% reduction in CO<sub>2</sub> output, and a 90% reduction in waste material weight, compared to the original product. The change not only reflects a reduced environmental burden, but also an innovation in the product itself, as the refill pouch is placed inside the original box, decreasing scattering and loss of product upon refilling.



Attack Highly-Active Bio-EX refill pouch



Reusable box and spoon result in roughly 90% less waste weight



## TOPICS Kao's Quickle Wiper receives Daily Necessities and General Merchandise Packaging Category Award at 2012 Japan Packaging Contest

The 2012 Japan Packaging Contest, sponsored by the Japan Packaging Institute to commend outstanding packaging and encourage broader development of packaging technology, recognized *Quickle Wiper* with an award in the Daily Necessities and General Merchandise Packaging Category. Modified materials and enhanced downsizing yielded about a 40% reduction in CO<sub>2</sub> emissions compared to previous packaging, with separation of paper and plastic upon final disposal greatly simplified. Meanwhile, a large “window” in the packaging allows consumers easy grasp of the product’s characteristics during shopping, while a large pull-tag allows users to open the package seal easily.



Quickle Wiper

## Kao Group in Japan

### 2. Water consumed in the use of Kao products

Kao aims to achieve reductions in water usage through development of water-saving products, specifically targeting a 30% reduction in water consumed with the use of consumer products by 2020 (per unit sales relative to fiscal 2005). In 2012, a 20% reduction had been achieved.

In 2009, Kao marketed *Attack Neo* as a water-saving product, employing ultra-concentration technology that brings the necessary number of laundry rinse cycles to one; consumers achieve savings not only in water, but also in electricity and time. The series continued to expand with a succession of water-saving products: *Attack Neo Bio-EX Power*, *Attack Neo Anti-bacterial-EX Power*, *Funwari New Beads Neo*, and other products enriching the series. We have also provided in-store consumer introductions to *Merit Shampoo*, which features a component allowing swift rinsing away of lather. The shampoo cuts rinse water by approximately 20% when compared to the original version. Kao is using this opportunity to educate consumers about the “Eco-shampoo skill,” which require less water usage.

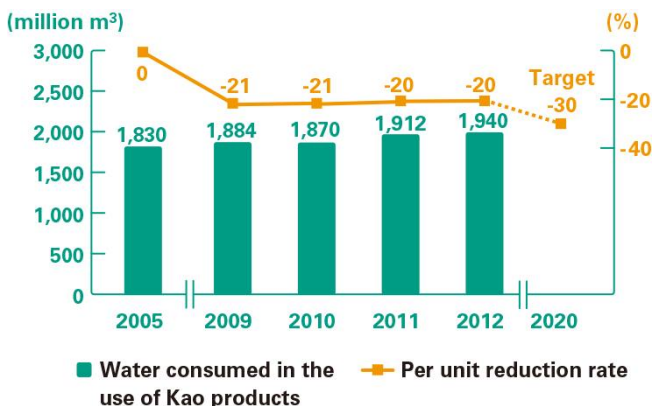


Attack Neo Bio-EX Power

#### Eco-shampoo skill

<http://www.kao.co.jp/merit/eco>

#### Changes in water consumption★



\* Water consumption during Kao product use is defined as the amount of water used during a life of individual consumer products multiplied by their annual sales quantity.

\* Until 2011, totals were calculated from April through the following March. Due to a change in the fiscal year end to December which took effect in 2012, totals from 2012 onward are calculated from January through December, with January through March 2012 figures being duplicated.

## TOPICS Water-saving campaign, conducted jointly with a Chinese governmental agency

Recently, water shortages have become a serious social problem in China. In 2012 and again in 2013, Kao (China) Holding Co., Ltd. promoted “China’s nationwide cleanliness and water-saving Initiatives” jointly with the Center for Environmental Education and Communications of the Ministry of Environmental Protection.

The initiative aimed at “saving 10,000 liters of water annually per household,” and paired the Chinese government’s efforts to heighten public interest in water conservation with Kao’s desire to introduce “eco together” activities through sales of *Attack Instant Clean Liquid Detergent*, a laundry detergent helping consumers conserve time and water due to fewer rinse cycles.

In March 2012, the two-day initiative was held in Beijing and Shanghai, followed by a similar event in Chengdu in April 2012. In 2013, the event was held in Beijing in March, and in Guangzhou, Shanghai in April as a two-day initiative stressing water conservation and the importance of water as a resource. The event was attended by approximately 50,000 people in 2012, and by 100,000 in 2013, with participants enjoying panel displays, family games, a display of works from the Kao International Environment Painting Contest for Children, and a live demonstration of laundering using *Attack Instant Clean Liquid Detergent*. The activities surrounding the initiative were designed to make learning about water conservation enjoyable and easy. Student and employee volunteers worked to set up the event. Many positive comments were heard from participants, such as, “We learned that there are many ways to achieve water conservation even in the home, and we would like to contribute to water conservation too.”

Through events like this, Kao hopes to promote not only products, but also daily lifestyle sanitation and water conservation to contribute to the realization of an “eco lifestyle culture” in the Chinese society.



Opening ceremony for the Beijing 2013 water conservation campaign



Participants earnestly learn about water conservation

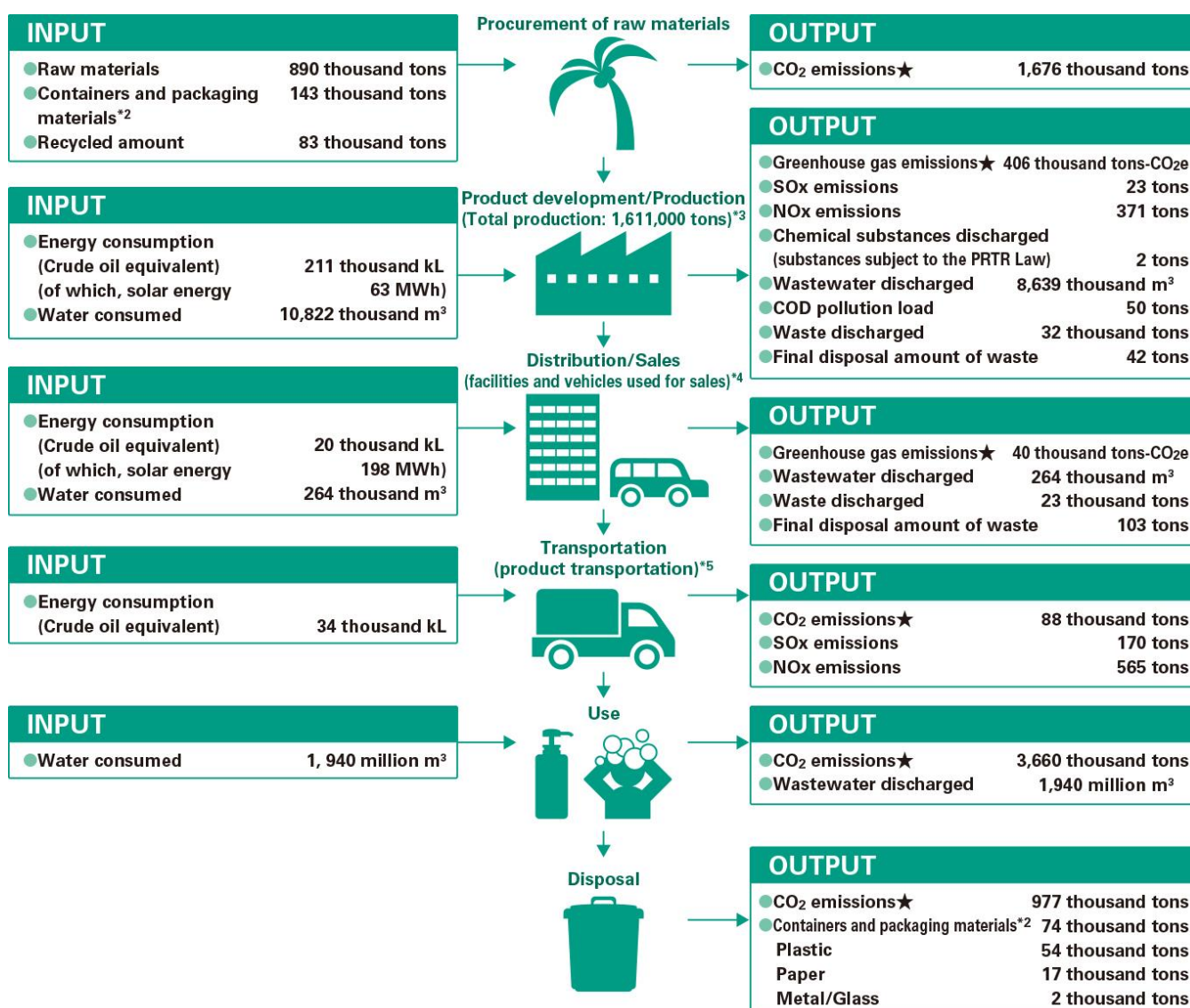


## Product Lifecycle and Environmental Impact

Kao is pursuing efficient resource utilization throughout the product lifecycle, as well as technology to achieve further resource and energy saving.

### Kao Group in Japan

2012 business operations and environmental impact (Kao Group in Japan)<sup>\*1</sup>



\*1 Total for the period covering January to December 2012.

\*2 Figures for Kao Corporation only.

\*3 Figures include all production sites of Kao Group in Japan.

\*4 Figures for all non-production sites (including training facilities, company dormitories, etc.) of Kao Group in Japan.

\*5 Environmental impact during distribution of consumer products and industrial products from plants to distribution bases and during distribution of raw materials, etc.

## INPUT

### ▼Raw materials

The amount of raw materials directly used to manufacture products (excluding containers and packaging materials and fuel)

### ▼Containers and packaging materials

Total amount of containers and packaging materials used for products sold (including cardboard)

### ▼Recycled amount

Of the waste generated from production and R&D activities, the amount that is recycled within Kao

### ▼Energy consumption (product development/production)

Amount of energy consumed at production sites

### ▼Energy consumption (distribution/sales [facilities and vehicles used for sales])

Amount of energy consumed at offices and other facilities and for vehicles (used for sales activities) in the distribution and sales divisions

### ▼Energy consumption (transportation [product transportation])

Amount of energy consumed during transportation of consumer products (from a plant to distribution base), industrial products, raw materials, etc.

### ▼Water consumption

Industrial water, tap water, well water and rain water consumed

## OUTPUT

### ▼Greenhouse gas emissions

Amount (CO<sub>2</sub> equivalent) of greenhouse gas (the six gases specified in the Kyoto Protocol) emissions generated from business activities

### ▼SOx emissions

Total amount of SOx emissions from smoke-and-soot-emitting facilities and transportation

### ▼NOx emissions

Total amount of NOx emissions from smoke-and-soot-emitting facilities and transportation

### ▼Chemical substances discharged

Amount of substances subject to the PRTR Law discharged into the air and public water

### ▼Wastewater discharged

Sum of the wastewater discharged from production sites, distribution and sales offices and that associated with the use of consumer products

### ▼COD pollution load

Amount of COD pollution load in wastewater

### ▼Waste discharged and final landfill disposal amount of waste

Amount of waste from production sites, distribution and sales offices, and other facilities that is sold or entrusted as waste or recyclable materials to waste treatment companies, and the amount of waste put for final landfill disposal.

### ▼CO<sub>2</sub>

Emissions from producing raw materials, consuming energy and those generated upon decomposition of ingredients

### ▼Containers and packaging materials

Total amount of containers and packaging materials (excluding cardboard) used for products sold

## Environmental Targets and Results

**Kao is working to achieve its three priority objectives: global warming prevention, waste reduction and CSR procurement.**

Goals

Kao Group in Japan

### 2012 results and targets for the future (Responsible Care Activities)

Environmental activities were implemented based on the 2012 targets formulated by backcasting from the 2015 targets.

#### ●2012 Results

Greenhouse gas emissions were reduced by 20% from the fiscal 1990 level, representing successful attainment of the 2012 target (a 16% reduction) and of the greenhouse gas emission reduction target of 6% specified by the Kyoto Protocol. However, the basic unit index for production sites could not be raised above 45% reduction (compared to a target of 46% reduction), due to a worsening of the emission factor of the electric power purchased, and a fall in value-added production, among other factors.

Regarding waste reduction, both the reduction targets of waste generation and final landfill disposal were met successfully. It was particularly noteworthy that, with regard to the zero emission index (the final landfill disposal rate), thanks to an expansion of the related initiatives to include the whole company, the whole-company rating improved from 0.12% in fiscal 2011 to 0.10% in 2012, meaning that the 2020 target of 0.1% or lower has already been met. In the future, Kao will continue to implement activities to ensure that the zero emission index is kept at this level.

## ■ Environmental activity targets and results (2012) \*1

Category	Index		Relevant division	2012 targets		2012 results	
Global warming prevention (greenhouse gas emissions)	Emissions*2 (vs. fiscal 1990)		Production sites	-16%	16% emission reduction	-22%	20% emission reduction
			Head Office, sales offices and distribution centers (facilities and sales vehicles)	-17%		-19%	
	Per unit (vs. fiscal 1990)		Production sites (per unit of value added*3)	-46%		-45%	
			Product transportation (per unit of sales volume*4)	-17%		-20%	
Waste reduction	Waste generation	Per unit*5 (vs. fiscal 2005)	Production sites and distribution centers	≤ -11%		-15%	
		Generation amount (vs. fiscal 2009)	Head Office, sales offices, etc.	≤ -12%		-12%	
	Final landfill disposal amount*6		Production sites and distribution centers	Zero emissions (final landfill disposal ratio*7 less than 0.1%)		0.06%	
				≤ 199 tons		84 tons	
		Head Office, sales offices, etc.	≤ 64 tons		61 tons		
CSR procurement*8	Green procurement ratio		Kao Corporation	100%	95% (Kao Group target)	99%	98%
			Kanebo Cosmetics Inc.	Expansion of survey targets		Expansion to include raw materials manufacturers	

\*1. Data collection period

January 1–December 31, 2012 (Due to a change in the fiscal year end to December which took effect in 2012. Data for January–March are also included in the total for FY2011).

\*2. Emissions

Emissions of greenhouse gases. Equals the CO<sub>2</sub> equivalent of the six greenhouse gases specified in the Kyoto Protocol.

\*3. Per unit of value added

Emissions of greenhouse gases per unit of value-added production output  
Value-added production output is the sales value of production output less variable production costs.

\*4. Per unit of sales volume

Emissions of greenhouse gases deriving from product transportation per unit of sales volume.

\*5. Per unit of production output

The sum of total production at production sites and sales weight divided by the amount of waste generated.

\*6. Final landfill disposal amount

The amount of ultimately unusable waste safely buried in landfill.

\*7. Final landfill disposal ratio

Calculated by dividing the amount of waste ultimately buried in landfill by the amount of waste generated and multiplying by 100.

\*8. CSR procurement

This refers to prioritized use of environmentally and/or socially responsible suppliers when procuring necessary production inputs. The green procurement ratio is the proportion of supplier production sites utilizing environmental management systems (EMS) at suppliers' sites covered by the environmental conservation surveys.

### Kao's zero emissions target value

When the amount of waste buried in landfill falls below 0.1% of the total waste generated, this is defined as zero emissions.

(Final landfill disposal amount ÷ waste generated × 100 = final landfill disposal ratio. If this ratio is < 0.1%, zero emission is attained.)

## ■ Environmental activity targets (2013 and 2020)

Kao has changed its targets from the divisional ones to be based on a company-wide, in terms of social responsibility of the company. Medium-term objectives were set for 2020 and, using a backcasting approach, targets were set for 2013.

Given the medium-term objective of reducing greenhouse gas emissions by 25% from the 1990 level (in absolute amount) by 2020, the target for 2013 was to reduce emissions by 20%. With respect to waste, targets were set for waste reduction and zero emissions (reduction in final landfill disposal). The target for 2020 is to achieve waste reduction of 38% (compared to 2005, on a per-unit of sales amount). The zero emissions target is to maintain the final landfill disposal ratio at 0.1% from 2013 onward.

The CSR procurement target involves raising the green procurement ratio to 100% by 2020; the target for 2013 has been set at 98%. It should be noted that, in order to facilitate effective appraisal of related activities, internal management indicators and target values have been set at the divisional level.

Category	Index	2013 targets	2020 targets
Prevention of global warming (greenhouse gas emissions)	Emissions* <sup>1</sup> (compared to FY1990)	20% reduction	25% reduction
Waste reduction	Waste generated per unit of sales amount* <sup>2</sup> (compared to FY2005)	33% reduction	38% reduction
	Final landfill disposal ratio* <sup>3</sup>	0.1% or lower	0.1% or lower
CSR procurement	Green procurement ratio* <sup>4</sup>	98%	100%* <sup>5</sup>

\*1. Emissions

Emissions of greenhouse gases. Equals the CO<sub>2</sub> equivalent of the six greenhouse gases specified in the Kyoto Protocol.

\*2. Waste generated per unit of sales amount

The amount of waste etc. generated per unit of sales.

\*3. Final landfill disposal ratio

Calculated by dividing the amount of waste ultimately buried in landfill by the amount of waste generated and multiplying by 100.

(The final landfill disposal amount is the amount of waste that cannot be recycled or repurposed and must finally be disposed of safely in a landfill)

\*4. Green procurement ratio

This is the percentage of the plants with which Kao does business that (according to the results of an environmental survey) have adopted EMS (Environmental Management System).

\*5. Global warming prevention, biodiversity and disaster prevention perspectives are considered to be added to the green procurement criteria; the goal is to achieve 100% compliance with the new criteria by 2020.

# Global Warming Prevention

**We are engaged in energy-saving activities in a variety of settings, including production, distribution and office work.**

### Policies/structures

In order to help reduce greenhouse gas emissions, which are closely linked to energy consumption and which are considered to be the biggest cause of global warming, Kao is implementing activities based on the following two strategies throughout its business operations.

1. Enhancing the efficiency of energy use  
(Energy-saving activities, adjusting distribution routes, etc.)
2. Using forms of energy that produce lower greenhouse gas emissions  
(Switching to “greener energy,” implementing modal shift, etc.)

### Kao Group in Japan

#### Production site efforts in 2012

As part of our activities to improve the efficiency of energy usage, starting from fiscal 2008 we began to adopt highly-efficient centrifugal water-chilling units (“turbo refrigerators”). In 2012, two high-efficiency turbo refrigerators were installed at Kao’s Tochigi Plant. Despite these measures, total energy consumption (in crude oil equivalent) at our production sites increased by 0.5 thousand kL in 2012 compared to the previous year, and as a result the basic unit index (value-added production) worsened by 0.1 point. The main reason for this situation was that Kao production sites were forced to rely on their own generators for power for long periods, by the requests of the electric power companies.

As regards the adoption of forms of energy that produce less in the way of greenhouse gas emissions, both the Toyohashi Plant and Kashima Plant have installed the infrastructure needed to operate on city gas, and began using city gas in 2012. As a result, 8 out of Kao’s 10 production sites in Japan are now using city gas. Unfortunately, with the greenhouse gas emission factor for the electric power purchased by Kao for its production sites having worsened considerably, overall greenhouse gas emissions (in carbon dioxide terms) increased by 18.0 thousand tons in 2012, causing the basic unit index (value-added production) to deteriorate by 2.4 points.

### Kao Group in Japan

#### Reducing environmental impact at offices

Kao is taking part in the Ministry of the Environment’s Challenge 25 Campaign, and working to reduce CO<sub>2</sub> emissions at offices as well.

In addition to launching the Cool Biz and Warm Biz campaigns in fiscal 2005, since fiscal 2010 we have reduced the number of available elevators outside morning rush hours, begun transitioning to the use of LED lighting, introduced a Building Energy Management System (BEMS)\* to monitor and eliminate unnecessary

# Kao Sustainability Report 2013

energy use, etc., and conducted various other activities to minimize environmental impact. In 2012, we also began installation of heat pumps in company dormitories. As a result of these activities, we were able to reduce energy consumption by the equivalent of 0.6 thousand kL of crude oil compared to the previous year. However, due to the worsening in the greenhouse gas emission factor for purchased electricity that was noted above, in terms of CO<sub>2</sub> emissions there was an increase of 3.0 thousand tons.

\*BEMS

A system that makes the amount of energy used by a building more easily visualizable, facilitating more efficient management.

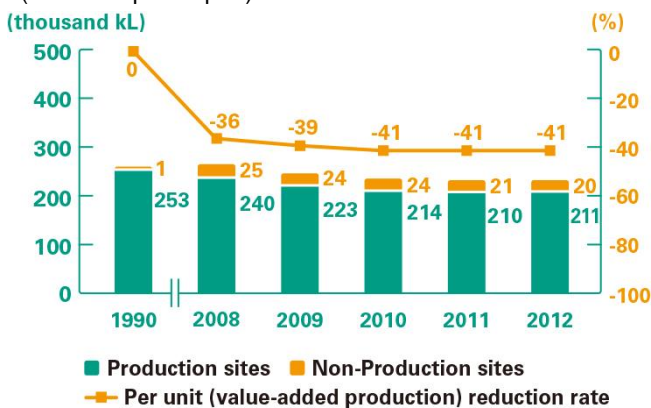
## Global

### Greenhouse gas emissions

In order to calculate energy consumption and greenhouse gas emission for Kao Group in Japan, we use the factors specified by Energy Saving Act/Law Concerning the Promotion of the Measures to Cope with Global Warming. For the production sites outside Japan we use the actual results of the countries or the factors announced by IPCC or IEA.

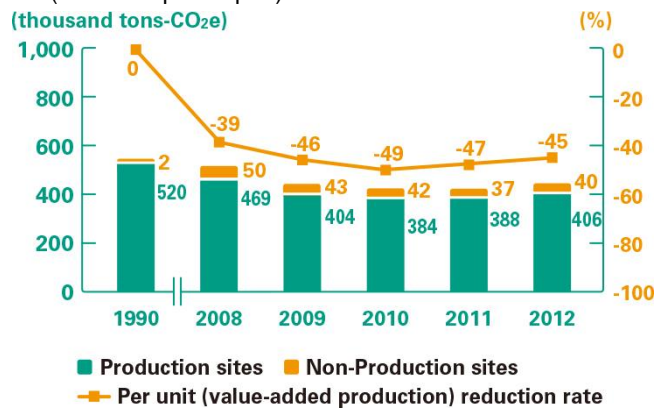
#### Changes in energy consumption

(Kao Group in Japan)★



#### Changes in GHG emissions

(Kao Group in Japan)★

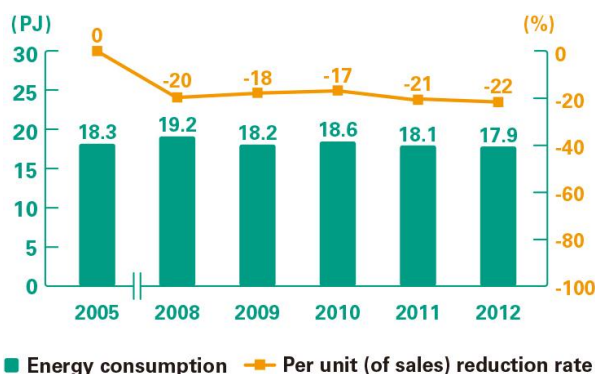


\* Until 2011, totals were calculated from April through the following March. Due to a change in the fiscal year end to December which took effect in 2012, totals from 2012 onward are calculated from January through December, with January through March 2012 figures being duplicated.

\* Per unit (value-added production) reduction rate is based on energy consumption at production sites.

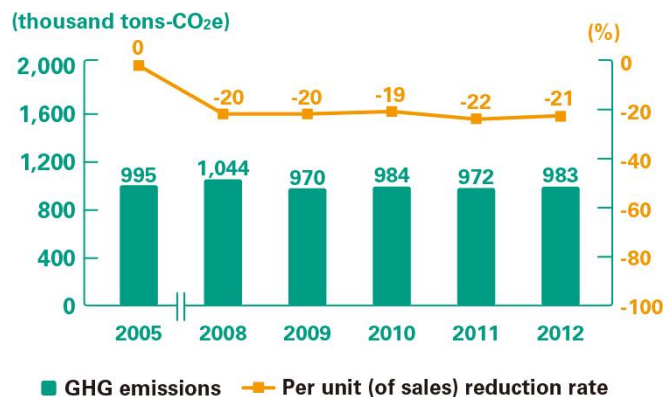
#### Changes in energy consumption

(Kao Group)★



#### Changes in GHG emissions

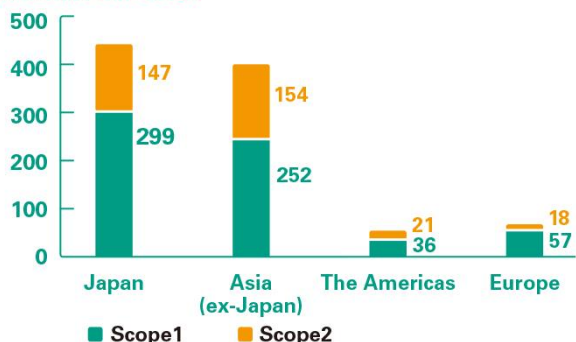
(Kao Group)★



# Kao Sustainability Report 2013

## GHG emissions (Kao Group) by scope and region★

(thousand tons-CO<sub>2</sub>e)



\* Basis of calculation: All Kao Group production sites, as well as non-production sites within Japan (including commercial vehicles)

\* Gases included: The six greenhouse gases specified by the Kyoto Protocol (only CO<sub>2</sub> in the cases of production sites outside Japan)

\* Emissions by Scope are calculated according to the definitions specified by the Greenhouse Gas Protocol Initiative

Scope 1: Greenhouse gases emitted by the enterprise or organization itself

Scope 2: Greenhouse gases emitted indirectly through the purchase of electric power, etc.

## Kao Group in Japan

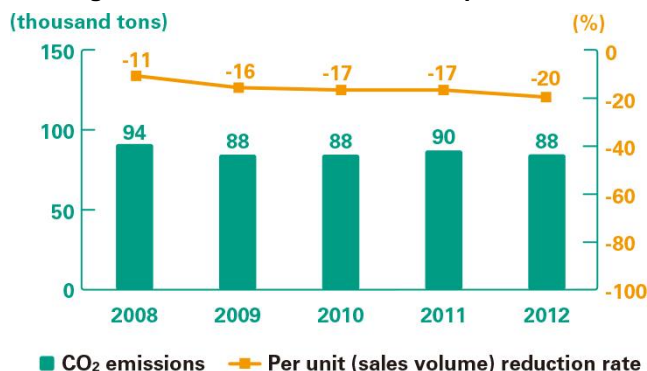
### Reducing environmental impact in transportation & distribution

In order to reduce the impact on the environment at the distribution stage, Kao has been implementing a combination of modal shift, measures to render distribution operations more efficient, and enhancement of fuel efficiency.

Regarding the modal shift measures that Kao has adopted, in 2005 Kao was certified as an “Eco-Rail Mark” enterprise, and in 2010 Kao’s Kawasaki Plant and Ehime Sanitary Products Company, Ltd. were both awarded “Eco-Ship Mark” certification; in addition, this year Kao’s *Attack Neo* liquid detergent and *Bioré U* body soap products were also awarded the “Eco-Rail Mark.”

With regard to the measures used to improve logistics efficiency, we have adopted larger-sized delivery vehicles for the delivery of goods from plants to distribution centers, more efficient use of space of the loading platforms, and optimization of the basic packaging units and of the frequency of deliveries. This change has not only made it possible to reduce the number of vehicles needed, it has also contributed to a reduction in the amount of work that needs to be performed within the distribution centers. Kao is also developing cooperative delivery in collaboration with other companies. Regarding the measures taken to improve fuel efficiency, Kao has been strengthening its existing efforts to enhance fuel efficiency by adjusting the allocation of vehicles for deliveries in urban areas (which are suited to the use of hybrid vehicles) and by fitting delivery vehicles with drive recorders.\* As a result of these initiatives, and of the gradual lessening in the after-effects of the Great East Japan Earthquake, 2012 saw an improvement in CO<sub>2</sub> emissions from

## Changes in CO<sub>2</sub> emissions from transportation★



\* Until 2011, totals were calculated from April through the following March. Due to a change in the fiscal year end to December which took effect in 2012, totals from 2012 onward are calculated from January through December, with January through March 2012 figures being duplicated.

\*CO<sub>2</sub> emissions were calculated using the emission coefficients defined by the Ministerial Ordinance based on the Act on Promotion of Global Warming Countermeasures and emission coefficients specified in the Calculation and Reporting Manual for Greenhouse Gas Emissions (Ministry of the Environment; Ministry of Economy, Trade and Industry).



## Kao Sustainability Report 2013

transportation compared to fiscal 2011, and CO<sub>2</sub> emissions per unit were reduced by 20% from the fiscal 1990 level, representing the successful achievement of the 2012 target (a 17% reduction compared to the fiscal 1990 level).

Kao's efforts to reduce the environmental impact of distribution activities have not been confined to reducing the amount of energy expended in transportation. Kao has also been implementing activities to save energy and conserve on resources in its sales operations, by reducing the amount of promotional materials displayed in retail outlets, expanding direct delivery to stores (simplifying and shortening distribution routes), and equipping sales personnel with smaller cars, etc.

In 2013, Kao's Atsugi Logistics Center, an environmentally-friendly distribution center, will begin operation. In the future, Kao will continue to implement additional initiatives aimed at contributing to the realization of a sustainable society.

\*Drive recorder

A system that monitors driving habits

### Kao Group overseas

#### Activities at overseas production sites (Malaysia)

In January 2012, Fatty Chemical (Malaysia) was awarded the Hibiscus Award—Malaysia's national environmental protection award, presented once every two years, which is awarded in recognition of outstanding environmental stewardship within Malaysia in any sector—for the second consecutive time. Fatty Chemical (Malaysia) has been working actively to implement Responsible Care activities, and has been adopting ongoing measures to save energy and conserve resources in its day-to-day operations.

In addition, in early 2012 Fatty Chemical (Malaysia) completed the construction of a new office building that conforms to Malaysia's Green Building Index (GBI) environmentally-conscious construction standard. The building incorporates a variety of functions and features that contribute to energy saving and resource conservation, including the use of solar power, automatic adjustment of interior lighting, recycling of rainwater (for toilet flushing, sprinkling, etc.), and rooftop greenification, etc. Going forward, we will redouble our efforts to reduce the impact on the environment.



Hibiscus Award ceremony



The new Fatty Chemical (Malaysia) offices

## Sound Chemical Management

**Kao has been working actively to promote the sound chemical management in accordance with SAICM.\***

### Policies

Kao enacted SAICM Promotion Policy and announced it on the Kao corporate website in May 2013. This Policy lays down a company-wide management approach that applies throughout the Kao Group, and constitutes the foundation for Kao's chemical management. Kao has been working to strengthen and promote chemical management in accordance with SAICM, based on this Policy.

#### SAICM Promotion Policy

(1) Development and Use of Safer and More Valuable Chemicals, and the Development of Manufacturing Processes with Less Environmental Impact

Kao promotes the development and use of chemicals which add greater value to society with lower risk to human health and to the environment, as well as the development of manufacturing processes with less environmental impact.

(2) Chemicals Management throughout the Entire Life Cycle of Chemicals based on Scientific Risk Assessment

Assessment methods which are both scientific and widely accepted by society are adopted to conduct risk assessments of the chemicals that Kao handles throughout their entire life cycle. Also, based on the risk evaluation results obtained, chemicals are appropriately handled and self-disciplined chemicals management is promoted.

(3) Compliance with Laws and Regulations on Chemicals and Voluntary Standards, and the Promotion of International Cooperation and Collaboration

Kao complies with the laws and regulations of each country involved in chemicals, international rules, and voluntary standards of related industry organizations in each country. Kao also promotes international cooperation and collaboration while working on actively participating in the Global Product Strategy ("GPS") which is the voluntary approach of chemical industry suggested by the International Council of Chemical Associations ("ICCA") to contribute to the realization of SAICM as well as adopting and developing systems of transferring international safety information such as the Globally Harmonized System of Classification and Labeling of Chemicals ("GHS") which was recommended by the United Nations.

(4) Promotion of Risk Communications with Stakeholders

Kao communicates safety information through various means so that customers, consumers and workers, etc. can be assured of their safety and can handle chemicals appropriately, and further promotes the prevention of accidents and environmental protection. Furthermore, in addition to endeavoring to disclose information as required to related stakeholders Kao also strives to deepen mutual understanding through communication and to obtain the support and trust of stakeholders.

\* SAICM: Strategic Approach to International Chemicals Management

## Structures

SAICM (Strategic Approach to International Chemicals Management) is a global-scale framework for minimizing the adverse effects of potentially harmful chemical substances on both human health and the environment by 2020. The goal of SAICM is “to ensure that, by 2020, the chemicals are used and produced in ways that minimize the significant adverse effects on human health and the environment, using transparent, science-based risk assessment procedures and science-based risk management procedures, taking into account the precautionary approach.”

On September 11, 2012, the Japanese government announced SAICM National Implementation Plan of Japan. According to this implementation plan, not only are enterprises required to comply with the law as it relates to chemical substances, they are also expected to implement voluntary efforts regarding chemicals management.

Even by comparison with Japan’s major chemical manufacturers, Kao has a large number of different chemical substances that it is required to manage; from a SAICM perspective, therefore, there are issues that Kao needs to address. With this in mind, in order to have effective voluntary activity for the achievement of the SAICM goals, on July 1, 2012 SAICM Promotion Committee was established under the Eco-Strategy Committee, with the Chemical Business Division, the R&D Division and the Production & Engineering Division playing a leading role.

In the SAICM Promotion Committee, three key issues have been identified that will constitute the main focus of Kao’s SAICM activities: (1) Risk assessment and risk management of chemical substances; (2) Lifecycle management of chemical substances; (3) Risk communication of chemical substances with stakeholders. Projects related to these key issues have been established under the SAICM Promotion Committee, and are being implemented and promoted.

Through these activities, Kao’s existing chemical management has been streamlined and made more readily visualizable in accordance with the SAICM approach. The results achieved are being disseminated through communication with stakeholders, and activities are being taken to further enhance the degree of trust that customers and consumers place in Kao.

### The activities undertaken by the SAICM Promotion Committee

The first Meeting of the SAICM Promotion Committee was held on August 23, 2012. In accordance with the lifecycle of chemical substances, representatives of a number of different chemicals management related units attended the Meeting, from the R&D and Production & Engineering Divisions through to the Chemical Business Unit, which is involved with usage and disposal of chemical products by customers. During the Meeting, an explanation was given regarding the key objectives relating to the establishment of the SAICM Promotion Committee, and proposals were discussed for activities targeting the three key issues for the SAICM promotion that had been identified.



The first meeting of the SAICM Promotion Committee

Given that Kao is a manufacturer that handles not only chemical products, but also consumer products, it was suggested that there was a need for Kao to consider its social accountability as a manufacturer, and to review the risk-related issues not only as an individual enterprise, but also in concert with the industry as a whole and with competent authorities, etc.

In addition, Ms. Mariko Nishizawa of Literacy Co., Ltd. was invited to present as an outside expert on

chemical risk communication. She made a presentation on the difficulties of risk communication in Japan, etc., under the title of “Strategic Stakeholder Communication.”

The SAICM Promotion Committee will hold on a regular basis, and will have an important role as the key committee responsible for company-wide strategy planning and implementation in regard to chemicals management.

## Management System

**Kao has created the original Comprehensive Management System for Chemicals and is realizing enhanced product quality, compliance and safety management.**

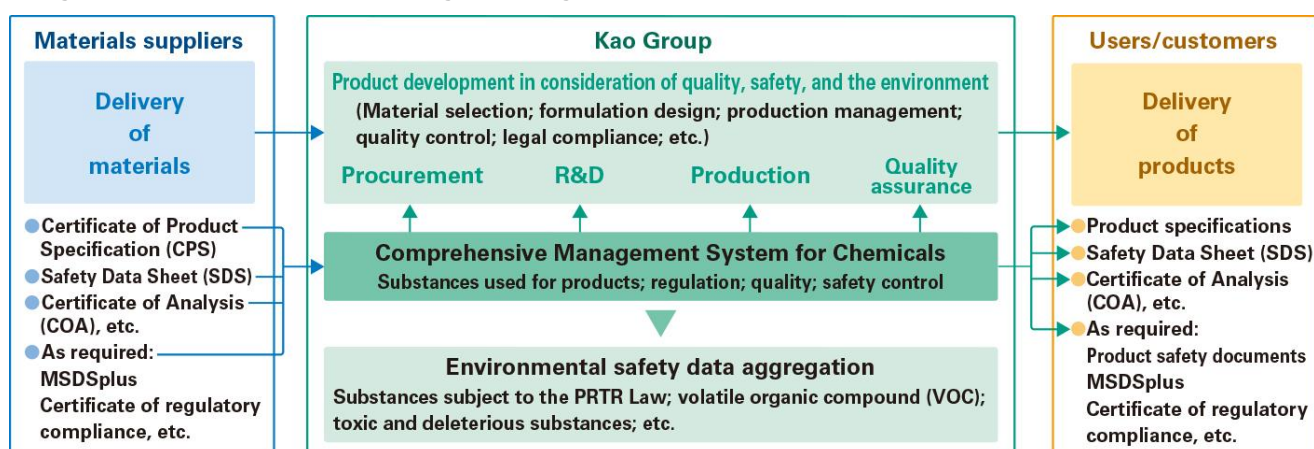
Since 2001, Kao has been operating its Comprehensive Management System for Chemicals, a database of products, materials, and ingredients, each of which is given a common group-wide master code (Master Index).

This system allows us to check safety, antiseptic qualities, related regulations and laws, and other information instantly for each product, material and ingredient group. Therefore, should a problem occur with quality or some other matter, the potential affected area can be identified immediately to enable us to take quick countermeasures.

The data stored in the system is shared among and utilized by the procurement, R&D, production, product quality management, environment and safety, and other divisions, functioning as the backbone of *Yoki-Monozukuri*.

In fiscal 2012, in response to the enactment of the amended Chemical Substances Control Law, totals were compiled for the volumes of chemical substances manufactured or imported by Kao in fiscal 2011, using a system attached to the Comprehensive Management System for Chemicals; the data was then submitted to the authorities in June 2012. As Kao manufactures an extremely wide variety of different products, the range of substances that has to be handled is also very broad, as is the range of uses to which they are put. In the future, Kao will be able to implement even more rigorous risk assessment on the basis of quantity and usage data calculated using this system, thereby facilitating continued, sound management of chemical substances.

### ■ Integrated chemical substance management organization



## Global

### Complying with REACH\*<sup>1</sup> EU chemicals regulation

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The Kao Group is implementing REACH registration (according to tonnage band and deadlines) for chemical substances in our products directly or indirectly exported to the EU. Registration with respect to REACH Phase 1 substances (mainly annual production within the EU or annual imports into the EU exceeds 1,000 tons) was completed within the deadline of November 2010. Thanks to close collaboration between Kao Corporation and Kao Chemicals Europe, S.L., which is Kao's European representative for imports from Kao's Asian and American affiliates, registration for REACH Phase 2 substances (annual production or annual imports between 100 and 1,000 tons) has also been completed on schedule within the deadline of May 2013.

Regarding the next step, REACH Phase 3 (annual production within the EU or annual imports into the EU between 1 ton and 100 tons), Kao will be implementing registration by the deadline of May 2018; taking account of the situation of Kao's business for each substance in the European market, future volume expansion, etc.

At the same time, ensuring compliance with REACH regulations also requires the sharing of importer, registration and other information, obtained through the supply chain, between the Only Representative (OR) and the EU importer. In fiscal 2012, using the OR<sup>2</sup>IS\*<sup>2</sup> system that was introduced in the previous year, Kao began implementing efficient transmission of information between suppliers that supports protection of confidential business information (CBI) through the encryption of both supplier data and registration data. Kao has also been working to achieve further dissemination through distributors' introduction of OR<sup>2</sup>IS to customers and implementation of questionnaire surveys.

\*1. REACH (Registration, Evaluation, Authorization and Restriction of Chemicals) Registration, Evaluation, Authorization and Restriction of Chemicals, an EU regulation framework

\*2. OR<sup>2</sup>IS (OR-Related REACH Information Sheet)

The REACH framework was implemented in Europe on June 1, 2007. In conformance with this framework, enterprises in supply chains outside Europe must use a registered only representative (OR) and operate within the structure developed to effect REACH reporting (standardized information sheet)

## Global

### Reinforcement of information management of chemicals

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#### 1. SDS\*<sup>1</sup> and use of GHS label marks

Kao promotes the issuance of GHS-compliant SDS for chemical products in countries which had introduced GHS, as well as GHS-compliant product labeling.

For Chemical Business, including Kao and Asian affiliates, Kao has been managing GHS-compliant SDS and product labeling in the language of the importing country and integrated management by Comprehensive Management System for Chemical Substances since 2008.

In fiscal 2012, Singapore was added to the list of countries for which Kao provides GHS-compliant labeling in the language of the importing country (a list that already includes Japan, Taiwan, South Korea, China and the EU). Kao has also been working on labeling for locally-produced product items in Thailand and Indonesia. Additionally, the Malaysian (Bahasa Malaysia) and Vietnamese languages have been added to the SDS generation system, and preparations for the production of SDS in these languages are underway. In the case of Thailand, work has begun on updating SDS to be compliant with UN GHS third revised edition, pursuant to a change in the law coming into effect in 2013.

### 2. Provision of information regarding chemical substances contained

As a founding member of the Joint Article Management Promotion (JAMP) consortium, Kao is actively promoting the provision of information regarding chemical products through the use of the MSDSplus\*<sup>2</sup> data sheet. A revised version (Substances List Ver. 3.010) was issued in July 2012, and has been distributed to customers via our distributors, as well as being uploaded onto the corporate website. In order to further the efficient dissemination of information via MSDSplus, besides increasing the number of product items registered in the JAMP-IT\*<sup>3</sup> system, and updating to the revised version, Kao has also been working actively to introduce the use of JAMP-IT to its distributors.

### 3. Chemical substance risk communication

Kao has been participating actively in the Japan Initiative of Product Stewardship (JIPS),\*<sup>4</sup> a voluntary activity aimed at strengthening management of chemical substances through product stewardship proposed by the International Council of Chemical Associations (ICCA) which the Japan Chemical Industry Association has been implementing since 2009, and which constitutes an effort by the chemical industry to make a major contribution toward SAICM; to this end, Kao has been actively implementing chemical substance related communication with customers.

In fiscal 2012, while stepping up its existing efforts in terms of SDS and MSDSplus disclosure, Kao has also been implementing eSDS\*<sup>5</sup> disclosure with respect to the EU, and has made available on the Kao corporate website and on the ICCA GPS chemical portal site a GPS safety summary\*<sup>6</sup> that outlines, in an easy-to-understand manner, information and risk management measures relating to hazard information and exposure information (for both humans and the environment) regarding six types of fatty alcohol substances.

Kao considers the chemical substance risk communication with stakeholders conducted by means of the publication of this GPS safety summary to constitute an important element in Kao's SAICM activities. Kao will be expanding the scope of subject products and also expanding implementation to include Kao's overseas subsidiaries, implementing proactive risk communication with customers and with society as a whole not only within Japan, but also in Kao's overseas business locations.

\*1. SDS (Safety Data Sheet)

The SDS provides information to ensure safe and appropriate handling of chemicals, such as names of substances contained in the product, information about potential hazards, and handling precautions. The former Material Safety Data Sheet (MSDS) was renamed SDS per JIS Z 7253, issued March 2012.

\*2. MSDSplus

This is a data sheet applying to specific types of chemical substances.

\*3. JAMP-IT

A system developed by JAMP for the efficient accessing and provision, using the Internet, of MSDSplus chemical substance content information.

\*4. JIPS (Japan Initiative of Product Stewardship)

An effort based on the "principle for enhancing global management of chemical substances (GPS)" that the International Council of Chemical Associations (ICCA) is promoting in response to the decision of the SAICM.

\*5. eSDS

An expanded Safety Data Sheet (SDS). Adds risk appraisal and risk management content to the conventional SDS.

\*6. GPS safety summary

This is a document providing a summary of chemical substance safety information for the reference of ordinary citizens. Besides information about physical and chemical properties, this document also addresses the usage and processing requirements for appropriate risk management, and outlines risk management measures, etc.; it is used for disseminating information to downstream users.

## Kao Group in Japan

### Activities relating to compliance with laws and regulations in Japan

#### 1. Compliance with the amended Chemical Substances Control Law

The amended Chemical Substances Control Law, which came into effect in April 2011, established a new category of Priority Assessment Chemical Substances, to facilitate the phased appraisal of the impact on human health and on the environment.

In response to the new Priority Assessment Chemical Substances that were added in March 2012, Kao has revised the SDS for the subject chemical products, and provided customers and distributors with information regarding chemical substance content.

#### 2. Revisions to SDS and to product labeling

In April 2012, the Industrial Health and Safety Law (IHSL) and the Law Concerning Pollutant Release and Transfer Register (PRTR Law) were both revised, modifying the methods to be used for the transmission of information relating to hazardous substances. Prior to these revisions, in March 2012, a new Japanese standard, JIS Z 7253, was formulated based on Version 4 of the U.N.'s GHS documentation, and the existing JIS relating to SDS and labeling was abolished.

These revisions of the laws and the introduction of the new JIS have necessitated changes to SDS and product labeling for more chemical products. Starting from 2013, Kao will be gradually implementing the corresponding revisions. In order to familiarize distributors with the background to these revisions and to ensure that the necessary measures are undertaken with respect to customers, Kao held SDS and product labeling revision presentations in Osaka and Tokyo in December 2012.

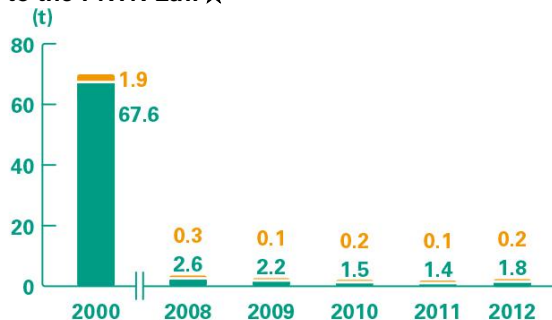
## Kao Group in Japan

### Monitoring and control of emissions of chemical substances subject to the PRTR Law

The number of chemical substances subject to the PRTR Law which Kao handled during 2012 was 75, and the total discharge of such substances into the atmosphere and public water areas was 2.0 tons. In 2012, we achieved our target of maintaining annual emissions of each chemical substance from respective plants at 1 ton or less.

In addition, we are voluntarily monitoring and controlling emissions and movement (in the same way as would be done for PRTR subject chemical substances) of chemical substances that the Japan Chemical Industry Association has designated as being subject to voluntary surveys.

■ Emissions of chemical substances subject to the PRTR Law★



■ Emitted into the atmosphere ■ Emitted into public water areas

\* Until 2011, totals were calculated from April through the following March. Due to a change in the fiscal year end to December which took effect in 2012, totals from 2012 onward are calculated from January through December, with January through March 2012 figures being duplicated.

For details, refer to the "List of Emissions of Substances Subject to PRTR Law"

[http://www.kao.com/jp/en/corp\\_csr/eco\\_activities\\_02\\_07.html](http://www.kao.com/jp/en/corp_csr/eco_activities_02_07.html)

## Kao Group in Japan

### Management of VOC emissions based on voluntary activity goals

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Kao has no facilities subject to the VOC emission regulations provided by the Air Pollution Control Act. However, we set independent, voluntary activity targets for each year to cut VOC emissions.

When a survey was conducted of the 100 VOC substances defined in the Notice of the Director General of the Environmental Management Bureau, Ministry of the Environment it was found that they included 32 chemical substances that were handled by Kao in 2012; the total discharge into the atmosphere was 7.9 tons. For the second consecutive year, Kao achieved its target of maintaining annual emissions of each substance from respective plants at 1 ton or less.

## Kao Group in Japan

### Proper storage and disposal of PCBs

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Until final disposal is carried out, PCB waste including transformers, condensers, fluorescent light ballasts, and other equipment utilizing insulating oil containing polychlorinated biphenyl (PCB), are carefully stored at our Wakayama Plant, Tokyo Plant and Kawasaki Plant, as well as at the Odawara Plant of Kanebo Cosmetics, in accordance with the requirements of the Waste Management and Public Cleansing Act and the Law Concerning Special Measures Against PCB Waste. PCB wastes registered with the Japan Environmental Safety Corporation (JESCO), an organization to which Kao entrusts PCB waste treatment, are undergoing disposal processing. While no PCB waste was processed in 2012, it is anticipated that, in 2013, 111 units of equipment will be processed at JESCO's PCB treatment facilities.



## Optimum Management of Waste Materials

**Kao is reducing the environmental impact resulting from its business activities by minimizing wastes throughout the supply chain and through appropriate waste treatment.**

### Global

#### Efforts toward zero emissions

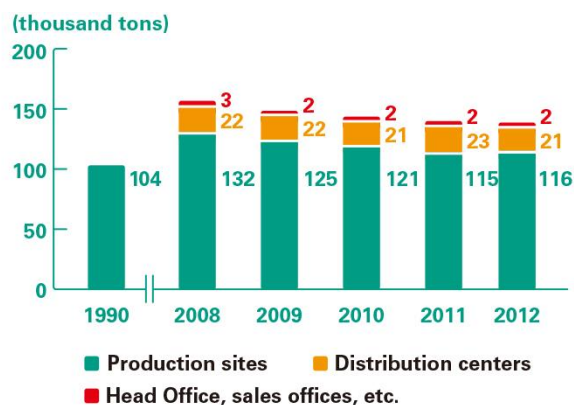
Using the 3Rs (Reduce, Reuse, Recycle) framework, Kao is carrying out various projects to minimize the generation of waste and reduce the final landfill disposal amount to close to zero as part of its efforts to create a recycling-based society.

As part of its efforts to reduce the amount of waste generated, Kao has implemented various measures at its production sites, including making alterations to production methods so as to reduce the amount of defective product and offcuts produced, and adjusting the procedures used for washing equipment in order to reduce water consumption. At distribution centers, Kao has been implementing recycling of distribution materials, and at Kao's Head Office and sales offices, etc., measures have been implemented to ensure efficient management of the quantity of paper used.

As a result of these activities, the total amount of waste generated in 2012 was 1,000 tons lower than in the previous year. The amount of waste generated per unit of production output\*1 at Kao's production sites and distribution centers, and the amount of waste generated at company headquarters, sales offices, etc., was reduced by 15% from the fiscal 2005 level (compared to a target of 11%) and 12% below the fiscal 2009 level (compared to a target of 12%), respectively.

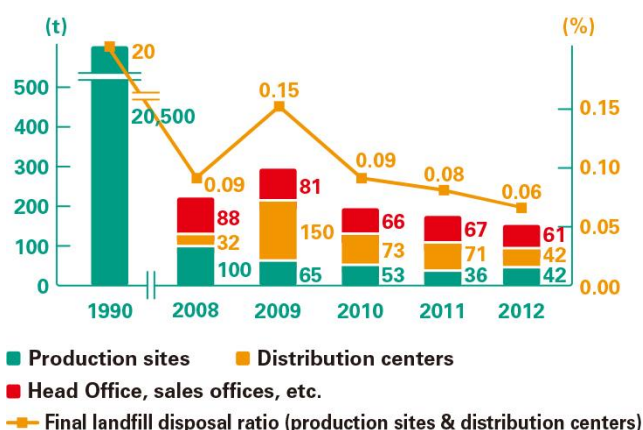
Kao has been working actively to facilitate the repurposing of the waste that Kao generates as raw materials for other companies; for example, the combustion residue produced when waste cement material is burnt can be used as a material for

#### Changes in amount of waste generated (Kao Group in Japan)★



\*Until 2011, totals were calculated from April through the following March. Due to a change in the fiscal year end to December which took effect in 2012, totals from 2012 onward are calculated from January through December, with January through March 2012 figures being duplicated.

#### Changes in final landfill disposal amount and final landfill disposal ratio (Kao Group in Japan)★



\*Until 2011, totals were calculated from April through the following March. Due to a change in the fiscal year end to December which took effect in 2012, totals from 2012 onward are calculated from January through December, with January through March 2012 figures being duplicated.

highway construction. Through measures such as these, Kao is working vigorously to reduce the amount of waste that ends up being disposed of in landfills. As a result of these efforts, the final landfill disposal amount in 2012 was only 145 tons. The combined total for production sites and distribution centers was 84 tons (compared to a target of 199 tons or lower), representing a final landfill disposal rate\*2 of 0.06%, while the combined total for Head Office, sales offices, etc. was 61 tons (compared to a target of 64 tons or lower).

At Kao's overseas group companies, efforts have been underway to monitor the amount of waste generated, focusing in particular on production sites, and to implement activities aimed at reducing waste and ensuring appropriate waste management.

## Changes in amount of waste generated (Kao Group)★



■ Amount of waste generated — Per unit (of sales) reduction rate

\* Units included in total: All Kao Group production sites, as well as Kao Group distribution centers, Head Office, sales offices, etc. in Japan.

\*1. Waste generation per unit of production output  
Amount of waste generated per total production

\*2. Final landfill disposal ratio  
Final landfill disposal ÷ waste generated × 100. Kao defines zero emissions as a final landfill disposal ratio of less than 0.1%.

\*3. The total is for the period January–December, 2012.

\*4. Amount of waste generated  
Undesirable substances and defective products generated during the production stage (including valuable resources such as paper and metals, and items that can be used at other plants)

\*5. Recycled amount  
Waste that is reused or recycled at plants (including thermal recycling)

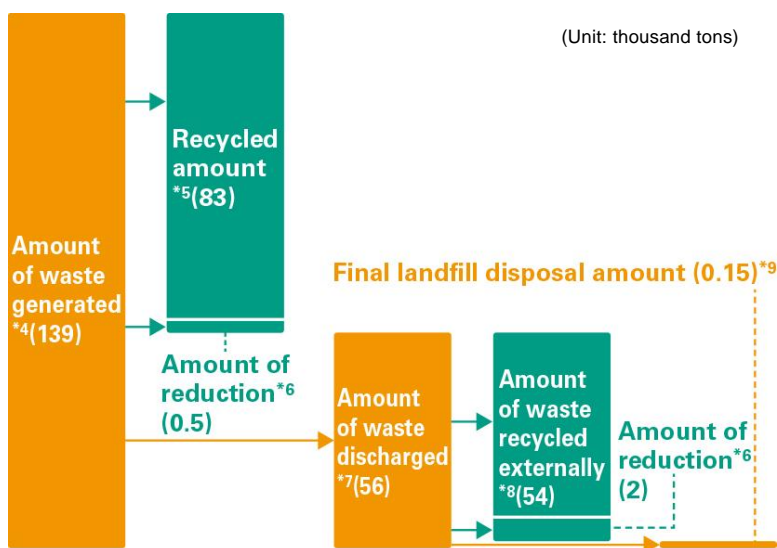
\*6. Amount of reduction  
Amount of waste reduced by dehydration, concentration, shredding and incineration

\*7. Amount of waste discharged  
Undesirable substances and defective products, incinerated ash, used paper and metals that are removed from plants

\*8. Amount of waste recycled externally  
Waste that is recyclable or becomes usable as a resource after treatment (including thermal recycling)

\*9. Final landfill disposal amount  
Waste that cannot be reused or recycled and is safely buried in landfill sites

## Amount of waste generated and treatment flow (2012) (Kao Group in Japan)\*3



## Kao Group in Japan

### Measures taken to reduce waste at Kanebo Cosmetics

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Kanebo Cosmetics has also been implementing and strengthening measures to reduce the amount of waste generated.

At Kanebo's Odawara Plant, employees have been educated about waste, raising the awareness of all employees and promoting sorting and recycling. The Plant has also made adjustments to those production processes that generate waste, and to processes involving waste water. As a result, the amount of waste generated at the Odawara Plant was reduced by 13% compared to the previous year.

A substantial reduction was also achieved in the amount of waste generated by Kanebo's distribution centers and by its Head Office and sales offices, etc. As a result of adjustments to operational methods, as well as changes to product distribution, the amount of waste generated by Kanebo's distribution centers was reduced by 19% compared to the previous year, while the amount of waste generated by the Head Office, sales offices, etc. was reduced by 18%.

In the future, Kanebo Cosmetics will continue to work toward further reductions in the amount of waste generated, by implementing awareness-raising activities to enhance employee awareness, and by making adjustments to operational processes.

## Kao Group in Japan

### Strengthening waste- and recycling-related governance

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Kao has developed Waste and Recycling Governance System for coordinated management of the utilization of contract data and control manifest for industrial waste, as well as other quantitative data and the results obtained in surveys of appropriate waste management. In 2012, the adoption of this System was extended to Kao's affiliates, with Kao Professional Salon Services and Molton Brown Japan starting to use the System.

This system is connected to the Electronic Manifest System, which contributes to the enhancement of data transparency and the strengthening of regulatory compliance. Kao began adoption of the system in 2006, and by 2012 all seven Kao plants in Japan were using the system.

To ensure that waste is properly disposed of when the disposal is contracted out to other firms, Kao has for many years now implemented regular inspections of the disposal sites used by those waste disposal firms directly commissioned by Kao to handle waste disposal. In 2012, Kao carried out on-site inspections of 126 facilities belonging to 81 firms with which Kao collaborates.

In addition, starting from 2010, Kao began to monitor the disposal of waste generated by contract manufacturers, in order to ensure appropriate disposal of a wide range of wastes related to Kao's business activities; verification was conducted for 15 firms in 2012. In the future, Kao will continue to promote measures for strengthening appropriate management of waste, by means of linkage and collaboration with the suppliers in Kao's supply chain.

## Water and Soil Protection

**Kao's business activities are closely associated with water and we recognize that water is a precious resource. We continually strive to conserve water, lessening the environmental impact when we return it to nature.**

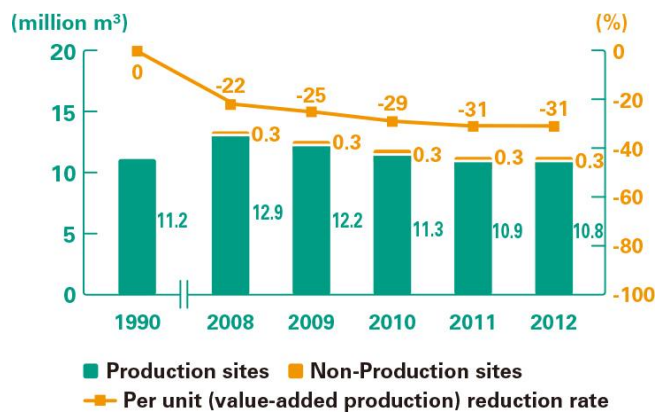
### Global

#### Effective utilization of water resources and wastewater control

Each of Kao's plants uses water as a product ingredient, as well as to clean and cool equipment. We promote effective use of water resources at some plants by recycling water that has been used for cleaning. The Sumida Complex also collects rainwater and uses it to water green spaces.

In 2012, the amount of water consumption and wastewater by Kao Group in Japan decreased 50,000 m<sup>3</sup>, and 56,000 m<sup>3</sup>, respectively, compared with the previous year. The Kao Group as a whole reduced its water usage and wastewater emissions by 92,000 m<sup>3</sup> and 94,000 m<sup>3</sup> respectively.

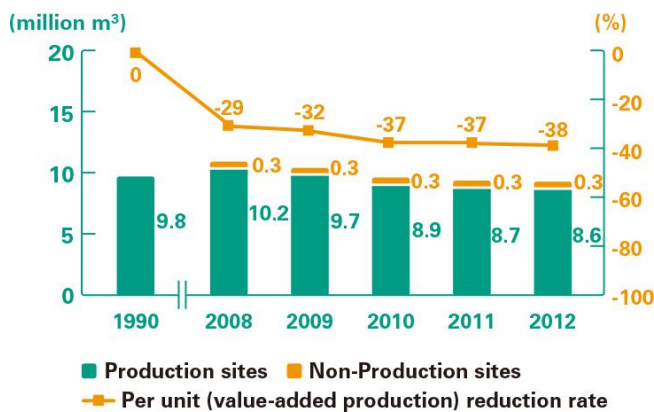
■ Changes in volume of water consumed  
(Kao Group in Japan)★



\* Until 2011, totals were calculated from April through the following March. Due to a change in the fiscal year end to December which took effect in 2012, totals from 2012 onward are calculated from January through December, with January through March 2012 figures being duplicated.

\* Per unit (value-added production) reduction rate is based on water usage at production sites.

■ Changes in volume of wastewater  
(Kao Group in Japan)★



\* Until 2011, totals were calculated from April through the following March. Due to a change in the fiscal year end to December which took effect in 2012, totals from 2012 onward are calculated from January through December, with January through March 2012 figures being duplicated.

\* Per unit (value-added production) reduction rate is based on water usage at production sites.

# Kao Sustainability Report 2013

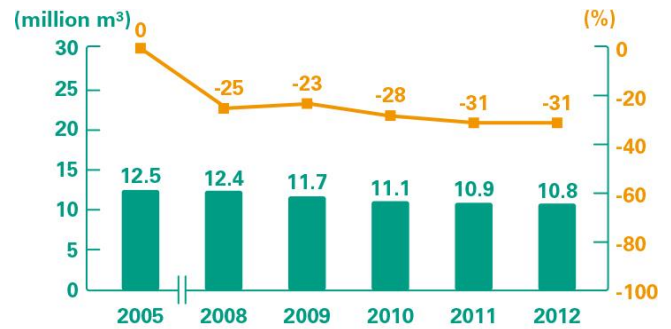
## ■ Changes in volume of water consumed (Kao Group)★



■ Water consumptions — Per unit (of sales) reduction rate

\* Units included in the total: All Kao Group production sites, as well as non-production sites in Japan

## ■ Changes in volume of wastewater (Kao Group)★



■ Wastewater emissions — Per unit (of sales) reduction rate

\* Units included in the total: All Kao Group production sites, as well as non-production sites in Japan

### Kao Group in Japan

#### Compliance with wastewater and exhaust gas standards

In accordance with applicable laws and agreements with local governments, Kao monitors the levels of contaminants and pollutants in wastewater and exhaust gas at each of its plants.

In 2012, there were no instances of such substances exceeding regulatory wastewater and exhaust gas standards.

### Kao Group in Japan

#### Investigation and measurement of groundwater and soil contamination

In light of its history of use of chemical substances, Kao measures the levels of substances regulated by environmental standards in groundwater within the premises of each plant every year. In 2012, voluntary investigations were conducted at the Wakayama, Sakata and Tochigi plants, and it was confirmed that levels of all substances were below their regulatory limit values across all the test items. At our Kawasaki Plant, we assessed the impact of our business activities on soil quality in accordance with the Soil Contamination Countermeasures Act and other ordinances, and it was confirmed that levels of all substances checked were below their regulatory limit values.

### Kao Group in Japan

#### Environmental impact of discharged wastewater after product use

Organic substances contained in domestic wastewater are biodegraded either at wastewater treatment plants or by microorganisms in rivers, before being returned to the natural system of rivers, lakes, oceans, etc. Given this, Kao has defined its basic policy for environmentally-conscious design as “promoting the lowering of environmental impacts throughout the entire lifecycle of products.” Based on this policy, we endeavor to use raw materials that are easily biodegraded by microorganisms and have less impact on the ecological system.

For example, Kao has been working to develop and adopt materials that are easily biodegraded by microorganisms, and which have minimal negative impact on ecosystems, by undertaking tests on the biodegradability and ecotoxicity of materials using wastewater treatment plants and river water. In addition, in order to determine the impact that products have on rivers and other aspects of the natural environment in their post-use stage, Kao has conducted field survey such as environmental monitoring of river and has been making effective use of mathematical models to forecast how long chemical substances persist within the environment.

Kao has also been involved in the implementation of environmental monitoring of surfactants, through its participation in the Japan Soap and Detergent Association. Specifically, four times a year, monitoring is carried out in four major rivers that run through urban areas in Japan to determine the concentration levels of four types of surfactant, including LAS, which are used in the products, and to evaluate the risk they pose to ecosystems. The results obtained so far indicate that the risk posed by these surfactants to aquatic organisms is consistently low.

### TOPICS Research on the aquatic environment in China

As part of Kao's efforts to clarify the impact that products have on the natural environment in their post-use phase, Kao has been carrying out research on the aquatic environment in the countries in which it operates, for example by undertaking environmental monitoring in collaboration with local universities. Given that the state of the riverine environment and the functioning of sewage treatment facilities vary significantly between different countries and regions, it is important to have a thorough understanding of the actual circumstances in each country and region in which Kao has operations.

In China, Kao has been undertaking collaborative research partnerships with Chinese universities, sharing the know-how and techniques that Kao has accumulated with respect to environmental research and the Chinese universities' detailed knowledge of the aquatic environment in different parts of the country. Kao has been working with Shanghai Jiao Tong University to implement environmental monitoring surveys of China's urban rivers, and has been collaborating with Dalian University of Technology on biodegradation behavior analysis of surfactants in river water. This research has shown that surfactants such as LAS are environmental compatible with China's aquatic environment; the research results have been presented at academic conferences in China.

In the future, Kao intends to undertake further development of aquatic environment research in countries and regions other than Japan, and to utilize this research in ensuring that Kao's overseas operations are environmentally-friendly. The research results will also be presented at academic conferences in Japan, Europe and North America, to facilitate the sharing of knowledge.



Environmental monitoring survey in China

## Measures for Biodiversity

**Kao realizes that our business benefits from the gifts of biodiversity, and we strive to conserve biodiversity in our business and community activities.**

### Policies/structures

We realize that Kao's business depends on the gifts of biodiversity throughout the product life cycle while, at the same time, having impacts on it.

With this in mind, in 2011, Kao announced its Basic Policies on Conservation of Biodiversity, summarized in the 7 tenets noted at right. Individual employees will strive to conserve biodiversity in business activities such as sustainable raw materials procurement, and remain involved in community-oriented activities, such as forest conservation, in Japan and elsewhere.

#### Basic Policies on Conservation of Biodiversity

1. Identify the relationship between our business activities and biodiversity.
2. Reduce the impacts of our business activities on biodiversity.
3. Develop innovative technologies to enable sustainable use of ecosystem services.
4. Comply with relevant international agreements.
5. Make efforts to conserve local ecosystems in the vicinity of our business activities.
6. Raise awareness of biodiversity among all employees and promote sharing of information on biodiversity between divisions.
7. Pursue cooperation with external stakeholders in conserving biodiversity.

### Kao Group in Japan

#### Efforts toward 100% use of sustainable palm oil and palm kernel oil

In order to minimize the impact on biodiversity, Kao promotes sustainable sourcing of raw materials.

Palm oil and palm kernel oil are basic raw materials handled by Kao. In 2007, Kao joined the non-profit international Roundtable on Sustainable Palm Oil (RSPO), established to address challenges such as ecosystem destruction through the logging of tropical rain forest and poor plantation labor conditions. In September 2010 we began purchasing certified palm oil under the Book and Claim system,<sup>\*1</sup> one of the systems certified by the RSPO.

And Kao set the objectives of striving to purchase 100% certified palm oil and palm kernel oil by 2015 as long as we can secure a sufficient amount by 2015. In 2011, and again in 2012, 100% of the palm oil we procured for domestic production was certified. Moreover, in March 2012, our Kashima Plant successfully passed an RSPO audit and received SCCS certification<sup>\*2</sup> for its production and shipment of products using certified palm oil. We are currently proceeding with plans to achieve certification in our other plants. We are also investigating stability of supply and certification systems for palm kernel oil, and are moving forward with plans to begin certified product purchase.

\*1. Book and Claim system

A system to handle credits of palm oil certified by the RSPO. 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 strictly ensures that the same amount of certified palm oil as palm oil used is produced and encourages plantations to produce certified oil.

\*2. SCCS (Supply Chain Certification System) certification

A certification system for the manufacturing, processing, and logistics of products using palm oil produced at RSPO-approved plantations meeting strict conditions concerning biodiversity conservation.

## Kao Group in Japan

### Promoting collaboration with other companies

In 2008, Kao became a founding member of the Japan Business Initiative for Biodiversity (JBIB), the pioneering business initiative on biodiversity.\* Kao participates in multiple JBIB internal working groups, working with corporations representing a variety of industries to research effective tools and guidelines for conservation of biodiversity.

\*Japan Business Initiative for Biodiversity

An organization of numerous enterprises from many different industries, committed to biodiversity conservation and founded in 2008.

## Kao Group in Japan

### Kao Creating Forests for Everyone program

For over 10 years beginning in fiscal 2000, we conducted the Kao Creating Forests for Everyone program, aimed at maintaining green environments in our surroundings for future generations. This program was administered jointly by Kao and the Urban Green Space Development Foundation in support of NPOs and citizens' organizations engaged in the protection and expansion of local green areas.

In fiscal 2011, we revised the program in response to changes in the social environment. Support for existing "planting of forests" activities was extended from the former year-to-year basis to a three-year term, to enable citizens' organizations to conduct their efforts from a longer-term perspective. We also inaugurated a new support category, also on a three-year basis, for "environmental education" activities by citizen's groups aimed at creating opportunities for children to come into contact with local green environments.

As of March 2012, support was being provided to 23 organizations, including 11 organizations engaged in planting of forests and 12 organizations active in environmental education.

Kao received a total of 172 applications from August through October in fiscal 2012 (111 organizations to planting of forests and 61 to environmental education). In February 2013, Kao selected 15 groups and currently supports their activities.



Supported organizations engage in greening activities

List of Kao-supported organizations

[http://www.kao.com/jp/corp\\_csr/social\\_activities\\_00\\_15.html](http://www.kao.com/jp/corp_csr/social_activities_00_15.html)



## Kao Group Companies

### “FURUSATO” Environment Conservation Project in Northern Thailand

With social problems such as rapid deforestation and soil degradation affecting Thailand, Kao launched the “FURUSATO” Environment Conservation Project in Northern Thailand in 2012 for reclamation and sustainable conservation of Thai forests. Cooperating with the NPO OISCA (Organization for Industrial, Spiritual, and Cultural Advancement), Kao committed to a five-year 2012 – 2017 forest regeneration initiative covering 35 hectares, keeping local vegetation in mind. The project conducted environmental education sessions to deepen understanding of the importance of environmental conservation among local residents, and to encourage their sustained afforestation efforts.

In August 2012, the project was launched by a meeting of the members including local residents, educators, and representatives from the Ministry of the Environment, discussing the significance of the undertaking, followed by a joint planting of some 4,000 trees with 700 participants.

An introduction to the project:

[http://www.kao.com/jp/corp\\_csr/social\\_activities\\_00\\_14.html](http://www.kao.com/jp/corp_csr/social_activities_00_14.html)



Tree-planting in northern Thailand

## Kao Group in Japan

### Kao Employees participate in the Mt. Fuji biodiversity research initiative, “Endangered Butterflies in & around Mt. Fuji”

Kao volunteers participated in Mt. Fuji-area biodiversity research conducted in the field by NPO Earthwatch Japan. In 2012, five Kao employees helped survey endangered meadowland butterflies on the north side of Mt. Fuji for conservation purposes



Field investigation on the north side of Mt. Fuji

## Kao Group in Japan

### Biodiversity initiatives at the Wakayama Plant

#### 1. Wakayama Plant was awarded the “2012 Wakayama Distinguished Service Award for Tree Planting” for efforts including pine forest conservation

Kao's Wakayama Plant received the inaugural Wakayama Distinguished Service Award for Tree Planting in accordance with the Wakayama Forest and Tree Protection and Nurturing Ordinance passed in April 2012. The award recognized the plant's longstanding greenery efforts, as well as the on-site scenic pine forests dating from the Kan'ei era (1624–1644), early Edo period, which serve as a protection forest against storm surge.

The Wakayama Plant incorporated a biodiversity conservation perspective in 2011, deepening its conservation activities on plant grounds as well as those embracing the surrounding ecosystem. Monitoring of trees and wildlife confirm the presence of over 20 species of wild birds in the plant's pine forest. The Wakayama Plant plans to continue contributing to conservation of appropriate greenery in the surrounding ecosystem based on such monitoring.

The pine forest covers about 2 km, extending beyond plant grounds, with local NPOs actively pursuing conservation activities. The Wakayama Plant will continue coordinating its own efforts with these organizations.

We are currently installing nature trails within the pine forest as a place for employees to easily touch natural environment, and to encourage further environmental communication with the local community. Upon completion, we hope to invite local residents, elementary and junior high school children, and plant visitors to the trail.

#### 2. Enterprise Forest Project participation

Kao participates in Wakayama Prefecture's Enterprise Forest Project, which works with owners (local governments and individuals) in the prefecture to make forest resources available at no charge for various environmental activities. Since fiscal 2007, Kao has been involved in forestry preservation activities on a 0.7-hectare forest in Kimino Town, Kaiso District.

The wild cherry trees planted in fiscal 2007 grew steadily and bloomed in the spring. In May 2012, 106 Kao employees and family members participated in forest preservation activities, including work such as weeding and clearing of undergrowth.



Protection forest against storm surge dating from the Edo period



Wakayama Distinguished Service Award for Tree Planting



Participating in forest preservation efforts by eliminating weeds and undergrowth

## Environmental Communication

**We incorporate input from various stakeholders to improve our environmental activities in a variety of settings and opportunities.**

### Policies/structures

As Kao Environmental Statement indicates, Kao strives to reduce the environmental impact with the themes of three “eco together.” We recognize that we are able to pursue our environmental conservation activities thanks to our customers, our business partners, and public support. For this reason, communication with our stakeholders is of utmost importance. In terms of “eco together” with Consumers/Customers, we solicit each Kao customer’s awareness of product characteristics, usage, and packaging in order to practice “eco together.” Kao’s many divisions cooperate proactively to provide ample opportunities for communication with our stakeholders—among whom are the children who will bear the future—so that our environmental activities may continue to evolve.

### Global

#### Environmental and Safety Reports issued by plants and affiliated companies

Since fiscal 2005, Kao has issued Environmental and Safety reports for affiliated companies and plants as a communication tool for delivering a wide range of information to our stakeholders regarding our corporate environmental conservation and safety activities. We sincerely hope to gain feedback and insight from our key stakeholders providing direction to future activities.

In 2012, the Kao Group’s six plants in Japan produced Environmental and Safety Site Reports, which were distributed to local residents and plant tour participants. Kanebo Cosmetics also began publishing a report on its environmental activities from 2008, which is available on its website.

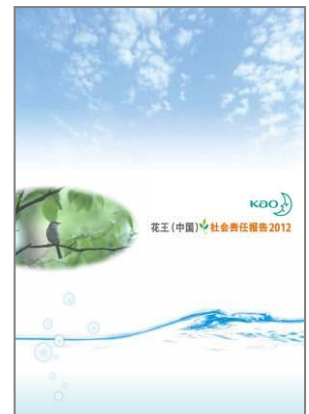
Overseas, Kao Chemicals Europe and Kao Specialties Americas issued their CSR reports in 2008 and 2011, respectively, and Kao Corporation Shanghai issued its Environmental Report in 2008, expanding the scope from 2011 to include social responsibility-related content. The report is issued as the Kao (China) Social Responsibility Report.

Kao (China) Social Responsibility Report

[http://www.kao.com/cn/corp\\_csr/csr\\_reports.html](http://www.kao.com/cn/corp_csr/csr_reports.html)

Kanebo Cosmetics Environmental Report

<http://www.kanebo-cosmetics.co.jp/environment/>



Kao (China) Social Responsibility Report

## Kao Group in Japan

### Visitors to Kao's Eco-Lab Museum reach the 20,000 mark

On October 5, 2012, visitors to Kao Eco-Lab Museum reached the 20,000 mark. Many individuals have visited the museum since its in-house corporate opening on May 10, 2011, and the public opening on July 4 of that year. Most visitors participated in dual tours of the museum and the Wakayama plant, experiencing Kao's consideration for the environment through its product development and eco-technology through the life cycle of products, from procurement through disposal.

Through the end of October 2012, about 6,500 Kao Group employees visited the museum, in addition to about 14,900 other visitors. The external visitors reflected a broad age spectrum and included about 4,700 individuals from corporate and administrative offices (business partners, corporations, governmental departments), some 4,500 students and educators, and about 5,700 general visitors (organizations, private individuals, etc.). We also developed our own program for elementary school classes which has proved popular with teachers and pupils alike.

Continuing from the previous year, on November 5, 2012, we sponsored the second annual Kao "eco together" Forum, offering a platform for interaction with a variety of professionals on realizing a sustainable future. The 2012 theme was: "To Think about How to Create Products by Learning from Nature." In order to maximize participation, we held the forum at a hotel in downtown Wakayama City, and included tours of the museum and plant. The third annual forum is planned for the autumn of 2013.



Museum visitors listen attentively to an explanation



The second annual Kao "Eco Together" Forum

## Kao Group in Japan

### Nationwide Environmental Fair Campaign

As part of its environmental contributions, Kao Customer Marketing Co., Ltd. (CMK) is working on the Environmental Fair Campaign in cooperation with retailers to offer information, at the point of sale, both on reducing environmental impact and on Kao's eco-friendly products. The campaign is held on a nationwide scale in coordination with "Environment Month" activities by local governments. Approximately 15,000 retailers participated in fiscal 2012, and with each successive campaign, customers are growing better informed about, and developing deeper interest in, environmental issues.



Environmental Fair at a retailer

## Kao Group in Japan

### Exhibiting at “Eco-Products 2012”

Kao participated in the Eco-Products 2012 Exhibition held at the Tokyo International Exhibition Center (Tokyo Big Sight) for three days from December 13 to 15, 2012. The venue was crowded with visitors every day, with more than 10,000 people stopping by Kao's exhibit booth.

The theme of Kao's exhibition this time was “Kao's product development throughout the entire product life cycle,” introducing Kao's environmental initiatives, such as environmental-friendly products supporting customers' environment conservation habits and packaging innovations, etc.

The hands-on stage at Kao's booth offered visitors interactive enjoyment in “Stain-removal workshop” for the concentrated liquid laundry detergent *Attack Neo Bio-EX Power*, introduction of refill products in “So easy, eco refill workshop,” hints on conserving water with “Eco-shampoo skill,” and insights into impact on the entire life cycle of Kao products at its “Product life cycle theater.”

The exhibition corner, using panels and other display tools, explained raw material procurement supporting a sustainable society, and highlighted eco-friendly products such as *Attack Neo Bio-EX Power* and *Merit Shampoo*, as well as Kao's activities reinforcing the 3Rs (reduce, reuse, recycle) of containers and packagings—now 4Rs with the addition of renewable. The booth also introduced industrial products, such as modified polyactide resin using renewable raw materials and binder used in casting sand.

Finally, the Kao exhibit demonstrated increasingly globalized efforts such as “eco together with society,” supporting its environmental activities embracing society as a whole.



Kao's booth remained busy at “Eco-Products 2012”

## Global

### Third Kao International Environment Painting Contest for Children

Kao organized the Third Kao International Environment Painting Contest for Children under the theme “eco together.” Five Kao Group companies in Japan and Asia invited elementary and junior high schools and children to submit the paintings, we received entries from school children in 42 countries and regions worldwide. Entries exceeded the previous year in number, totalling 7,356 (3,630 from Japan, and 3,726 from overseas).

During the Eco-Products 2012 Exhibition, seven contest winners were invited to the awards ceremony at the Kao booth, where they shared their thoughts about the environment and the message illustrated in their entries.

To enable as many people as possible to see the prizewinning works, they were displayed at Kao worksites and environmental events in Japan and overseas, and elsewhere.




Entry judges: Professor Okubo (back row, center) and Kao President Sawada (back row, left); and prizewinning children (front row, from left to right) from Taiwan, Sri Lanka, Japan, Belarus, Thailand, Romania, along with a second child from Japan (back row, right)

Prizewinning works for the Third Kao International Environment Painting Contest for Children, along with the entry screening and awards presentation ceremony

[http://www.kao.com/jp/en/corp\\_csr/eco\\_activities\\_04\\_05.html](http://www.kao.com/jp/en/corp_csr/eco_activities_04_05.html)

“eco together” - Planet Earth Grand Prix  
Angeli T. Fernando W.A. (Sri Lanka): Thoughts of wishes regarding the work

With the rapid technological development of the world, the environment is getting destroyed. Therefore all the nations should get together to save the environment with the help of developing technology. Let's recycle polyethelene and plastics and improve greenery. Let's protect our water. Let's use more compost, bio-gas, solar energy and wind power in order to protect the environment and save the wealth of the world.



Angeli T. Gernando W.A.  
(age 9, Sri Lanka)'s work

## Kao Group in Japan

### Forum co-sponsored by Kao and Ajinomoto

In 2011, Kao Corporation coordinated with Ajinomoto Co., Inc. and environmental and CSR consulting firm E-SQUARE, Inc. to establish the Society for Sustainable Food & Life Styles. The Society provides opportunities for consumers to engage with corporations and professionals and share information useful for a more sustainable lifestyle. On December 15, 2012, the Society sponsored a forum on “Food and Life Create the Future of the Earth - Let's Make Sustainable Lifestyles Together.”

Held at the Eco-Products 2012 exhibition site, the activity drew about 550 participants. In the first half of the event, Hideki Ishida, Professor, Graduate School of Environmental Studies, Tohoku University, gave the keynote address entitled: “Lifestyles and Food to Pass Onto the Next Generation.” The speech highlighted how lifestyles should harmonize with the environment in 2030 and the necessary steps for



Three teams analyzed society's food and lifestyle in 2030

realization of such future, discussing the importance of “backcasting” in targeting sustainable futures. In the second half of the forum, Hideki Nakahara, Professor, Environmental and Information Studies, Tokyo City University, facilitated a talk session on “Let’s Picture the Future of Food and Life Together.” Three teams—university students, working mothers, and employees from Kao and Ajinomoto—presented their ideas on eco-friendly life in 2030, and communicated with each other, including general participants, beyond generations or difference of positions.

Reactions included comments such as one participant’s input that, “Through the event’s theme of ‘Let’s Make Together,’ I learned a lot of new things about eco-friendly life.” The forum came to a close with numerous participants interacting from many angles for realization of a sustainable future.

## Environmental Accounting

**To efficiently and effectively promote its environmental activities, Kao quantifies the costs and results of those activities in numerical terms.**

### Kao Group in Japan

#### 2012 environmental accounting report

1. The aggregation methods comply with the Japanese Ministry of the Environment's Environmental Accounting Guidelines 2005. Kao also refers to the Environmental Accounting Guidelines for Chemical Companies (November 2003) issued by the Japan Chemical Industry Association.
2. The companies within the scope of accounting are Kao Corporation and its subsidiaries in Japan.\*
3. The period of accounting is from January 1, 2012 to December 31, 2012. Annual totals for years up until 2011 are for the period from April 1 to March 31; data for 2012 reflect a change in the fiscal year end beginning on January 1 and ending on December 31; as a result the period January—March 2012 is included in both the 2011 and 2012 data.

\*Kao-Quaker Co., Ltd., Kao Customer Marketing Co., Ltd., Ehime Sanitary Products Co., Ltd., Kanebo Cosmetics Inc. (including its five subsidiaries), Kao Professional Services Co., Ltd., Goldwell Japan Co., Ltd., Molton Brown Japan Ltd., Niko Seishi Co., Ltd., Kao Business Associe Co., Ltd., Kao Logistics Co., Ltd., KC Logistics Inc., Kao System Logistics Co., Ltd., Kao Field Marketing Co., Ltd., Kao Creative House Corporation, Shohi Seikatsu Kenkyusho, Inc., Kao Peony Co., Ltd., Healthcare Committee Inc.

#### ■ Environmental conservation costs (categories corresponding to business activities)

(Unit: million yen)

Categories	Key activity and outcome	Investment	Cost* <sup>1</sup>	
(1) Business area costs		1,753	4,120	
Breakdown	1) Pollution prevention cost	Air and water pollution prevention	849	1,804
	2) Global environmental conservation	Energy conservation	453	352
	3) Resource circulation cost	Resource savings, waste treatment and disposal	451	1,964
(2) Upstream/downstream cost	Plant and equipment for eco-conscious products, containers and packaging recycling	738	3,264	
(3) Administration cost	Acquisition and maintenance of ISO certification, environmental publicity, tree planting within work sites	8	1,194	
(4) R&D costs	Eco-conscious R&D	1,128	3,797	
(5) Social activity cost	Natural environmental conservation and tree planting activities outside work sites, donations	0	83	
(6) Environmental remediation cost		0	0	
Total		3,627	12,458	

\*1. Cost includes depreciation costs.



## ■ Environmental conservation benefits (physical quantity benefits)

Categories	Environmental performance indicators (units)	FY2011	2012	Change
Related to resource input into business activities	Energy consumption (crude oil equivalent, thousand kL)	231	231	0
	Water consumed (million m <sup>3</sup> )	11.1	11.1	0.0
Related to waste or environmental impact originating from business activities	Greenhouse gas emissions (thousand tons-CO <sub>2</sub> e) <sup>*2, *3</sup>	425	446	21
	SOx emissions (tons)	43	23	-20
	NOx emissions (tons) <sup>*2</sup>	362	371	9
	Wastewater amount (million m <sup>3</sup> )	9.0	8.9	-0.1
	COD pollution load (tons)	58	50	-8
	Waste discharged (thousand tons)	58	56	-2
	Final landfill disposal amount of waste (thousand tons)	0.2	0.1	-0.03
Emissions of chemical substances subject to PRTR Law to the atmosphere (tons)	1	2	1	

\*2. Reviewed/revised figures.

\*3. Greenhouse gas emissions (CO<sub>2</sub> equivalent) are calculated based on the Calculation and Reporting Manual on Greenhouse Gas Emissions (Ver. 3.3) of May 2012 published by the Ministry of the Environment and the Ministry of Economy, Trade and Industry.

## ■ Economic benefits associated with environmental conservation activities

(Unit: million yen)

Details of benefits		Amount <sup>*4</sup>
Revenue from sales of valuable residues <sup>*5</sup>	Sales value of valuable resources and fixed assets	306
Cost reduction <sup>*6</sup>	Reduction in costs through energy conservation	321
	Reductions in cost through resource saving	1,197
	Reduction in operation costs (maintenance costs, etc., of eco-conscious equipment)	164
<b>Total</b>		<b>1,988</b>

\*4. The amount of cost reduction represents annual reductions for items generated during the year.

\*5. For economic effect, only amounts from selling valuable resources and fixed assets and the amount of cost reduction are recorded. So-called "deemed effects," or economic effects based on risk mitigation and other assumptions, are not recorded.

- Guidelines issued by the Japanese Ministry of the Environment specify that the profit gained from the sale of valuable resources and fixed assets should be recorded. However, we recorded the sales values as it is difficult to calculate profit accurately.

\*6. The amounts of cost reductions are recorded only for the relevant fiscal year for the annual reduction for items generated during that year. Cost reduction amounts to be generated over multiple years are not included.

## ■ Environmental conservation costs

### (categories corresponding to areas of application of environmental conservation measures)

(Unit: million yen)

Categories	Key activity and outcome	Investment	Cost
1) Cost related to global warming measures	Energy conservation	397	344
2) Cost related to ozone layer protection measures	Switch to alternatives to CFCs	62	48
3) Cost related to air quality conservation measures	Prevention of air pollution, prevention of dust pollution, malodor prevention	512	564
4) Cost related to noise and vibration measures	Noise prevention	0	6
5) Cost related to environmental conservation measures for the aquatic, ground, and geologic environments	Prevention of water pollution	331	1,192
6) Waste and recycling measures	Resource savings, industrial waste volume reduction, recycling	1,189	5,214
7) Cost related to measures to reduce chemical risk and emissions	R&D on products and production	1,128	3,801
8) Cost related to natural environmental conservation	Natural environmental conservation and tree planting activities outside plants, donations	0	83
9) Other costs	Acquisition and maintenance of ISO certification, environmental publicity, tree planting activities within plant premises	8	1,206
<b>Total</b>		<b>3,627</b>	<b>12,458</b>

# Kao Sustainability Report 2013

## ■ Trends chart for summary environmental accounting data for the three most recent periods

	FY2010	FY2011	2012
<b>1) Environmental conservation cost</b>			
Investment (million yen)	9,936	5,326	3,627
Cost (million yen)	10,362	11,813	12,458
<b>2) Environmental performance indicators concerning environmental conservation benefit</b>			
Energy consumption (crude oil equivalent, thousand kL)	238	231	231
Water consumed (million m <sup>3</sup> )	11.6	11.1	11.1
Greenhouse gas emissions (thousand tons-CO <sub>2</sub> e)* <sup>2</sup>	426	425	446
SOx emissions (tons)	27	43	23
NOx emissions (tons)* <sup>2</sup>	365	362	371
Wastewater amount (million m <sup>3</sup> )	9.2	9.0	8.9
COD pollution load (tons)	64	58	50
Waste discharged (thousand tons)	54	58	56
Final landfill disposal amount of waste (thousand tons)	0.2	0.2	0.1
Emissions of chemical substances subject to PRTR Law to the air (tons)	2	1	2
<b>3) Economic benefit associated with environmental conservation activities</b>			
Actual benefit (million yen)	2,437	2,442	1,988

\*2. Reviewed / revised figures.

Partnering with Employees

## Partnering with Employees

### Human Capital Development



Kao strives to create an environment and corporate culture in which both individuals and the company achieve growth, so that, within our diverse range of human resources, abilities are mobilized to generate greater strength than the sum of their parts.

### Promoting Diversity & Inclusion and Respecting Human Rights



While eliminating all forms of discrimination and ensuring respect for employees, Kao endeavors to create workplaces in which individual employees can demonstrate their maximum potential.

### Promoting Dialogue with Employees



Kao firmly recognizes good employee relations as one of the company's most important assets. In addition to creating various communication opportunities, we conduct an employee opinion survey every two years in principle.

### Work-Life Balance



Kao strives to create workplace environments that are conducive to work and facilitate a harmonious balance between work and life.

### Consideration for Employee Health and Lifestyle



Based on the Kao Group Health Declaration, Kao is actively promoting measures to support health aiming to realize KAO Health 2015.

### Occupational Safety and Health, Process Safety and Disaster Prevention



Kao conducts activities to ensure occupational safety and disaster prevention based on the basic policies for Responsible Care (RC) activities in order to protect employees from accidents and disasters in the course of conducting business activities.

## Human Capital Development

**Kao strives to create an environment and corporate culture in which both individuals and the company achieve growth, so that, within our diverse range of human resources, each employee's abilities are mobilized to generate greater strength than the sum of their parts.**

### Policies/structures

The efforts of each and every employee to pursue individual achievements by exercising his or her own abilities and characteristics to the utmost can contribute to the success of the employer. Based on this concept, Kao aims to create such an environment and corporate culture. To this end, Kao has defined this policy as the Basic Principles of Human Capital Development and has made clear what construes an "Ideal Organization" and "Ideal Human Capital." With the objective of achieving this policy, we provide various opportunities and support for employees to develop their skills and capabilities in accordance with their own level of motivation, individual characteristics and organizational goals.

### Basic Principles of Human Capital Development

**Continuously improve overall efficiency based on creative and innovative activities aimed at the sustainable growth of the Kao Group through *Yoki-Monozukuri*.  
(Pursuit of efficiency)**

**Provide a work environment where each individual's dignity is respected, and which makes full use of employees' autonomy and diversity, since the enthusiasm of all employees to display their boundless wisdom is the wellspring of creation and innovation.  
(Respect human dignity)**

**Integrate organizational efforts and individual efforts through creative and innovative activities so as to achieve evolution for all. Make efforts to improve policies in order to offer all individuals freedom to display wisdom, and to enable combined individual efforts to lead the Kao Group to further prosperity.  
(Efforts for integration)**

### Vision of Human Capital Development

#### Ideal Organization

We are committed to building organizations that are characterized by openness and frankness so as to encourage people to pursue innovation, by empowerment of greater transparency, and by organizational management based on the Kao Way. We also endeavor to actualize organizations in which the entire Kao Group operates harmoniously based on the concept of an "organically functional organization" which flexibly and quickly adapts to environmental change.

#### Ideal Human Capital

1. People with consistent challenging spirits  
**Challenge & Change**
2. People with high expertise  
**Professional Capabilities**
3. People with a global perspective  
**Global Perspective**
4. People with the team spirit to achieve superior performance  
**Communication & Collaboration**
5. People with strong ethics  
**Integrity**

## Global

### Holding the Global Human Capital Development Conference

Kao aims to become a company that can attract human resources who pursue global careers around the world, and all Kao Group companies make concerted efforts so that excellent human resources regardless of nationality, race, gender, etc. can play an active role.

To promote cross-border and cross-company human capital development, we hold the Global Human Capital Development Conference and discuss the direction of human resource management and the ideal standardization and coordination of human capital development processes. We further discuss systematic enhanced cooperation and collaboration throughout the Kao Group. In 2012, we held the conference in July with the participation of 63 employees from 19 companies in 12 nations in Europe, the United States, and Asia. One of the key topics was the January 2013 standardization of performance management policies and systems among affiliate companies in all three regions, including Japan, with in-depth discussions on an infrastructure facilitating fair evaluations based on identical benchmarks and frameworks.

## Global

### Implementation of various common global training programs

In April 2010, we launched a global training and development system called "Creativity Camp of Kao." To promote global harmonization, training programs are unified at home and abroad, and human resources who share values, goals and ways of doing business are fostered. In addition, we plan the training program mainly focusing on the achievement of business strategies and practice of the Kao Way and implement it in cooperation with each company in the Kao Group.

Continuing from the previous year, in fiscal 2012 we successively implemented common global programs in Japan and other Asian countries, as well as in Europe and the United States. These programs included Global Leadership Development,<sup>\*1</sup> Management, Global Communication, English Skills, Mini-MBA<sup>\*2</sup> Facilitation, Integrity, and New Employee Orientation. We have also put new focus on developing internal instructors in each country.



GLDP Switzerland/Lausanne session

\*1 Global Leadership Development Program (GLDP)

Kao's first global program common to all Group companies, in which members selected from individual Kao Group companies in Japan and overseas study Kao's challenges from a broader perspective and make proposals to top management. The GLDP began in fiscal 2010 and had 74 participants in fiscal 2012. A total of 214 people have finished the program.

\*2 Mini-MBA Program (e-Learning)

This pilot was carried out in fiscal 2012 in preparation for a full rollout in 2013, with the objective of achieving a business framework to serve as the common language in promoting global business harmonization. The program covers the four areas comprising a basic business framework: corporate strategy, marketing, accounting, and logical thinking.

## Global

### Global rollout of management training

We are rolling out the Managing Human Performance Program (MHPP) in each country across the globe to strengthen management capabilities that bring together the *Genba*. In the program, managers from all countries learn about the Basic Principles of Human Capital Development and the basics of performance management founded on the Kao Way. We have trained 24 internal instructors in Asia and Europe to conduct the MHPP with integrated administration and in cooperation with Kao headquarters. Training has already been conducted in eight countries in Europe and Asia, including Japan. We will continue introducing the training to all Group companies while expanding opportunities for internal instructors to support training beyond their own countries.



Internal instructors conducting training at Kao Corporation S.A. (Spain)

## Global

### Global rollout of facilitation training

We have launched a global rollout of facilitation training for managers to acquire meeting management techniques of a global standard to enhance team-oriented problem-solving skills. The program continued in fiscal 2012, as six internal instructors (five from Asia, one from Europe) conducted facilitation training in four countries. We will continue to develop our internal instructors while further extending the program to Japan and the United States.



Facilitation Training participants in Germany

## Global

### Practice of the Kao Way and sharing examples among all Kao Group companies

To help promote practice of the Kao Way in daily operations, Kao has held the Kao Way Workshop since 2005. This workshop provides employees with opportunities to discuss the links between their daily tasks and the Kao Way. In fiscal 2012, workshops were conducted in the divisions and affiliates shown in the panel on the right.

In addition, the Kao Way Recognition Program, which aims to share and commend practical examples of how the Kao Way is put into practice, has been implemented under the leadership of

#### Implementation status of the Kao Way Workshop (Fiscal 2012)

##### Domestic

- Procurement Division
- Human Capital Development Division
- Skin Beauty Research Laboratories
- Sanitary Products Research Laboratories
- Marketing Development Center
- Creative Center
- Media Planning and Management Division
- Food and Beverage Business Group

##### Affiliates

- Kanebo Cosmetics Inc.
- Kao Transport & Logistics Co., Ltd.

individual workplaces. The Kao Way Newsletter picks up major examples cited in the Recognition Program to share among Kao Group companies globally.

### Global

#### Fair and transparent evaluation and compensation

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Kao clearly states the roles and responsibilities of its employees and endeavors to 1) fairly evaluate their performance, and 2) appropriately reflect achievements in rewards and compensation.

To accommodate global organizational management, we established a management line connecting Japan with Europe and the Americas as part of the global harmonization management initiative started in January 2012. Organizational targets for the Japan headquarters were set as KPI,\* and each region's KPI was further broken down into the individual targets for the respective regional head, further strengthening global harmonization among headquarters and the regions. We faithfully implement our principle of "evaluating the achievement of individual performance targets for each employee," overcoming any issues generated due to differences in the systems, culture and language of each Group company. Kao pursues exceedingly fair and transparent evaluations through a multi-step, multi-dimensional process that sets specific targets based on clear criteria and communication through performance review interviews between employees and superiors.

As of January 2013, Kao has standardized its evaluation system with affiliated companies in Japan, Europe, the Americas and parts of Asia, implementing an infrastructure to facilitate fair evaluations based on identical benchmarks and frameworks. The Kao Group strives to achieve true global corporate growth, gaining success one step at a time as we give careful consideration to ideal system design, implementation, and operation.

\*Key performance indicators (KPI)  
Indicators that are key to assessing performance

## Promoting Diversity & Inclusion and Respecting Human Rights

**While eliminating all forms of discrimination and ensuring respect for employees, Kao endeavors to create workplaces in which individual employees can demonstrate their maximum potential.**

### Policies/structures

Based on the recognition that the vitality generated from diversity supports business development, we aim to realize an organization in which each individual's diverse skills, personality, and values are included and mobilized to enhance the company's collective strength.

As we aim to become a global company with a powerful presence, promoting diversity & inclusion becomes increasingly important. We are currently reviewing the issues involved in promoting diversity & inclusion, and looking at ways to enhance our efforts in this area.

### Kao Group in Japan

#### Implementing activities toward the achievement of a workplace that utilizes diversity

Aiming to promote diversity & inclusion, Kao provides special lectures for newly appointed managers and other employees. In fiscal 2012, we held a total of 9 lectures for 204 participants.

Meetings of the EPS\* Promotion Network, whose members include HR staff at regional sites and Kao Group companies, continued in fiscal 2012, with the secretariat providing information regarding education efforts, and the respective organizations sharing useful examples of their own educational activities. Key topics included sharing of the latest information about power harassment prevention, and training regarding human rights awareness. While individual workplaces have begun implementing their own educational activities based on these meetings, to further enhance educational activities across the entire Group, starting in fiscal 2013 we plan to more thoroughly build awareness of the issues and draft proposals for specific action.

In addition, we continue to use a self-check sheet that summarizes relevant laws and regulations with respect to diversity & inclusion and classifying them into 67 items in 10 groups. We not only observe laws and regulations, but also achieve recommended targets.



EPS Promotion Network meeting

\* Equal Partnership (EPS) promotion activities

Since 2000, Kao Group companies in Japan have been engaged in EPS promotion activities with the aim of achieving an open, cheerful and diverse workplace where discrimination is not tolerated and where employees are motivated and enjoy their work. The major themes of the activities include "promotion of diversity & inclusion" and "promotion of work-life balance."



## ■ Employee data by region in the world (regular employees)

	FY2012	Percentage
Japan	22,203	66.6%
Asia (excluding Japan)	7,417	22.2%
The Americas	1,313	3.9%
Europe	2,417	7.3%
Total	33,350	100%

● Percentage of female employees: 57.0%

● Percentage of female managers: 23.6% (as of December 31, 2012)

## ■ Employee data (Japan)\*

		FY2010	FY2011	FY2012
Regular employee	Female	13,562	13,254	12,570
	Male	9,797	9,748	9,633
Contract employees	Female	2,020	1,696	1,505
	Male	199	206	235
Percentage of female employees	Kao Group in Japan as a whole	58.1%	60.0%	58.8%
Percentage of female managers (regular employees only)	Kao Group in Japan as a whole	7.6%	9.6%	9.6%

\* Calculation based on inclusion of Kao Corporation, Kao Customer Marketing Co., Ltd., Kao Field Marketing Co., Ltd., Kao Professional Services Co., Ltd., Ehime Sanitary Products Co., Ltd., Kao-Quaker Co., Ltd., Kao Business Associate Co., Ltd., Kanebo Cosmetics Inc., Kanebo Cosmetics Sales Inc., Joset, Ltd., Prive Inc., Kanebo Cosmillion, Ltd., Lissage, Ltd., and e'quipe, Ltd.

\* Revised upon review of results from 2011 data.

## Policies/structures

### Kao's Basic Policy for Employment of People with Disabilities

Striving for a society where people with and without disabilities work and live together,  
Kao creates workplace environments for employees with disabilities that are conducive to work and offer reward.

## Kao Group in Japan

### Promoting the employment of people with disabilities and creating workplace environments to demonstrate their skills

Kao is actively promoting both recruiting of those with the desire and capability to work, regardless of disability, and hiring of individuals at either regular workplaces or our special subsidiary, depending on disability and the individual's inclination.

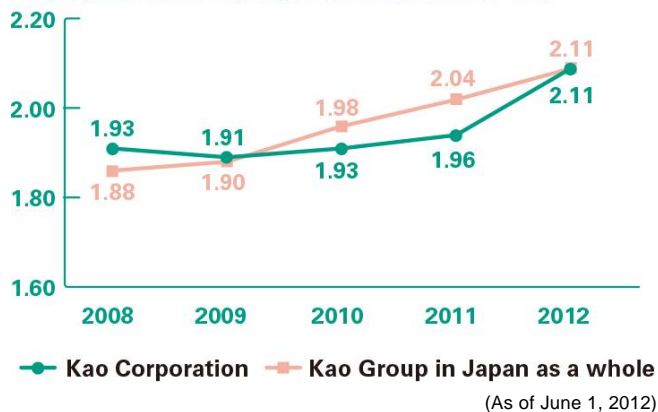
In order to deepen all employees' understanding of hiring people with disabilities, Kao has designated September as the month to promote understanding of employment of people with disabilities. In addition to distributing a newsletter on the company intranet system, we also conduct tours of special subsidiary Kao Peony Co., Ltd.

Further, to better understand how employees with disabilities were being managed and issues for them in the workplace, in fiscal 2012 Kao conducted surveys targeting management staff and held individual interviews using a round-table talk format. These led to the creation of steps to ensure worker-friendly, rewarding workplaces for employees with hearing disabilities.

Kao will continue to make efforts to realize our basic policy.

#### ■ Kao Group employment rate of people with disabilities\*

Employment rate of people with disabilities (%)



\* Calculation based on inclusion of nine domestic affiliates that are required to employ people with disabilities (Kao Corporation, Kao Customer Marketing Co., Ltd., Kao Field Marketing Co., Ltd., Kao Professional Services Co., Ltd., Ehime Sanitary Products Co., Ltd., Kao Logistics Co., Ltd., Kao Business Associe Co., Ltd., Kanebo Cosmetics Inc., and Kanebo Cosmetics Sales Inc.) and special subsidiary Kao Peony Co., Ltd.

## Kao Group in Japan

### Kao Peony Co., Ltd., a special subsidiary of Kao Corporation

This special subsidiary was established with the aim of promoting the employment of people with disabilities. As of January 2013, Kao Peony Co., Ltd., a subsidiary of Kao Corporation that began full-scale operations in April 2006, has a total workforce of 23 employees, 19 of whom have intellectual disabilities. Kao Peony employees are engaged in packaging sets of cosmetics and personal care products. As products move along a conveyor belt, employees are responsible for processes that allow them to maximize their individual abilities and practice *Yoki-Monozukuri* based on enthusiasm, teamwork and cooperation.

## Kao Group in Japan

### Policy for re-employing retired employees

From the perspective of “ensuring a stable supply of workers” and “transferring skills and expertise from skilled and experienced employees,” Kao Corporation introduced the Senior Partner policy in fiscal 2006 to re-employ retired managerial class employees with significant technical or business skills and experience as contract employees. The scope of retired employees covered by the policy was expanded in fiscal 2008 to include those with non-managerial responsibilities. We will endeavor to implement the policy in such a way as to create an environment that will allow motivated and skilled senior employees to continue to work for Kao with vigor and enthusiasm and to contribute to our business.

#### ■ Changes in the number of retiring employees who are re-employed (Kao Corporation)

FY	Number of employees who reach the retirement age*	Number of retiring Employees who are re-employed	Percentage
2010	102	39	38.2%
2011	106	39	36.8%
2012	94	55	58.5%

\*Number of employees who reach the retirement age = Number of retired employees + Number of retiring employees who are re-employed

Target period:

FY2010, FY2011: April 1 through March 31

FY2012: January 1 through December 31 (Period changed due to a change in the fiscal year end.

Results for January through March overlap with fiscal 2011.)

## Kao Group in Japan

### Promoting creation of a workplace free from discrimination and harassment

In recent years, awareness of power harassment in the workplace has grown, with even the Ministry of Health, Labour and Welfare issuing recommendations for addressing power harassment through its working group in March, 2012. Based on this, in fiscal 2012, Kao conducted training for a total of 170 employees, primarily at the management level, at Kao Transport & Logistics Co., Ltd., Kao Professional Services Co., Ltd., Kao Corporation's Kawasaki Plant, and the members of the EPS Promotion Network meeting. In September, Kao conducted a seminar on power harassment for the members of the Compliance Committee by an outside attorney as a lecturer. In addition, a program preventing power harassment was incorporated into corporate training.

Further, Kao designated December as Human Rights Awareness Month and conducted education by issuing a newsletter with information about respecting individuals and by publication of posters featuring prevention of harassment.

#### Kao's efforts for the prevention of workplace bullying

- Publication of the company guidelines “Guidelines for Preventing Sexual Harassment” and “Guidelines for Preventing Workplace Bullying” on the company intranet system
- Making internal and external hotlines available to receive allegations related to harassment and workplace bullying

Promoting Dialogue with Employees

# Promoting Dialogue with Employees

**Kao firmly recognizes good employee relations as one of the company's most important assets. In addition to creating various communication opportunities, we conduct an employee opinion survey every two years in principle.**

## Policies/structures

### Promoting understanding between senior management and employees

Kao strives to foster understanding between senior management and employees by facilitating various opportunities, both in Japan and overseas, for mutual talks, with the objective of developing unity throughout the Kao Group and enhancing employee motivation.

In Japan, we provide an opportunity to exchange opinions whereby the President and senior management explain the company's current situation and priority issues regarding personnel development and the like to employee representatives and also answer questions from employees. Since fiscal 2011, we have called this opportunity the "Kao Forum" and have expanded the range of participating companies to all Kao Group companies in Japan.

In addition, we hold meetings between employees and management and have formed Employee Welfare Committees in workplaces throughout Kao Group companies within Japan. In other countries, various opportunities for employee-management communications have been established, such as the Kao European Forum in Europe and the labor union in China.

## Global

### Improving work environments by conducting employee opinion survey "Find"

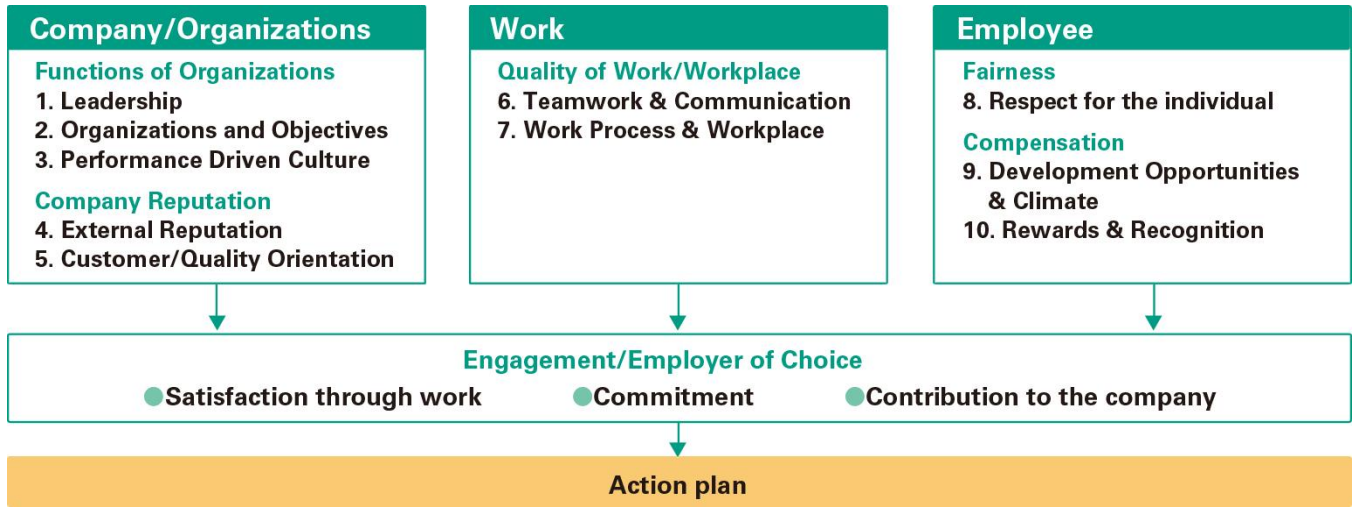
Kao conducts an employee opinion survey, known as "Find," in Japan and abroad every two years in principle with the aim of further enhancing Kao's organizational culture and functions and identifying issues that require solutions. Based on the results, individual divisions draw up their own action plans and promote the improvement of work environments and the creation of a supportive corporate culture by implementing these plans.

The survey was carried out for the sixth time in 2012, featuring an expanded scope covering more affiliated companies outside Japan and some revised questions to facilitate future activities that enhance organizational culture and functions from a more global perspective.

We are also implementing processes to further encourage employees to take more individual initiative in creating a better workplace.

# Kao Sustainability Report 2013

## ■ Questionnaire Items for “Find”



## Work-Life Balance

**Kao strives to create workplace environments that are conducive to work and facilitate a harmonious balance between work and life.**

### Policies/structures

In Japan, to promote good work-life balance, we have enriched systems to support child rearing and nursing care and have endeavored to raise awareness among employees and create a corporate culture that encourages the utilization of these systems. For overseas Kao Group companies, we have also promoted the creation of better working environments through the improvement of various support systems and other initiatives.

### Kao Group in Japan

#### Child-care support

At Kao, we strive both on making systems for managing work and child rearing, and on supporting individual independent efforts.

Programs include regular lunch meetings where working mothers can come together to share a variety of concerns and solutions, covering everything from how to work more efficiently, to how to deal with the issue of summer vacation for elementary school-age children. Round-table talks are also held where female managers who are also mothers offer their own experiences and provide advice. Through these efforts, Kao works to provide a venue where employees in similar circumstances can meet and share new ideas.

We also hold seminars for those planning a return from child-care leave, where by offering an opportunity to learn about how to prepare for returning to work, we help smooth the re-entry of such employees to the workplace. This seminar includes a program for men, and partners are encouraged to participate as a way to cultivate the attitude that child-care needs a cooperative effort between men and women.

The number of children on waiting lists for daycare centers in the Tokyo metropolitan area is a growing problem. In order to support the more rapid return to work of employees forced to stay at home due to the lack of available daycare, in September 2011 Kao established an on-site daycare center called Merries Garden in Kayaba-cho, Tokyo. By using this facility, through December 2012, a total of 19 employees were able to return to work when they had hoped.



Round-table discussion with female managers



Merries Garden

## Kao Group in Japan

### Supporting male employees' efforts to participate in child care

Kao supports the male employees who actively take care of their children through a variety of educational activities. Educational pamphlets are distributed to employees who have just had a baby and their superiors to promote awareness of Kao's child-care support system and understanding in the workplace. In October 2012, work-life management seminars for fathers were held in four locations around Japan, where participants learn perspectives on how to enjoy both work and child rearing through lectures and group discussion. Kao strives to create environments conducive to both work and child rearing, for example by conducting surveys each year of male employees who have had a child.



Work-life management seminar held in Wakayama on October 5, 2012 for male employees who are raising children.

## Kao Group in Japan

### Child-care support system

Kao provides a variety of child-care leave and other support systems for employees who are raising children.

Kao does more than put these systems in place, encouraging employees to use them generally by working to enhance understanding in the workplace and support for these programs, and today, use of these programs is well established.

The rate at which female employees are taking, and returning from, child-care leave is approaching nearly 100%. In fiscal 2012, male employees took child-care leave at a rate of 37.2%.

#### ■ Use of the child-care support system

		FY2010	FY2011	FY2012
No. of employees who took child-care leave*	Female	534	576	581
	Male	76	89	78

\*Tabulation period

Because fiscal 2012 was only 9 months (April through December) due to a change in the fiscal year end, figures for January through March are duplicated in the tabulation covering January through December, 2012.

\*Calculation based on inclusion of Kao Corporation, Kao Customer Marketing Co., Ltd., Kao Field Marketing Co., Ltd., Kao Professional Services Co., Ltd., Ehime Sanitary Products Co., Ltd., Kao-Quaker Co., Ltd., Kao Business Associe Co., LTD., Kanebo Cosmetics Inc., Kanebo Cosmetics Sales Inc., Joset, Ltd., Prive Inc., Kanebo Cosmillion, Ltd., Lissage, Ltd., and e'quipe, Ltd.

## Kao Group in Japan

### Nursing care support

Based on a prospective analysis that showed one out of every five or six employees will need nursing care support in the future, we are gaining a detailed understanding of nursing care circumstances through questionnaires and interviews with employees and formulating a mid-term action plan and support mechanisms. Based on our established nursing care support policy, we are holding nursing care seminars throughout Japan, publishing newsletters targeting all employees, and endeavoring to support independent efforts and provide basic information.

A total of 11 nursing care seminars were held in the three years between 2010 and 2012, with many employees responding that the seminar content was helpful, or that they now realize the need for making early preparations. Starting in fiscal 2011, training for newly-appointed managers also includes case studies in nursing care, providing more opportunities in the workplace to consider the issue of balancing work with nursing care. The fiscal 2012 newsletter was viewed about 5,600 times.

In addition, the mutual support organization Kao Family Association entered into a new agreement with a NPO that provides support for long-distance nursing care, which will enable the employees to turn to this group as its representative in dealing with nursing care services, medical institutions, and municipal governments. At the same time, to enhance our ability to provide internal consultation services, a manual was created for HR and labor affairs staff, and orientation sessions are being held to encourage its use. In fiscal 2012, a meeting of internal counselors was held to provide further explanation and exchange information, as efforts moved ahead to put in place and enhance programs for employees to receive counseling on nursing care issues through a variety of contact points.

These efforts were picked up in newspapers, magazines, and other media. In addition, through participation in outside committees that consider the issue of balancing work and nursing care, Kao will work to contribute to solving this issue in society as a whole.

We continue to aim for the creation of a mutually beneficial environment that allows employees to continue working even when confronted with both work and nursing-care demands.

## Kao Group in Japan

### Promoting appropriate working hours

From the perspectives of employee health and work–life balance, Kao has introduced the Work Management System to manage the number of hours that employees spend at work, the duration of work, and their declared overtime hours.

Individual companies and divisions have made plans and are working to promote more appropriate working hours by establishing ‘go-home-early’ days and special days for promoting use of paid holidays.

We also collected work-life balance slogans from employees and created posters using the best slogans from the entries submitted, which are now displayed at all offices, as part of our efforts to enhance awareness in the workplace. In fiscal 2012, a slogan created by a Kao Group employee—“Time



Collecting slogans and making educational poster slogan



for work, and time for family, both are *your* valuable time”—was selected in the Slogan Division of the 6th Annual Work-Life Balance Awards held by the Japan Productivity Center.

### ■ Rate at which paid holidays were used\*

	FY2010	FY2011	FY2012
Rate	61.0%	66.4%	67.8%

\*Kao Corporation (regular employees only)

\* Tabulation period

Because fiscal 2012 was only 9 months (April through December) due to a change in the fiscal year end, figures for January through March are duplicated in the tabulation covering January through December, 2012.

Consideration for Employee Health and Lifestyle

## Consideration for Employee Health and Lifestyle

Based on the Kao Group Health Declaration, Kao is actively promoting measures to support health aiming to realize KAO Health 2015.

### Policies/structures

#### Kao Group Health Declaration Five support measures

1. Measures to address lifestyle-related diseases

- Provision of healthcare advice focused on preventing lifestyle-related diseases
- Provision of support for employees' attempt to improve their lifestyles
- Specific health guidance coordinated with the health insurance union



Appeal for lifestyle-related disease prevention at an event promoting healthy eating habits

2. Measures to address mental-health issues

- Establishment of a system to deal with employees with mental health problems early on through the introduction of a mental health check system
- Implementation of training to deal with mental health issue for managers, and mental self-care training for regular employees

3. Measures to support employees wanting to quit smoking

- Implementation of the "Kao Group No Smoking Marathon"
- In fiscal 2012, a total of 109 employees participated in the program, and 33 employees succeeded in quitting smoking.
- Survey on status of antismoking measures
- Formulation of smoking cessation promotion plan
- Employee survey on smoking conditions and anti-smoking measures at offices

4. Measures to support employees affected by cancer

- Addition of cancer detection categories to the annual physical check-up designated by the Industrial Safety and Health Act



Internal information session promoting the importance of cancer screening

5. Measures to support women's health

- Spread of knowledge of women's health issues and increase the rate of females receiving gynecological exams

### Kao Group in Japan

#### Fostering employees with high health literacy

With the goal of promoting health consciousness among employees and helping more employees maintain their physical and mental health, Kao is implementing the mid-term plan "KAO Health 2015" that was formulated taking into consideration health check-up and interview data as well as health insurance claims (medical expense statements).

In addition, Kao continues creating programs encouraging lifestyle habit reviews and improvement goals for before and after health checks, promoting a health-enhancement cycle via self-health awareness and the repetitive setting, implementation and review of improvement goals.

Kao considers an employee with high health literacy as someone who:

1. Reviews lifestyle habits and voluntarily works on improvements based on health check results;
2. Relies not only on industrial physicians, but confers with other doctors as well, based on health check results;
3. Remains aware of his/her own mental and emotional health, and confers with appropriate professionals as needed.

### Kao Group in Japan

#### Employee participation in the *Healthya* 12-week Wellness Challenge preceding health check-up

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Kao implemented the “12-week Wellness Challenge” from March to June 2012 to raise health consciousness, backed by *Healthya*, the government-approved Food for Specified Health Use (FOSHU). The program was initiated on March 12 as a pre-health check campaign, helping employees enhance their health through measures preventing lifestyle-related diseases and improved eating habits.

The results—839 participants, with 43% (360 people) walking at least 10,000 steps per day.

### Kao Group in Japan

#### Promotion of specific health guidance

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Specific health check and guidance, initiated in fiscal 2008, is implemented on a mandatory basis by the health insurance union. Kao is promoting specific health guidance based on the entrustment from the Kao Health Insurance Union.

Recipients of specific health guidance singled out as requiring “active support” receive special guidance through Kao Group company, Healthcare Committee, Inc.

### Kao Group in Japan

#### Promotion of mental health measures

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Kao promotes mental health through care provided by oneself, one’s supervisor (“line care”), onsite industrial health care staff, and outside resources (facilities and specialists).

In fiscal 2012, Kao conducted nine basic training sessions for management personnel, focusing on how to provide “line care.” Topics covered the importance of mental health measures provided by companies and the expected role of management personnel, as well as the current state and trends of workers’ mental health. In addition, six advanced training sessions offered in-depth examples of how to help an employee following an extended corporate absence, using role play exercises to learn how to communicate with staff members and how to treat an employee returning to the workplace.

In addition, a mental health measures conference was held for human resource personnel, occupational health nurses, and counselors, as mental health issues affect the entire company. COCOOHN meetings are called to deal with individual cases, where nurses and counselors discuss and work in tandem. The term COCOOHN was created from “COoperation between COounselors and Occupational Health Nurses.

## Kao Group in Japan

### Supporting proactive future plans

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From fiscal 1992, Kao has held Life Plan Seminar for employees between the ages of 55–57 to help them plan their lives after retirement. The seminar includes an explanation of Kao’s corporate pension system and the social insurance system as well as presentations by invited speakers, who talk about living on a pension and provide proposals and advice on life after retirement along with other information.

The organizing responsibilities of the seminars were transferred from Kao Corporation to the Kao Group Pension Fund from fiscal 2012. Attendance is open to subscribers of the Kao Group Pension Fund. Fiscal 2012 also saw the establishment of a personal consultation corner, which received a total of 39 inquiries from 23 employees.

#### **Number of participants in the Life Plan Seminar**

(Fiscal 1992–2012)

Current fiscal year: 153 (including 52 couples in the married-couple course)

Cumulative total: 2,075 (including 220 couples in the married-couple course)

#### **Number of participants in the Life-Career Design Seminar**

(Fiscal 2007–2012)

Current fiscal year: 139

Cumulative total: 788

In addition, from fiscal 2007, Kao has conducted the Life-Career Design Seminar targeting employees who have reached the age of 45. The seminars are designed to help participants independently consider their future plans at the halfway point in their lives through a better understanding of themselves. “Values cards” were introduced as a tool to deepen understanding of one’s own values, facilitating a more focused career design.

## Occupational Safety and Health, Process Safety and Disaster Prevention

**Kao conducts activities to ensure occupational safety and disaster prevention based on the basic policies for Responsible Care (RC) activities in order to protect employees from accidents and disasters in the course of conducting business activities.**

### Policies/structures

Activities ensuring “occupational safety and health” and “process safety and disaster prevention” are clearly described in the Kao Responsible Care Policy. Accordingly, when occupational accidents occur, we analyze the causes and take necessary measures to prevent similar accidents in the future, protecting our employees while maintaining safe and stable operations. In addition, Kao provides extensive safety education to all employees regardless of their employee status at the general training sessions for new hires and training sessions organized by individual divisions in order to boost safety awareness.

Our daily activities for occupational safety, process safety, and disaster prevention are conducted as part of the Responsible Care promotion system. In particular, when disasters and occupational accidents occur, Kao has established a mechanism to keep track of them through the emergency reporting network, which includes overseas Kao Group companies. In addition, when a large earthquake or other large-scale disaster occurs, we will establish a disaster prevention organization headed by the President & CEO. Together as a group, our initial response places top priority on human life as we implement measures including our business continuity plan (BCP).

### Kao Responsible Care Policy —excerpt

- Occupational Safety and Health  
We shall strive to eradicate occupational accidents and reduce potential risks, as well as provide comfortable working environments and promoting employee health.
- Process Safety and Disaster Prevention  
We shall strive to prevent fires, explosions and chemical spills while maintaining safe and stable operations. We shall also implement the appropriate facilities and periodical training to prepare for emergency situations such as natural disaster and security issues.

### Goals

In 2012, the Kao Group in Japan established the three prioritized goals of “Eradication of Occupational Accidents,” “Occupational Health,” and “Maintenance of Safe Operations (Eradication of Accidents for Security, Disaster-Prevention Activities)” and implemented activities to achieve them.

Specific activities to eradicate occupational accidents currently focus on equipment and operational risk assessment, thorough implementation of 3Ss,\*1 traffic accident prevention, strengthened measures to avoid “falling over and falling down” accidents, and heatstroke prevention.

In the area of occupational health, we have prepared information on occupational diseases and are promoting

chemical substance risk assessment.

Regarding maintenance of safe operations (eradication of accidents for security, disaster-prevention activities), we have given each promotion division the themes of implementing thorough Change Management,<sup>\*2</sup> safety assessments of chemical facilities, regular inspections, enhanced patrols, enriched disaster drills, and continuation of business continuity planning (BCP), and they are breaking down these themes further, incorporating them in action plans, and conducting relevant activities.

\*1 3S

**Seiri** (tidiness), **seiton** (order), and **seiso** (cleaning)

\*2 Change Management

Management activities anticipating and accommodating risks before changes are implemented, along with preventive measures for issues such as failure, defects, and accidents.

## ■ Targets and Results for Occupational Safety/Disaster Prevention and Security (Kao Group in Japan)

Priority target	Relevant division	Indicator	2012		2011 actual (Reference)
			Target	Actual	
Prevention of occupational accidents	Kao Group in Japan as a whole including temporary staff	No. of employees with lost work days	0	14	24
		No. of employees injured by accidents per 1,000 people* <sup>1</sup>	2.1 or less	3.2	3.4
		No. of employees injured by accidents* <sup>2</sup>	75 or less	107	119
Prevention of traffic accidents	Sales Logistics	[100% negligence] Accidents causing bodily injury (no. of accidents)	0	18	22
		Accidents other than 0% negligence per 100 vehicles* <sup>3</sup>	8.3 or less	11.0	10.4
		Accidents other than 0% negligence (no. of accidents)	369 or less	421	420
Accidents	Kao Group in Japan as a whole	[Fires/explosions/leaks, etc.] Japan (no. of accidents)	0	4	2

\*1 No. of employees injured by accidents per 1,000 people

No. of employees injured by accidents/No. of employees X 1000

\*2 No. of employees injured by accidents

Total number of employees injured by accidents with lost work days and accidents without lost work days

\*3 Accidents other than 0% negligence per 100 vehicles

No. of traffic accidents other than 0% negligence/No. of vehicles in fleet X 100

## Global

### Occupational accidents in 2012

The number of employees across the Kao Group in Japan (including temporary staff) who suffered occupational accidents in 2012 decreased to 107 from 119 people in 2011. Of these, the number of employees suffering injuries resulting in lost work days decreased to 14 from 24 people in 2011 (of these, five people lost work days from traffic accidents in which they were 0% negligent).

The main causal factors were: “falling over/falling down” accidents (23 people), traffic accidents (victims; 15 people), and physical entanglements (15 people), totaling approximately half of all injuries.

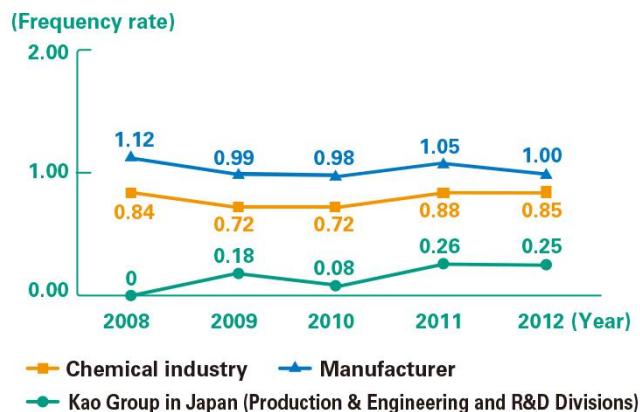
There were 29 operational injuries in the Production and Engineering and R&D Divisions (three involving lost work days). Unfortunately, we did not improve upon 2011 results; moreover, there were injuries caused by rotating apparatus accidents.

We have completed a companywide expansion of equipment safety measures implemented by the organization launched in 2011 to strengthen safety measures, conducted risk assessments, and are striving to reduce remaining risks in order to prevent reoccurrences.

The number of those injured by occupational accidents in Production and Engineering and R&D Divisions in Kao Group companies outside Japan totaled 75 in 2012, 29 of whom lost work days.

The accident frequency rate for all Kao Group Production and Engineering and R&D Divisions, including those outside Japan, was 1.55; the severity rate was 0.02.

### ■ Changes in the frequency rate in the Production & Engineering and the R&D Divisions (Kao Group in Japan)★

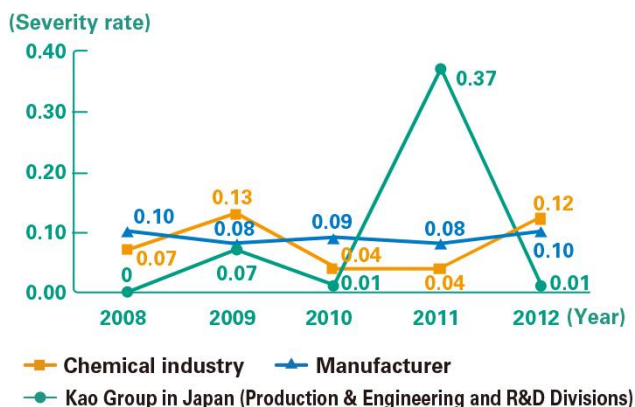


Frequency rate: Number of deaths and injuries due to occupational accidents per million hours worked (“Accident” is defined as an incident resulting in the loss of more than one working day or the loss of a body part or physical function)

\*Figures for chemical industry and manufacturers are based on data from Ministry of Health, Labour and Welfare “Survey on Industrial Accidents 2012”

# Kao Sustainability Report 2013

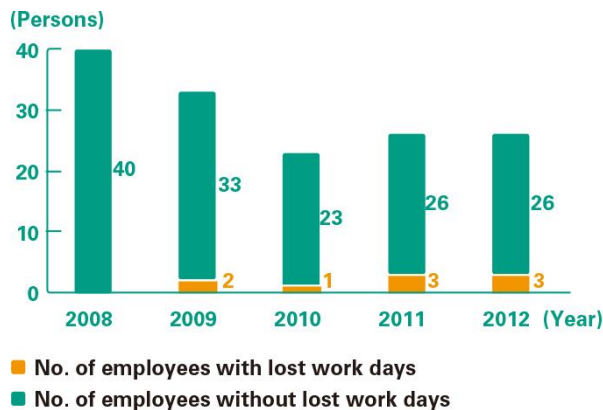
## ■ Changes in the severity rate in the Production & Engineering and the R&D Divisions (Kao Group in Japan)★



Severity rate: Number of working days lost per thousand man-hours actually worked

\*Figures for chemical industry and manufacturers are based on data from Ministry of Health, Labour and Welfare "Survey on Industrial Accidents 2012"

## ■ Changes in the number of employees injured by occupational accidents in the Production & Engineering and R&D Divisions (Kao Group in Japan)



### Kao Group in Japan

#### Drills to prepare for large-scale disasters

Until 2011, Kao conducted annual companywide drills in September, testing input to the system for checking employee safety in the event of an earthquake. However, following the Great East Japan Earthquake, growing concerns of an earthquake occurring beneath Tokyo or along the Nankai Trough spurred twice-yearly drills in March and September since 2012 to ensure information input during a disaster. In addition, the annual warning drill conducted every October by the disaster prevention committee became biannual in 2013 to ensure swift, immediate action in the event of a Tokyo earthquake. The web-based new system for checking employee safety, implemented in February 2012, is currently running successfully.

Headquarters for Kanebo Cosmetics Inc. and Kao Customer Marketing Co., Ltd. recently relocated to the Kayabacho neighborhood, in the vicinity of Kao's Head Office in the Kayabacho Complex. On July 27, 2012, the three companies conducted a joint drill based on a hypothetical Tokyo earthquake. The drill created a joint countermeasures headquarters to supplement each company's local versions; inter-corporate communication and disaster prevention system functions were also tested.

We will continue to identify and resolve disaster-related issues, further strengthening our prevention system.



## Global

### Disaster prevention training

In 2012, the Production & Engineering Division again visited Pilipinas Kao and Fatty Chemical (Malaysia), which handle high-pressure gas equipment, to audit safety and disaster prevention measures and observe joint disaster drills with a municipal fire brigade at a local plant, assessing the status of safety activities carried out by each brigade and team.

Results of the drill—shared by plant members and partner company employees—revealed high disaster awareness, but further intensive training is also planned.

## Global

### Occurrence of small fires in 2012

Local fire departments extinguished one fire in Japan and one overseas, with three additional small fires in Japan. There were no injuries from these fires. (Total of four facility-related fires and one vehicular fire.)

In light of the above-mentioned incidents, we have inspected the causes and fortified preventative measures. For facility-related fires, we strengthened safety measures, revised operations and increased plant awareness; for vehicular fires, we prohibited smoking in vehicles and reiterated the importance of the 3Ss to employees. We will continue conducting regular inspections, maintenance, patrols, and implementation of workplace 3Ss at our facilities to ensure thorough safety management.

#### <Japan>

- February: Electric boards for drying tower blower, Wakayama Plant, Kao Corporation  
Age-deteriorated magnetic switch ignited.
- April: High-pressure laboratory, Wakayama Plant, Kao Corporation  
Liquid leaked from cork section on experiment apparatus, ignited by heater.
- April: Sales vehicle, Kanebo Cosmetics Sales Inc.  
Products inside car caught on fire and were damaged due to driver smoking while driving the car.
- August: Hydrogen gas holder, Kashima Plant, Kao Corporation  
In test preparation, during release of remaining hydrogen from holder, metal screen (for prevention of intrusion by birds) flew off, causing sparks that ignited hydrogen.

#### <Overseas>

- July: Alcohol distillation tower, Fatty Chemicals (Malaysia)  
Fire broke out after plant shutdown.  
\*We assume the manhole was opened while the temperature somewhere exceeded spontaneous ignition level, which then caused oxidation, heat storage and spontaneous ignition.

Partnering with Local Communities

## Partnering with Local Communities

### Corporate Citizenship Approach



Based on the theme of “Creating an Environment and Developing Human Resources to Nurture the Next Generation,” Kao has been utilizing its resources to conduct systematic activities in the three areas of “environment,” “education,” and “community.”

### Education



Making use of our management resources, we provide programs suitable for various age groups.

### Community



To contribute to culture and society, the Kao Group carries out corporate citizenship activities together with local communities.

## Corporate Citizenship Approach

**Kao has been utilizing its resources to conduct systematic activities in the three areas of “environment,” “education,” and “community.”**

### Policies/structures

Since fiscal 2007, Kao has adopted the theme of “Creating an Environment and Developing Human Resources to Nurture the Next Generation,” identifying three key domains—environment, education, and the arts—upon which to concentrate its activities. From fiscal 2012, however, we will shift the focus to “community” in order to promote the entire Kao Group’s involvement in activities contributing to society. Kao will further promote activities that aim to achieve co-existence and co-prosperity with local communities.

Activity Guidelines
● Conduct activities that play a role in nurturing the next generation
● Conduct activities aimed at contributing to the development of regional communities and culture
● Conduct activities that protect and nurture the environment to promote a sustainable society
● Conduct activities that promote a barrier-free society as a form of social support
● Conduct activities that make effective use of Kao's resources
● Create an atmosphere in which every employee can participate in community activities as a good citizen

### ■ Overview of Kao’s corporate citizenship activities

#### Creating an Environment and Developing Human Resources to Nurture the Next Generation

Environment
● Kao Creating Forests for Everyone
● Supporters of “Kao Creating Forests for Everyone”

Education
● Kao Earthwatch Teachers’ Fellowship
● Supporting science education —JSEC, Science experiment classes
● Educational support programs

Community
● Kao Family Concert
● Kao Social Entrepreneurship Schools
● Promotion of a barrier-free society
● Donation of products to welfare facilities
● Plant tours

Employee participation activities	Heart Pocket Club, Pink Ribbon Campaign
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Support of the arts	Tokyo Music Competition, support for ballet and art exhibitions
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#### The Kao Foundation for Arts and Sciences

## Goals

Under the theme of “Creating an Environment and Developing Human Resources to Nurture the Next Generation,” Kao has been focusing on “collaboration with NGOs and NPOs,” “activities related to our business,” and “employee participation activities.”

In fiscal 2011, we updated our “Kao Creating Forests for Everyone” program, resuming our expansion of environmental preservation activities within Japan. In fiscal 2012, we re-evaluated our global environmental activities and initiated a 5-year project of environmental conservation activities in northern Thailand.

Some of our environmental initiatives can be explored via the following links.

[> p. 95 “Protecting the Environment throughout the Product Lifecycle > Measures for Biodiversity”](#)

[> p. 99 “Protecting the Environment throughout the Product Lifecycle > Environmental Communication”](#)

## Education

**Education is one area that Kao focuses on, and under the theme of “Creating an Environment and Developing Human Resources to Nurture the Next Generation,” we have used our management resources and knowledge to provide programs suitable for various age groups.**

### Kao Group in Japan

#### Classroom visits by Kao Group members

Hoping to help students improve their life skills, Kao implements three programs—the Hand Washing Education Program, the Housework Education Program and Environmental Education Program—in the areas of cleanliness, health and the environment, which are closely related to Kao’s business. These hands-on programs focusing on practice and experiments make use of knowledge useful for daily living learned through the product development process.

In 2012, the three programs involved a total of 900 Kao Group members, who visited 183 schools in 32 prefectures and taught 12,000 students. A total of 23,000 students have participated since the programs’ start in 2009.

Our members also welcome the chance to participate, saying that the programs give them a good opportunity to experience Kao’s corporate citizenship activities, come into contact with local communities, and learn about the Group’s social contribution activities. In 2012, the number of participating divisions was expanded and the programs have become a company-wide activity, with even the top management now participating.

Beginning in 2013, the programs’ quality will be improved and they will be offered in more schools, and more of our members are expected to participate.

#### 1. Hand Washing Education Program

Kao has been conducting this program for schoolchildren ages 6 to 9 since 2009, to teach the importance of hand washing and how to wash hands properly.

Time is set aside to practice hand washing to the tune of the *Awa awa tearai no uta* (Kao original hand washing song), which helps motivate students to wash their hands properly.

In 2012, a total of 440 of our members visited 87 schools in 31 prefectures and gave hand washing lessons to 5,400 students. Teachers were very pleased with the program, saying that the special equipment brought in to perform experiments was very helpful as this was something that schools could not ordinarily do.



Hand-washing lessons



Hand-washing lessons

## 2. House Cleaning Education Program

This program, started in 2010 and offered in conjunction with “living environment studies” for schoolchildren ages 6 to 9, teaches the importance of housework and how to do it well, by practicing washing dishes and cleaning with a wet cloth. By helping them explore their role in the family, the program also tries to teach students to feel happy at being useful and to feel grateful.

In 2012, a total of 270 of our members offered instruction and practical training in 47 schools in 17 prefectures and gave lessons to 3,100 students. Parents and teachers were very pleased that the program helped the students greatly improve their cleaning skills and become aware of the hard work involved in managing a household. And some students commented that while they had previously hated cleaning, they liked it better now, so the program helped give them useful life skills.

We plan to continue and expand the House Cleaning Education Program and involve more employees, so that we can continue teaching basic housework skills and communicating the importance of consideration for family members.



House-cleaning lessons

## 3. Environmental Education Program

This is a hands-on environmental education program incorporating lectures and experiments where students learn about environmentally-responsible manufacturing. This program, which started in 2009, uses the example of familiar products to help students think about water saving and learn to be respectful of the environment in daily life.

Using *Attack Neo* ultra-concentrated liquid laundry detergent with superior rinsing qualities as a teaching material, students learn how much water can be saved if they select the single rinse cycle when doing the laundry. This also helps them understand that Kao works to develop and manufacture environment-friendly products and how their behavior when using cleaning products also has a major impact on the environment.

In 2012, Environmental Education Program was offered to students in 49 elementary, junior high and senior high schools in 19 prefectures. Pupils attending the program said they learned that being more careful about using water and electricity in daily life can benefit the earth and the environment, so it has been useful in stimulating students' awareness and helping change their behavior.



Primary school environmental lesson

## Kao Group in Japan

### Support for science education

Kao supports science education by sending employees to conduct scientific experiment sessions for students from elementary to high school age using familiar products, dispatching lecturers to education groups or organizations, and accepting groups for corporate visits and training.

In fiscal 2012, Kao worked with 15 education bodies to support science education and career education.

## 1. Helping out at Japan Oil Chemists' Society Oleo Science Fair for elementary and junior high school students

Since 2001, Kao has supported science education by having employees conduct scientific experiment sessions for students using familiar products.

In 2012, we assisted at the Japan Oil Chemists' Society Oleo Science Fair commemorating the Society's 60th anniversary by holding an experiment session to create skin cream and explore emulsification in daily living. The session was conducted at the laboratory of Keio University's Faculty of Science and Technology, site of the second round of the All-Japan High School Chemistry Grand Prix 2011. In this authentic setting, the young participants felt like real scientists as they kept track of the experiment in notebooks and enjoyed the experience along with parents.

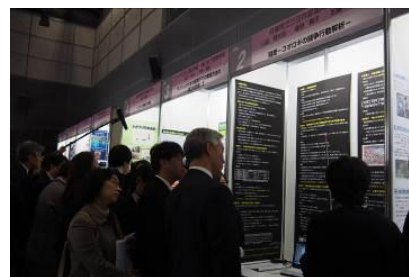


Young student experimenting at the Oleo Science Fair

## 2. Support for JSEC (Japan Science and Engineering Challenge)

From 2005, Kao has sponsored a free study contest for high school students known as JSEC (Japan Science and Engineering Challenge), presenting an annual Kao Award for excellent study. We also created a new Kao Special Incentive Award in 2012 as a way of contributing to career education. This prize includes a study tour of Kao's research facilities, giving winners an opportunity to meet researchers in person.

The winners of the 2012 Kao Award were Kentaro Yamada, Kiriko Fujiwara and Yuka Kato, students at Hyogo Prefectural Sanda Shouinkan High School, for their analysis of the fight behavior of crickets. The Kao Special Incentive Award was won by Kana Fushimi, Hirona Oue and Takafumi Uchino of Shizuoka Institute of Science and Technology Shizuoka Kita High School for developing a reactor to remove nitrate ions by combining adsorption via hydrotalcite and deoxidization and removal using titanium dioxide and hydrogen.



Final judging at JSEC 2012

## Kao Group in Japan

### Support for career education

In cooperation with Yokohama National University's early career education program, a Kanebo Cosmetics researcher led a career seminar on science at Kanagawa Prefectural Odawara High School. Aimed at 320 first year students, the seminar covered the structure of the skin and the role of cosmetics and demonstrated various formulation technologies with the help of simple experiments. The researcher also shared stories of how his research as a student helped him in his work of developing products. He emphasized the importance of setting career goals and the various ways in which those goals can be realized, to encourage young people to start actively thinking about their futures.



Career seminar, presented by Kanebo Cosmetics

## Kao Group in Japan

### Supporters of Kao Creating Forests for Everyone

The program is designed to deepen university students' awareness about the environment, with the cooperation of civic groups supported by the "Kao Creating Forests for Everyone" program. Students selected from among those responding to a public announcement participate in activities by the civic groups. The students conduct interviews and write reports, leading to new depths of knowledge and understanding.

Furthermore, through the student reports, the public knows the importance of afforestation and increases the support for the civic group. The communication between generations and community building is stimulated, all deepening mutual understanding. Theoretical knowledge and scholarship are supplemented by field experience, allowing students to grasp the importance of being in the field, and include what they heard and thought—in their own words—in their reports.

Since the project's start in 2006, 56 students have visited 57 groups and prepared reports up to 2012.

This project is administered by the Japan NPO Center (JNPOC), with the student reports appearing on the NPO Hiroba database managed by JNPOC.



Supporters of Kao Creating Forests for Everyone

## Kao Group in Japan

### Youth education through plant visits

In 2012, approximately 45,000 people visited Kao's nine plants in Japan for plant tours, and roughly one-third of those visitors were schoolchildren and students. On its plant tours for schoolchildren, in particular, Kao wants to demonstrate how a plant near them carries out *Yoki-Monozukuri*.

Since 2010, our Kawasaki Plant has been conducting a unique tour program for fifth grade's schoolchildren incorporating an educational viewpoint. This tour has helped improve understanding and is very popular among students and teachers alike. The new tour has been quite successful, since the number of program participants in 2012 was three times the number of visitors in 2010.

In 2012, our Kashima and Wakayama plants and the Kao Eco-Lab Museum introduced a new plant tour program coordinated with social science lessons taught in each grade at school. The program explains the features of the two plants and the museum and incorporates experiments to teach students how various ingredients work and about environmental awareness, so that students can experience the joy of learning for themselves.



At the Kashima Plant: Experimenting to check how an ingredient works.



Experiment to measure water volume at the Kao Eco-Lab Museum



## Global

### Youth education in Asia

Classroom visits for youth education are conducted not only in Japan but elsewhere around the world too.

The Hand Washing Education Program has been offered in kindergartens in Indonesia since 2011. In 2012, 3,000 children in 25 kindergartens had learned about how to wash hands properly to the tune of the hand washing song, just like in Japan.



Cleaning Lesson in Taiwan



Hand washing lesson in Indonesia

In Taiwan, a program to teach children how to do housework modeled on the Japanese House Cleaning Education Program was started in 2011. In 2012, employees of Kao (Taiwan) visited 12 schools to teach how to clean properly and why cleaning is important. Instruction in proper hand washing is also being offered within the House Cleaning Education Program.

Kao intends to continue offering Hand Washing and House Cleaning Education Programs, teaching proper hand washing to get children into the habit of washing their hands properly, and how to perform housework, to equip the next generation with useful life skills.

## Kao Group in Japan

### Continuing to implement Kao Earthwatch Teachers' Fellowship

The Kao Teachers' Fellowship allows elementary and junior high school teachers to devote about two weeks of their summer holiday to participate as volunteers in overseas field research for biodiversity protection undertaken by the NPO Earthwatch. The experiences and impressions gained on location are brought back to their schools and communities and incorporated into environmental education so that students, fellow teachers and, local communities can learn about the importance of environmental and biodiversity protection.



Field research

#### Number of projects that Kao sponsored

Fiscal 2012 4 projects  
(with the participation of a total of 10 teachers)

Number of projects that Kao has sponsored thus far 50 projects  
(with the participation of a total of 99 teachers)

Community

## Community

**With the aim of “Creating an Environment and Developing Human Resources to Nurture the Next Generation,” Kao has been focusing on “Community,” and has been promoting activities together with local communities.**

### Kao Group in Japan

#### Kao Family Concert

Kao has organized the Kao Family Concert with the aim of giving people living in the areas where our plants and facilities exist exposure to high-quality music and encouraging them to be familiar with the arts. The work of guiding audiences at the venue, the announcements, ticket checking, etc. is all performed by Kao employees; revenue from ticket sales is all donated to support local music education, etc.

In fiscal 2012, the “Kao Family Concert in Tochigi” was held on June 3 at the Mashiko Community Center in Mashiko Town, Tochigi Prefecture, and the “Kao Family Concert in Sakata” was held at the Sakata Civic Hall (Kibou Hall) in Sakata City, Yamagata Prefecture. The performance in Tochigi by Ms. Mayu Kishima (violin), Mr. Shota Nakano (piano), and Ms. Miyako Yamada (introductions) was attended by 700 people. The performance in Sakata by the violins and piano group TSUKEMEN attracted an audience of 1,100.



Kao Family Concert in Tochigi



Kao Family Concert in Sakata

### Kao Group in Japan

#### Volunteering to help maintain the Kumano Kodo, a World Heritage site in Wakayama Prefecture

On October 20, 2012, a group of 92 volunteers from Kao’s Wakayama Complex took part in an activity to help maintain the Kumano Kodo ancient pilgrimage route in Wakayama Prefecture, which is a UNESCO World Heritage site.

The Kumano Kodo is a pilgrimage route with a total length of over 300 km linking together the sacred sites in the Kii Mountains. In July 2004, the sacred site and the pilgrimage route were jointly granted World Heritage site status. The Kii Mountains through which the Kumano Kodo receive high annual rainfall, and are frequently struck by typhoons and other



Bagging soil for repair

## Kao Sustainability Report 2013

natural disasters; as a result, there are many places where the path is in a poor state of repair. To remedy this situation, Wakayama Prefectural Government launched the “Michi Bushin (Path Collective Effort) Walk” initiative, appealing to business enterprises and other organizations to participate in activities aimed at restoring and maintaining the Kumano Kodo. This year, volunteers from Kao’s Wakayama Complex took part for the first time.

The work involved carrying bags of soil to the repair sites, to reinforce and strengthen the damaged sections of path. A total of 92 Kao volunteers (including 6 female volunteers) took part, transporting a total of two tons of soil.

The participants made many positive comments about the experience of volunteering, noting that “This was a precious opportunity to help restore a World Heritage site,” “We had the chance to experience just how beautiful the Kumano Kodo is,” and “Next time I will bring my family along too.”

Kao intends to continue its participation in the maintenance of the Kumano Kodo, in order to help preserve this precious World Heritage site.

### Kao Group in Japan

#### Supporting NPOs and NGOs by the Heart Pocket Club

The Heart Pocket Club, Kao’s voluntary aid organization, uses part of its funds, accumulated through monthly contributions from employees’ salaries, to support NPO/NGO activities and victims of major disasters. Kao established the fund to facilitate social interaction for employees, with participation starting from contributions of one unit, or 50 yen. The uses to which the funds will be put are decided on by the Club’s Steering Committee during Committee Meetings.

Besides administering donations, the Committee Members also proactively plan and organize activities for Kao employees. In fiscal 2012, the Heart Pocket Club organized the screening of a series of films on “Topical Global Issues” at the Wakayama Complex and the Sumida Complex.

In addition, in order to contribute to build communities in the areas where our plants and facilities exist, Kao began supporting civic organization programs in Tochigi Prefecture in 2007, and in Wakayama Prefecture from 2008. Kao subsidizes these groups through the Tochigi Volunteer Network and Wakayama NPO Center, both liaison organizations.



“Project for Child Friendly Village (Bal Mitra Gram)” in India  
Photo courtesy: NPO Action against Child Exploitation (ACE)

#### Fiscal 2012 achievements

- Participating Members: 2,515 individuals (as of December 20, 2012)
- Subsidized NPO/NGO Activities: 24 activities (activities confirmed during the period April–December, 2012)
- Major disaster relief: 3 cases (as above)
- Regional program subsidies: 6 organizations in Tochigi Prefecture; 7 organizations in Wakayama Prefecture

## Kao Group in Japan

### Kao Social Entrepreneurship Schools

Kao supports the development of social entrepreneurs who attempt to solve social issues with business approaches in order to pass a better society on to the next generation.

To this end, Kao launched Kao Social Entrepreneurship Schools, a social entrepreneur development program, in fiscal 2010 in cooperation with Entrepreneurial Training for Innovative Communities (ETIC.) and supported five entrepreneurs that work to help solve issues surrounding families in particular.

The program incorporates Startup Division, which provides support for young entrepreneurs who have just started, or are getting ready to start, their own business, as well as Innovation Division to support entrepreneurs with previous successes with their new efforts. Starting from fiscal 2012, enterprises that had previously received support from the Startup Division could continue to receive support from the Innovation Division, with the aim of helping these firms to achieve continued development and growth.

#### ●Startup Division

Support for young entrepreneurs around the startup period

- Noriaki Imai and Kiho Park  
NPO DxP  
Career planning support to help young people avoid being trapped in temporary jobs or becoming "NEETs" (not in employment, education or training)
- Asuka Someya  
Pilcon  
Helping people to develop a healthy attitude toward sex and to improve their communication skills
- Daichi Watanabe  
Ainaloha  
Childcare and housework support for expectant and new mothers

#### ●Innovation Division

Support for entrepreneurs with previous successes with their new efforts

- Atsuko Horie  
Sourire  
Work & Life Internship Business that provides opportunities for learning work and childrearing at home
- Takae Moriyama  
NPO 3Keys  
Providing self-reliance support for children at orphanage through learning

## Global

### The Pink Ribbon Campaign

The Pink Ribbon Campaign is a social contribution program jointly implemented by Kao Corporation, Kao Customer Marketing Co., Ltd., Kanebo Cosmetics Inc., and Kanebo Cosmetics Sales, Inc. since 2007. This is an awareness-raising campaign aimed at informing customers about the benefits of early breast cancer detection in the form of leaflets distributed to customers by the in-store beauty advisers/counselors wearing pink ribbons for Kao's brands *Sofina* and *Est* and Kanebo Cosmetics.

## Kao Sustainability Report 2013

Outside Japan, Kao (China), Kao (Hong Kong) and Kao (Taiwan) have all been implementing the Pink Ribbon Campaign. Kao Group companies are also collaborating on awareness-raising activities. For example, Kao (Malaysia) has been working with groups seeking to spread awareness of the importance of early diagnosis of breast cancer, organizing events at which doctors and breast cancer survivors provide accurate information about breast cancer

In addition, in an effort to ensure that people who were affected by the Great East Japan Earthquake are spared the misery of breast cancer, Kao has been collaborating on the “Weaving Ties with Pink Ribbons Project” organized by the Japan Society of Breast Health to arrange breast cancer screening clinics, etc., with a “Click-to-Donate” program utilizing Kao’s *Humming Neo* product. In November 2012, the “Pink Ribbon Café in Koriyama” was opened in Koriyama City, Fukushima Prefecture, as an activity aimed at helping to spread and deepen awareness of breast cancer.



Distributing enlightening leaflets to customers

### Global

#### Helping children in communities

Kao Group companies are working to help children in the communities where they operate. Examples of the kinds of activities undertaken include the donation of Kao products to orphanages (Japan and Indonesia), providing support for the purchase of school supplies and school equipment (Germany and Mexico), and the giving of Christmas presents to children (the U.K., the U.S.A., and Mexico).



Donation of paint to local schools (Pilipinas Kao)



Awarding of scholarships to 5 students (Pilipinas Kao)

In 2012, Kao Thailand and Pilipinas Kao (the Philippines) arranged for employee volunteers to help with school repair, donated paint for use in the repairs, and provided scholarships.

### Global

#### Participating in community activities

At Kao USA, employees play an active part in community activities. For Earth Day in 2012, a group of 100 Kao USA employees took part in cleanup activities. In addition, 70 employees took part in breast cancer awareness-raising activities.



Employees helping with breast cancer awareness raising



Employees taking part in neighborhood cleanup

## Global

### Disaster relief in fiscal 2012

In 2007, Kao established the Kao Group Donation Guidelines to regulate donations for disaster relief among other things. Under the guidelines, donations can be given for disasters falling into one of the following three categories:

1. In Japan, major disasters for which Disaster Countermeasures Headquarters are established by local governmental authorities;
2. In other countries, disasters that occur in the countries and areas where Kao Group companies are located, and for which assistance is needed; or
3. Large-scale disasters that occur in the rest of the world.

For disasters that occur in Japan, our basic response is to provide donations in the form of Kao products that are needed by people affected. In consultation with Disaster Countermeasures Headquarters, Kao provides products needed as quickly as possible.

The disaster relief efforts in which Kao was involved in fiscal 2012 are listed in the table below.



Disaster relief activity following flooding in the Philippines (Photo courtesy: Japan Platform)

#### ■ Participation in disaster relief

Disaster	Period	Company	Support Provided
The Northern Kyushu flooding and landslides (due to torrential rain) in July 2012	July–September 2012	Kao Corporation	Kao Corporation and its employees together contributed 400,000 yen in relief funds, with Kao donating products approximating 1.1 million yen in worth as relief supplies.
Flooding in the Philippines due to torrential rain	August 2012	Kao Corporation	Kao Corporation and its employees together contributed 1 million yen in relief funds.
Hurricane Sandy in the U.S.	November 2012	Kao Corporation, Kao USA, Kao Specialties Americas	Kao Corporation and its employees together contributed 400,000 yen in relief funds. Kao USA contributed 7,000 U.S. dollars. Kao Specialties Americas contributed 580 U.S. dollars, along with care packages for people affected by the disaster.
Typhoon Bopha in the Philippines	December 2012	Kao Corporation	Kao Corporation and its employees together contributed 400,000 yen in relief funds.



Care packages donated by Kao Specialties Americas to people affected by the disaster

Information about Kao's relief activities following the Great East Japan Earthquake can be found at this link.

[> p. 16 "Response to the Great East Japan Earthquake"](#)

Partnering with Our Corporate Customers

## Partnering with Our Corporate Customers

### Consumer Products Business



Kao offers value-added products and information in partnership with our retailers, aiming to contribute to enhancements in the cleanliness, beauty, and health aspects of our consumers' lifestyles.

### Chemical Business



Kao actively implements information exchanges and collaboration with corporate customers around the world for the purpose of facilitating the achievement of our shared prosperity and reducing environmental impact.

### Professional-Use Products Business



For our professional service customers, such as restaurants, hospitals and nursing-care facilities, and hotels, we strive to provide comprehensive packages of product-plus-solution systems designed to improve workplace cleanliness, enhance safety and security, and reduce environmental impact.

Consumer Products Business

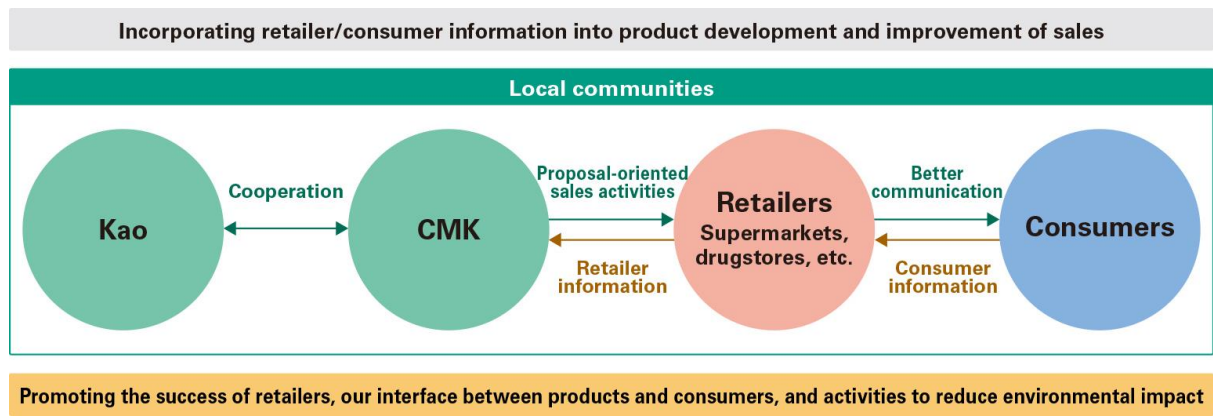
## Consumer Products Business

**Kao offers value-added products and information in partnership with our retailers, aiming to contribute to enhancements in the cleanliness, beauty, and health aspects of our consumers' lifestyles.**

### Policies/goals/structures

Kao Customer Marketing Co., Ltd. (CMK), Kao's affiliate responsible for selling Kao consumer products to retailers, endeavors to reinforce cooperation with its retailers, including supermarkets and drugstores, through proposal-oriented sales activities. CMK also cooperates with Kao Field Marketing Co., Ltd., responsible for shelf displays, to support the creation of selling spaces where consumers can easily shop. As for cosmetics, beauty advisers talk to customers and make recommendations with the aim of providing high-quality counseling services. We will continue promoting development of sales methods and marketing tools, accurately reading and exploiting changing markets and consumer behavior.

#### ■ Collaboration between CMK and retailers



### Kao Group in Japan

#### Introducing Kao's environmental and universal design initiatives to sales outlets

Every year, Kao Customer Marketing Co., Ltd. (CMK) holds Trade Conference for Key Accounts for key retailers throughout Japan. The conference held in November 2012 introduced the direction of Kao's business, brand and sales activities, as well as proposals for environmental awareness initiatives in cooperation with community and local governments. In addition, an explanation of universal designs and other ideas using product displays and panels was provided. Many attendees expressed deep interest, commenting that, "Seeing products from the environmental and universal design perspective is wonderful," and "I'll happily help promote environment-friendly initiatives."



Introducing environmentally- and people-friendly products



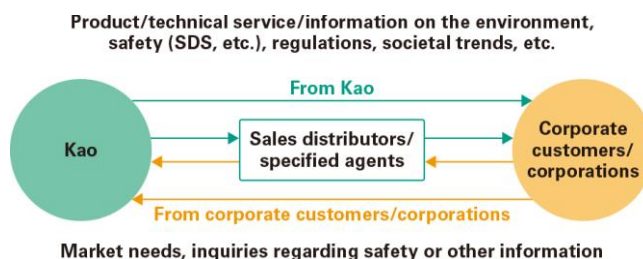
## Chemical Business

**Kao actively implements information exchanges and collaboration with corporate customers for the purpose of facilitating the achievement of our shared prosperity and reducing environmental impact.**

### Policies/goals/structures

One of Kao's core businesses is the production and sale of chemical products to customers operating in a wide range of industries throughout the world for use as intermediate materials. The main focus of our chemicals business is oleochemicals (fat and oil derivatives), performance chemicals (surfactants) and specialty chemicals (information materials, fragrances). In this business, Kao has been required to provide corporate customers with prompt information concerning laws and regulations related to products and product safety through supply chains. Therefore, we are attempting to promote close communication with corporate customers and sales distributors.

### ■ Cooperation with corporate customers and sales distributors



### Kao Group in Japan

#### Continuously implementing information exchange meetings with sales distributors

The role of Kao sales distributors is expanding and gaining in importance, in light of supply chain information exchange about chemical substance management, compliance with export and import regulations, and handling of sales distribution\* during earthquake-related disasters. In fiscal 2012, Kao and its nine key chemical business sales distributors once again discussed trends in the various international and domestic laws and regulations governing chemical products and exchanged information on environmental and safety initiatives. On this occasion, sales distributors reported results of fiscal 2011 PDCA activities regarding overall safety and fiscal 2012 plans. Kao, meanwhile, requested support for information transmission duties related to chemical substances, which have increased with each year, introduced an effective information transmission system, and reported on the latest status, both international and domestic, concerning GHS and as well as new Kao initiatives, representing a reconfirmation of our respective roles in the supply chain.

\*Sales distribution

Whereas "physical distribution" or "logistics" refers to the physical flow of goods, "sales distribution" refers to the flow of information and rights accompanying the ordering, dispatch, payment, etc. of goods: sales distribution as opposed to physical distribution/logistics.

## Kao Group in Japan

### Training of new sales distributor employees

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Kao sponsors training for new employees of sales distributors every other year to promote an understanding of the quality and safety of Kao chemical products and to ensure continued collaboration of corporate customers. The last training session was held in fiscal 2011, hosting nearly 60 participants. The next session is scheduled for fiscal 2013.

## Professional-Use Products Business

**For our professional service customers, such as restaurants, hospitals and nursing-care facilities, and hotels, we strive to provide comprehensive packages of product-plus-solution systems designed to improve workplace cleanliness, enhance safety and security, and reduce environmental impact.**

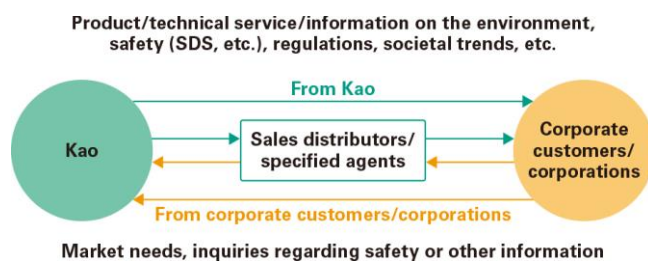
### Policies/goals/structures

Kao Professional Services Co., Ltd. (KPS) proposes its original professional-use products and solution services to professional customers who require expert cleaning and hygiene management in the areas of food service (food-service and food processing industries), medical support & care (hospitals and nursing-care facilities), and recreation services (hotels, barber and beauty shops, dry cleaners, etc.).

In the food service area, we create a safe, secure, and comfortable environment through comprehensive hygiene management; in the medical support & care service area, we reduce risk of hazards due to infection through expert infection control, and for the area of recreation, we strive for total comfort through cleanliness.

Developing and providing effective products meeting individual client needs while reducing the environmental impact, KPS also creates total solutions solving hygiene management issues, delivering “cleanliness & sanitation” operation systems tailored to serve each customer.

### ■ Cooperation with corporate customers and sales distributors



### Kao Group in Japan

#### Food hygiene management: a total system proposal

KPS collaborates with our food service customers to improve worksite hygiene management in restaurants and food processing plants, creating safe, secure, and comfortable eating environments through comprehensive hygiene management.

We provide the products as well as hygiene management operation proposals for implementation in the actual workplace. We promote steady, standardized operations based on clear and simple manuals suited to the customer’s site.

We conduct an on-site appraisal according to each customer’s situation when necessary jointly promoting a new hygiene management system providing an improvement system, results verification, and



On-site hygiene management workshop in in-store kitchen

customized manual.

We also hold hygiene lectures for employees in relevant areas to maintain optimum hygiene management and augment improvement plans based on in-store hygiene appraisals.

In fiscal 2012, we implemented 88 customer appraisals at 209 locations, and conducted 174 hygiene lectures.



Operation manual on display in restaurant kitchen

### Kao Group in Japan

#### Implementing infection-control support activities for staff engaged in medical work and nursing care

KPS sponsors Infection Control Best Practices Program research meetings and seminars to support the activities of professionals engaged in the infection control management at hospitals and nursing care facilities.

“Infection Control Best Practices Program” is one of the techniques aiming for improved infection control levels through behavior modifications of medical and nursing staff, by assessing the risks in medical and nursing practices from the perspective of infection control, preparing the protocols with scientifically based solutions and checklists, and putting them into practice.

In fiscal 2012, we held 48 “Infection Control Best Practices Program” (working groups) for nurses, care workers, and other medical professionals from 522 hospitals and 108 nursing care facilities.

Kinki area seminars were attended by 977 health professionals of 363 hospitals and nursing-care facilities.

We also conduct lectures to share information with health professionals of hospitals and nursing care facilities, instructing participants on proper use of products and prevention of hospital infections. In fiscal 2012, we held 109 study groups.



Infection Control Best Practices Seminar at J Infection Control Network Forum



Infection Control Best Practices Working Group

## Partnering with Our Suppliers

**Kao acts legally and ethically as it engages in fair and impartial procurement activities. While aiming to contribute to the realization of a society with sustainable development, we bear our corporate responsibilities with consideration for resource protection, environmental conservation, safety, and human rights.**

### Policies/structures

In order to fulfill its corporate responsibility, Kao builds favorable partnerships with all of its suppliers. We communicate Kao's philosophy and corporate objectives, maintaining Guidelines for Procurement of Raw Materials and Equipment conforming to standards of fairness and impartiality, compliance and ethics, and social responsibility, as we pursue our procurement activities.

Furthermore, we unite with our suppliers in seeking improvements to our guidelines, which consider issues such as resource protection, environmental conservation, safety, and human rights, meanwhile fulfilling Kao's required levels of quality and standards by freely exchanging technical information to strengthen partnerships.

Kao's standard contract with its suppliers has clarified provisions concerning issues such as the environment, human rights, and labor. The new version is used when the contracts are newly concluded or renewed.

For details, refer to "Guidelines for Procurement of Raw Materials and Equipment"

[http://www.kao.com/jp/en/corp\\_csr/procurement\\_00.html](http://www.kao.com/jp/en/corp_csr/procurement_00.html)

### Goals

Kao has established CSR Procurement Standards, covering measures to deal with compliance, human rights, and labor issues concerning the environment, safety, laws and social norms. We ask our suppliers to cooperate in upholding the standards and we monitor the self-assessment of their compliance status. If a supplier is not meeting Kao standards, we visit the supplier, share concerns about the issues, and implement measures to correct the situation.

The increasing necessity for due diligence regarding supply chain risks is addressed by the international standard for social responsibility (ISO26000) and the revised OECD Guidelines for Multinational Enterprises, for example. Kao has established a database for CSR assessment results, offering its buyers online support for their supplier evaluations.

For details, refer to "CSR Procurement Standards"

[http://www.kao.com/jp/en/corp\\_csr/procurement\\_04.html](http://www.kao.com/jp/en/corp_csr/procurement_04.html)

## Global

### ■ Number of suppliers monitored for social issues and percentage meeting CSR Procurement Standards

	Number of suppliers to Kao Corporation	Number of suppliers to the Asian Kao Group
Up to FY 2008	925 (97%)	353 (98%)
Up to FY 2009	934 (99%)	380 (98%)
Up to FY 2010	947 (99%)	461 (98%)
Up to FY 2011	962 (99.7%)	551 (98%)
Up to FY 2012	989(97%)	631 (95%)

\*New standards were adopted from FY 2012.

### ■ Number of supplier plants monitored for environmental issues and percentage meeting CSR Procurement Standards

	Number of supplier plants to Kao Corporation	Number of supplier plants to the Asian Kao Group
Up to FY 2008	1,247 (96%)	215 (94%)
Up to FY 2009	1,256 (98%)	242 (95%)
Up to FY 2010	1,286 (99%)	283 (95%)
Up to FY 2011	1,303 (99.6%)	331 (95%)
Up to FY 2012	1,326 (99%)	374(95%)

## Kao Group in Japan

### Implementation of a supplier satisfaction survey

Kao conducts a supplier satisfaction survey every 3 years to confirm that corporate procurement activities are fair and impartial. An external organization administers the survey to guarantee anonymity, and the results are incorporated into our policies. The next survey is scheduled for fiscal 2013.

## Global

### Implementation of vendor summits

Kao holds supplier meetings (vendor summits) every year as an opportunity to exchange views to strengthen partnerships with suppliers.

We present a business overview of Kao and share information. Kao Corporation Shanghai shared information on social responsibilities governed by the ISO26000 international standard and CSR procurement standards at a recent summit.



Vendor summits

# Kao Sustainability Report 2013

## ■ Changes in the number of companies that participated in the vendor summit

	Held in Japan	Held outside of Japan	Total
FY 2008	178	129	307
FY 2009	180	139	319
FY 2010	169	219	388
FY 2011	183	187	370
FY 2012	-	205	205

\* Due to Kao Corporation's change in the fiscal year end, a vendor summit was not held in Japan during FY 2012.

## Kao Group in Japan

### Employee training and education

Kao educates new Procurement Division employees to ensure that the activities of the division conform to standards in areas such as fairness and impartiality, compliance and ethics, and social responsibility. We further ensure that employees are aware of global issues such as human rights and labor, as governed by ISO 26000 and the United Nations Global Compact (UNGC).

## TOPICS Promoting testing for environmental certification

As part of Kao's Education on Sustainable Development,<sup>\*1</sup> the Procurement Division began encouraging its employees to take the Certification Test for Environmental Specialists (Eco Test<sup>\*2</sup>) from fiscal 2012. Currently, 31% of the employees of the division have become certified. By 2015, its objective is to see the rate surpass 50%.

<sup>\*1</sup> In 2002, Japan petitioned the United Nations to consider formalizing ESD (Education for Sustainable Development) as a tool for educating individuals on awareness and behavioral modification toward society and the environment in order to realize a sustainable society. The UN implemented the plan, known as the UN Decade of Education for Sustainable Development, effective from 2005 to 2014.

<sup>\*2</sup> The Eco Test: The test promotes an environmentally and economically sustainable society through development of human resources able to address environmental issues based on a broad understanding of the environment.

## Global

### Promoting the sustainable sourcing of raw materials

Conscious of risks to sustainable development such as limited resources, environmental issues, and human rights, Kao implements initiatives toward sustainable sourcing of raw materials. As entire supply chain management is important, Kao participates in the supply chain project of the CDP,<sup>\*1</sup> which seeks to curtail climate change, asking its clients to disclose and curtail greenhouse gas emissions. Kao also cooperates with clients to rationalize logistics and reduce the environmental burden created by its procurements.

Kao recognizes that its business depends on natural capital, and as natural resources have medium- and long-term limitations, Kao endeavors to convert to alternative resources and continue to procure products with due consideration to critical ethical issues raised by globalization.

Kao has undertaken the following specific initiatives.

## 1. Sourcing of sustainable palm oil and palm kernel oil

Kao joined the Roundtable on Sustainable Palm Oil (RSPO), and plans full sourcing of sustainable palm oil and palm kernel oil for the future.

Palm oil purchased in Japan has 100% RSPO certified credits. Kao plans to purchase only certified palm oil and palm kernel oil by 2015, assuming an available supply.

For details:

[> p. 95 Protecting the Environment throughout the Product Lifecycle > Measures for Biodiversity/“Efforts toward 100% use of sustainable palm oil and palm kernel oil”](#)

## 2. Sourcing of sustainable paper in consideration of forest resources

Kao's use of stationery and office supplies follows the Green Procurement Standard, prioritizing procurement of environmentally-conscious items. Kao has reconsidered its procurement objectives for containers and packaging as well, and purchases paper meeting FSC-certified\*2 and other standards. Kao continues proactive use of recycled paper, promoting *Yoki-Monozukuri* to contribute to a recycling-oriented society.

In Japan, Kao has reached 75% conformity with the Green Procurement Standard in its office stationery use. A full 100% of the copy paper used is FSC-certified. Kao's next target is recycling and FSC-certified standards in office-supply packaging. As long we can procure the required quantities, we aim to use only certified products or recycled products by 2020.

## 3. Sourcing of sustainable plant-based resources

Kao continues initiatives based on limitations to plant-based resources, considering the natural environment and local communities, diversifying sourcing routes and converting from natural to artificially-cultivated resources.

## 4. Initiatives to reduce dependence on fossil-based resources in packaging

Kao continues efforts to reduce total volume of plastics used through minimization of container size and development of refill containers, while promoting use of biomass materials such as plant-based polyethylene in containers and packaging.

\*1 CDP refers to cooperation between institutional investors and major corporations in climate change initiatives and promotion of disclosure of greenhouse gas emissions. The Supply Chain Project refers to cooperation between the CDP and corporations, with corporations requesting their suppliers to disclose information regarding climate change; this project affects the entire supply chain.

\*2 FSC certification

FSC (The Forest Stewardship Council) is an independent, non-governmental, not-for-profit organization established to promote the responsible management of the world's forests. The FSC label ensures that the forest products including paper come from responsible sources—environmentally appropriate, socially beneficial and economically viable.



## Partnering with Shareholders and Investors

**Kao responds to the trust of shareholders and investors both in and outside Japan, and lives up to their expectations by promoting information disclosure and communication.**

### Policies/structures

Kao has a basic policy of considering shareholder returns as one of its priorities. Striving to achieve profitable growth, Kao secures an internal reserve for capital investment and acquisitions from a medium-to-long-term management perspective, while placing priority on providing shareholders with stable and continuous dividends. In addition, Kao flexibly considers the purchase and retirement of its shares from the standpoint of improving capital efficiency.

As for information disclosure, Kao has a basic policy of disclosing information in a timely, accurate and fair manner in accordance with its Disclosure Guidelines. With regard to the earnings announcement, Kao discloses information, in Japanese and English, on the online Timely Disclosure Network (TDnet)\* based on the Securities Listing Regulations of the Tokyo Stock Exchange. This information is also simultaneously posted in the Investor Relations section of Kao's website.

Kao will continue to seek improvement of IR activities through reinforcing strategic information disclosures, such as enhanced delivery of messages from top management and intensified relationships with institutional investors within and outside Japan.

\* TDnet (Timely Disclosure Network): A service to distribute information on listed companies on a real time basis; operated by Tokyo Stock Exchange.

For details, refer to "Investor Relations"

[http://www.kao.com/jp/en/corp\\_ir/investors.html](http://www.kao.com/jp/en/corp_ir/investors.html)

Disclosure Guidelines

[http://www.kao.com/jp/en/corp\\_ir/disclosure.html](http://www.kao.com/jp/en/corp_ir/disclosure.html)

> [p. 156 Recognition by Outside Organizations / "Major global SRI indexes in which Kao has been included"](#)

### Global

#### Shareholder returns

Distribution of profits for fiscal 2012 was as follows.

##### Distribution of profits for fiscal 2012

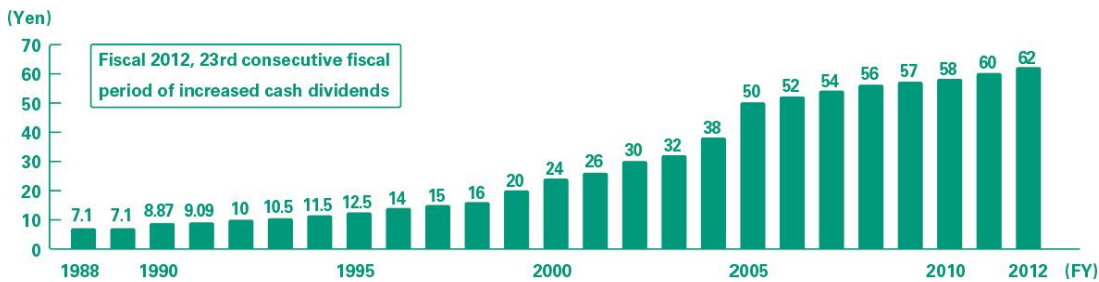
Net income 52.8 billion yen\*

Annual cash dividend 62 yen per share (increased by 2.0 yen from previous year)  
(marked the 23rd consecutive fiscal period of increase in cash dividends)

\*Revised on December 5, 2013. Please click [here](#) for details.

# Kao Sustainability Report 2013

## ■ Changes in dividends per share



\*Adjusted for impact on stock split.

In addition to the dividends above, to raise capital efficiency and further enhance shareholder returns, Kao had repurchased 10.0 million shares for a total of 30.0 billion yen, from February 6 to April 5, 2013, pursuant to the resolution made at the meeting of the Board of Directors held on February 5, 2013. Aggregated to April 5, 2013, Kao had purchased 147.6 million shares at a cost of 393.8 billion yen.

## Kao Group in Japan

### Publicizing shareholder meetings and facilitating the exercising of voting rights

To provide Kao's domestic and foreign shareholders with sufficient time to examine agenda items, Kao sends a convocation notice approximately one month prior to the Annual General Meeting of Shareholders (AGM) every year. In addition, to increase the number of shareholders who exercise their voting rights, Kao has introduced an electronic voting system for the AGM.

#### Fiscal 2012 Annual General Meeting of Shareholders (Held in March 2013)

Total number of shareholders who attended: 1,512

Furthermore, to provide prompt and fair information disclosure to foreign shareholders, who hold approximately half of its shares, Kao makes an English translation of the summarized convocation notice available to them on its website at the same time the Japanese convocation notice is sent out. Kao also posts presentation materials used at the AGM and a summary of voting resolutions from the AGM in both Japanese and English on its website. Kao uses videos and slides during the AGM to facilitate clear communications with shareholders and reserves time at the end of the AGM for shareholders to talk informally with Executives of the company.

## Kao Group in Japan

### Implementation of dialogue between Kao and its shareholders and individual investors

Kao strives to promote two-way communication between Kao and its shareholders and investors.

In fiscal 2012, Kao conducted a total of ten Kao Museum tours for shareholders over five days during September, with 303 people attending.

We received many favorable comments from participants, including, "I feel even closer to Kao now that I have a deeper understanding of Kao's history and the intentions behind product development," "Viewing the museum enhanced my trust in Kao products," and "I'd like to visit again."



Kao Museum tour

We continue integrating such feedback as we plan future events to further satisfy the shareholder's interest in Kao.

## Global

### Overview of IR activities

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- Financial results briefings: twice a year (same day as interim and fiscal period end results are announced)
- IR road show outside Japan: 3 times a year (In North America, Europe, and Asia)
- Small meeting with president: twice a year
- Business briefings and facility tours: twice a year
- One-on-one meetings: Approximately 250 interviews in and outside Japan
- Disclosure of information on corporate website
- Issuance of the reports to shareholders (interim and fiscal period end) (Japanese version only)
- Issuance of the Annual Report (English version)
- Provision of IR information through RSS feed distribution\*

\*RSS feed distribution: A distribution system that automatically provides subscribers with a newsfeed every time a website is updated

# Kao Sustainability Report 2013

Recognition by Outside Organizations

## Recognition by Outside Organizations

### Major global SRI indexes in which Kao has been included

Kao has been repeatedly selected for several SRI indexes, including the FTSE4Good Global Index, a leading socially responsible investment index that was developed by the UK-based FTSE Group.



FTSE4Good Index Series: [http://www.ftse.com/Indices/FTSE4Good\\_Index\\_Series/index.jsp](http://www.ftse.com/Indices/FTSE4Good_Index_Series/index.jsp)

MS-SRI Morningstar socially responsible investment index: <http://www.morningstar.co.jp/sri/index.htm>

### Recognition by outside organizations in fiscal 2012

Major external corporate recognition and commendations in fiscal 2012 are listed below:

#### ■ Recognition by outside organizations from April through December in 2012

Date of award	Awarded division	Award name and description	Organization
2012/4	Kao Corporation	The Atsugi Logistics Center (operational from autumn 2013) was rated "A" by "CASBEE (Comprehensive Assessment System for Built Environment Efficiency) Kanagawa," an environmental performance rating system promoted by the Kanagawa Prefecture.	Kanagawa Prefecture
2012/5	Kao Corporation	The Wakayama Plant's longstanding greenery efforts and conservation activities of the protection forest against storm surge on plant grounds were recognized with 2012 Wakayama Distinguished Service Award for Tree Planting.	Wakayama Prefecture
2012/6	Kao Corporation	<i>Bioré Sarasara UV Perfect Milk</i> won the Worldstar Award at the 2011-2012 World Star Packaging Awards for its environmentally-friendly and beautiful packaging.	World Packaging Organisation (WPO)
2012/8	Fatty Chemical (Malaysia)	The Penang office was certified according to the Green Building Index (GBI) for its consideration of environmental conservation.	Malaysian government
2012/10	Kanebo Cosmetics, Inc.	Kanebo's <i>Twany</i> Skincare Series won the Cosmetics Packaging Category Award in the 2012 Japan Packaging Contest for its universal design considerations and functionality.	Japan Packaging Institute
2012/10	Kao Corporation	<i>Quickle Wiper</i> won the Daily Necessities and General Merchandise Packaging Category Award in the 2012 Japan Packaging Contest for its consideration of the environment and universal design. Meanwhile, the <i>Resesh Design Collection</i> received the President of the Accessible Design Foundation of Japan Award for its functionality and consideration of universal design.	Japan Packaging Institute
2012/10	Kao Corporation	Kao won the Business Strategy Gold Award at the IAUD Awards 2012 for initiatives to promote social inclusion, as reflected in <i>Yoki-Monozukuri</i> .	International Association for Universal Design (IAUD)
2012/11	Kao Corporation	Kao won Outstanding Performance Award for "Kao—120 Years History of <i>Yoki-Monozukuri</i> " in the Corporate Communications category of the Eibunren Award 2012 event at the JAAP International Short Film Festival.	Japan Association of Audiovisual Producers
2012/12	PT. Kao Indonesia	Kao's environmental activities were recognized with Green (excellent) level PROPER (Program for Environmental Performance) rating.	Indonesian Ministry of Environment

## Independent Assurance Report



### Independent Assurance Report

To the President and CEO of Kao Corporation

#### Purpose and Scope

We were engaged by Kao Corporation (the "Company") to provide limited assurance on the Company's Sustainability Report 2013 found under <http://www.kao.co.jp/corp/sustainability-reports/en/> (the "Report"). The purpose of our assurance engagement was to express our conclusion, based on our assurance procedures, on whether the environmental and social performance indicators marked with ★ (the "Indicators") for the period from January 1, 2012 to December 31, 2012 included in the Report are prepared, in accordance with the Company's reporting criteria.

The content of the Report is the responsibility of the Company's management. Our responsibility is to carry out a limited assurance engagement and to express our conclusion based on the work performed.

#### Criteria

The Company applies its own reporting criteria as described in the Report. These are derived, among others, from Sustainability Reporting Guidelines 2006 of the Global Reporting Initiative and the Environmental Reporting Guidelines 2012 of Japan's Ministry of the Environment. We used these criteria to evaluate the Indicators.

#### Procedures Performed

We conducted our engagement in accordance with 'International Standard on Assurance Engagements (ISAE) 3000, Assurance Engagements other than Audits or Reviews of Historical Financial Information' issued by the International Auditing and Assurance Standards Board, and the 'Practical Guidelines for the Assurance of Sustainability Information' of the Japanese Association of Assurance Organizations for Sustainability Information ("J-SUS").

The limited assurance engagement on the Report consisted of making inquiries, primarily of persons responsible for the preparation of information presented in the Report, and applying analytical and other procedures. The level of assurance provided is thus not as high as that provided by a reasonable assurance engagement. Our assurance procedures included:

- Interviews with the Company's responsible personnel to obtain an understanding of its policy for the preparation of the Report.
- Reviews of the Company's reporting criteria.
- Inquiries about the design of the systems and methods used to collect and process the Indicators.
- Analytical reviews of the Indicators.
- Examining, on a test basis, evidence supporting the generation, aggregation and reporting of the Indicators in conformity with the Company's reporting criteria, and also a recalculation of the Indicators.
- Visit to the Wakayama Plant and Kashima Plant selected on the basis of a risk analysis.
- Evaluating the overall statement in which the Indicators are expressed.

#### Conclusion

Based on the procedures performed, as described above, nothing has come to our attention that causes us to believe that the Indicators in the Report are not prepared, in all material respects, in accordance with the Company's reporting criteria as described in the Report.

We have no conflict of interest relationships with the Company that are specified in the Code of Ethics of J-SUS.

*KPMG AZSA Sustainability Co., Ltd.*

KPMG AZSA Sustainability Co., Ltd.  
Tokyo, Japan  
July 31, 2013

# KaO

Enriching lives, in harmony with nature.

**Kao Corporation**

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