

Enriching lives,
in harmony with nature.

Kao



Kao Sustainability Report 2014

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Editorial Policy

Editorial Policy

- The Kao Group developed the Kao Sustainability Statement in July 2013 as its global policy on sustainability. The Kao Sustainability Statement clearly defines Kao's policy of contributing to the resolution of global issues through the Kao Group's business activities as well as the key areas of these activities. This report introduces the approach of the Kao Sustainability Statement and presents the process of drafting it as well the promotion structure. In addition, it introduces the Kao Group's current awareness and detailed examples of activities in each of the three key areas of Conservation, Community and Culture that represent material issues for the Kao Group.
- The Kao Group conducts various activities toward realization of a sustainable society in addition to the activities cited in the three key areas. Detailed information on activities is categorized according to environmental, social and corporate governance (ESG) and published along with detailed performance data in activity reports.
- In addition to independent assurance to enhance the credibility of reporting regarding environmental, occupational health and safety data, we also publish third party opinion from an outside expert to provide objective evaluations of the report.
- Please note that this year's Sustainability Report is exclusively available at our website.

Scope of reporting

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 group.

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

List of Kao Group companies

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

Period covered

Fiscal 2013 (January 1, 2013 – December 31, 2013).

Kao's fiscal year end was changed in fiscal 2012; therefore, the environmental and social performance data cover the period from April 1 to March 31 until fiscal 2011, and from fiscal 2012 cover the calendar year (January 1 to December 31). Data for the period from January 1, 2012 to March 31, 2012 is therefore overlapping. Those figures calculated based on the data period other than the above are noted as such.

Some qualitative information includes those of the activities performed in fiscal 2014.

Independent assurance

We have had our reports independently assured since 2003. KPMG AZSA Sustainability Co., Ltd. provides independent

assurance for this report covering activities of 2013. Indicators on which assurance is provided are marked with a star (★).

Issuing period

Previous report issued in July 2013

Next report scheduled for issue in June 2015

Guidelines referenced

- GRI G4 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
- ISO 26000 (guidance on social responsibility)

CEO Message



Toward a sustainable society: *Yoki-Monozukuri* provides new values

Michitaka Sawada

Michitaka Sawada
Representative Director
President and CEO
Kao Corporation

Building corporate global presence

As the globalization of economies and societies continues, global issues such as environmental concerns, scarcity of food and water, poverty and aging, become more diverse and complex. As a public corporation, we share in the responsibility to address these global issues and build a better world. As a corporation engaged in global business, this responsibility extends to the global stage.

Since becoming President and CEO, I have worked to build our corporate global presence through the twin goals of profitable growth and contributing to a sustainable society. Our business is about developing and producing household and beauty products in three key areas of cleanliness, beauty and health, supporting better, richer lives, as well as contributing to the growth of industries through our industrial products. In the future, not only will we continue to work to create profit through sound business activities, providing employment and paying taxes, but we will also strive to contribute to a sustainable society as announced in the Kao Sustainability Statement in July 2013.

Creating the Kao Sustainability Statement

As society undergoes rapid change and our business activities expand globally, the Kao Group's stakeholders are becoming increasingly diverse. In response to these changes, the Kao Sustainability Statement was created to define the ways in which we will fulfill our social responsibilities and contribute to a sustainable society, clarifying key directions and activities.

To clarify our key areas of focus, we considered a range of global initiatives, the criteria used by ratings agencies to evaluate social responsibility contributions, and conducted interviews with external experts. We also took into account the urgency of major issues confronting global society, the Kao Group's current resources and the Group's mid-to-long-term management plan, in order to define our three key areas as Conservation, Community and Culture.

In the area of Conservation, to address environmental problems including climate change and resource depletion, we aim to contribute to environmental conservation by partnering with a variety of stakeholders, as well as reducing the environmental impact of our business activities as a whole at all stages of the product lifecycle. In the area of Community, we will provide innovative products and services to contribute to solving a variety of social issues, such as the aging of society, health and sanitation in individual communities, while also strengthening our partnerships with communities through social responsibility activities. In the area of Culture, in line with the expectations of the global community and based on our founding commitment to integrity, we will develop sound businesses with the awareness that it is our employees who support the activities to achieve sustainability. At the same time, we will embrace diversity and inclusion so that our diverse employees can fully leverage their abilities and passion.

To promote employee understanding and adoption of the principles contained in the Kao Sustainability Statement, we have held over 20 meetings with Group managers both in Japan and overseas. It is essential that individual employees deepen their understanding of the Statement and take action toward achieving social sustainability.

Toward a sustainable society through *Yoki-Monozukuri*

The Kao Group's corporate philosophy, the Kao Way, states, "Our mission is to strive for the wholehearted satisfaction and enrichment of the lives of people globally and to contribute to the sustainability of the world through *Yoki-Monozukuri* implemented from the consumer/customer's perspective." We believe that by understanding the needs of the times and communities and by providing products and services incorporating innovative technologies to meet these needs—in other words, by practicing *Yoki-Monozukuri*—we can contribute to a sustainable society.

For example, one social issue facing a rapidly aging Japan is an increase in lifestyle-related diseases. Obesity is a contributing factor of many lifestyle-related diseases. At Kao, we not only sell functional health beverages under the brand *Healthya*, promoting body fat utilization through the consumption of tea catechins or chlorogenic acid found in coffee beans, but we also work to trigger lifestyle changes through use of the products, such as adopting the habit of walking every day.

In China, we launched the liquid laundry detergent *Attack Instant Clean Liquid* as a product able to help address the major issue of water scarcity. *Attack Instant Clean Liquid* does not readily remain in fabric and can thus conserve water by reducing the number of rinse cycles and time required for rinsing. Our powder laundry detergent *Attack Instant Clean Powder* is formulated with cleansing agents capable of delivering cleansing action regardless of water hardness, as different regions of China have different degrees of water hardness.

These products embody *Yoki-Monozukuri*, and we are able to create them because local employees are highly attuned to their community's characteristics and issues, knowhow that we can combine with Kao Group original technologies. To further promote these kinds of ideas and projects, I have held meetings with local employees at more than 30 locations since last year, sharing the Kao philosophy through dialogue.

Earning the trust of stakeholders globally

Reports of white vitiligo-like blotches on the skin of people using brightening products containing Rhododenol, manufactured and sold by Kanebo Cosmetics Inc. (Kanebo Cosmetics), and concern that these symptoms were possibly connected to the products lead to the announcement of a voluntary product recall on July 4, 2013 and an extensive recall of these products. I would like to offer my sincere sympathies to everyone affected by the recall, and especially the customers experiencing symptoms, for the considerable trouble and worry caused. Kanebo Cosmetics will continue to support the recovery of people experiencing symptoms and provide compensation. The Kao Group is making concerted efforts to prevent recurrence of a similar situation in the future, and as part of these efforts, in April 2014, we introduced new safety standards for cosmetics to achieve higher levels of safety and reassurance.

At the same time, the Kao Group conducts fair business practices conforming to globally accepted principles and standards. In 2005, we signed on to the United Nations 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 guidelines for social responsibility and will continue to proactively support global initiatives. Various surveys on social responsibility investment conducted by rating agencies are used as valuable indicators of society's expectations, to drive improvements in our own activities.

As society's expectations of corporations rise, and as a member of global society, the Kao Group will continue to proactively implement activities aligned with global standards in order to earn the trust of our many diverse stakeholders.

Sympathy and Response to Vitiligo-like Symptoms Experienced by Some Customers of Kanebo Cosmetics Products Containing the Quasi-drug Ingredient “Rhododenol”

We at the Kao Group offer our sincerest sympathies for the trouble caused to customers of products containing the quasi-drug ingredient “Rhododenol” who have experienced vitiligo-like symptoms and the worry stemming from the voluntary recall of such products.

Kanebo Cosmetics immediately conducted a voluntary product recall and is placing top priority on the recovery and treatment of customers who experienced symptoms, while the Kao Group is making concerted Group-wide efforts to investigate the cause and prevent a recurrence.

A notice about the affected products is posted on the Kanebo Cosmetics website. Please use the following links to access the latest information.

Important notice regarding cosmetics containing Rhododenol

<http://www.kanebo.com/information/request.html>

[Overview & Timeline]

Of the brightening products manufactured and sold by Kanebo Cosmetics, some customers who used products containing the quasi-drug ingredient “Rhododenol” 4-(4-hydroxyphenyl)-2-butanol reported the appearance of white, vitiligo-like blotches on their skin. Rhododenol is a quasi-drug ingredient approved by the Ministry of Health, Labour and Welfare after extensive safety testing in accordance with the Pharmaceutical Affairs Act. As there is concern over a possible connection between Rhododenol and the aforementioned symptoms, Kanebo Cosmetics decided that a voluntary recall was the appropriate action to take.

On July 4, 2013, Kanebo Cosmetics issued its first press release announcing the voluntary recall, after which the voluntary recall began. As of July 31, 2014, 697,216 products have been collected from customers in Japan. As of December 31, 2013, a total of 4,403,000 samples have also been collected in Japan, and the recall is still ongoing.

Kanebo Cosmetics employees are personally visiting customers who have experienced vitiligo-like symptoms to offer their sympathies and provide consultation on treatment and other matters. During the initial visits, the number of people confirmed to have vitiligo-like symptoms was 19,073 in total. Of these people, 8,137 have made a complete or almost complete recovery (based on a medical examination or self-report). (As of July 31, 2014, customers in Japan)

Kanebo Cosmetics also had outside experts conduct an independent study to assess the appropriateness of the application for Rhododenol’s approval based on the Pharmaceutical Affairs Act and of handling of information about the affected products. Kanebo Cosmetics’ internal organization has been reformed based on the study’s findings to ensure that a similar situation does not happen again.

● Quasi-drug ingredient “Rhododenol”

“Rhododenol” is the name Kanebo Cosmetics gave to the chemical compound 4-(4-hydroxyphenyl)-2-butanol. Kanebo Cosmetics developed this brightening active ingredient, and it was approved by the Ministry of Health, Labour and Welfare. Rhododenol is a brightening active ingredient that works by binding with and inhibiting the activity of the enzyme tyrosinase involved in melanin synthesis. Kanebo Cosmetics had conducted extensive safety testing on Rhododenol in accordance with its internal standards confirming its safety. Furthermore, Rhododenol has been approved by the Ministry of Health, Labour and Welfare. However, as there was a concern of a possible connection with reported cases of white, vitiligo-like blotches appearing on the skin, Kanebo Cosmetics decided that a voluntary recall of products containing Rhododenol was the appropriate action to take.

● Timeline

Events following approval of Rhododenol before recognition of the occurrence of vitiligo-like symptoms	
Date	Event
Jul. 2006	Kanebo Cosmetics applies for approval from the Ministry of Health, Labour and Welfare related to the manufacture and sale of <i>Kanebo Whitening Essence S</i> containing Rhododenol
Jan. 2008	The Ministry of Health, Labour and Welfare approves <i>Kanebo Whitening Essence S</i> as a quasi-drug (approves Rhododenol as a quasi-drug brightening active ingredient)
Sept. 2008	The first quasi-drug containing Rhododenol, <i>AQUALEAF MCT Whitening Essence</i> , is launched. Post-marketing surveillance starts at the same time
Jan. 2009	Introduction of the ECHO System as a tool to enable employees to share feedback from customers
Mar. 2010	Post-marketing surveillance finishes. Afterward, multiple products from brands including <i>TWANY</i> and <i>Lissage</i> are successively formulated with Rhododenol
Apr. 2011	Launch of <i>Kanebo BLANCHIR SUPERIOR WHITE DEEP</i> Series
Recognition of the occurrence of vitiligo-like symptoms, call for voluntary recall	
May 13, 2013	A doctor at a university hospital in Okayama Prefecture contacts Kanebo Cosmetics about three cases of vitiligo-like symptoms from use of Kanebo Cosmetics products
May 27, 2013	In a visit to the aforementioned doctor, the doctor suggests, "There is a suspected causal relationship between the use of the cosmetics and the vitiligo-like symptoms." An extensive review is commenced immediately following this visit
Jun. 25, 2013	Kanebo Cosmetics submits an investigative report on the cases to the Pharmaceuticals and Medical Devices Agency (PMDA)
Jun. 28, 2013	The voluntary recall is decided at an extraordinary meeting of the Management Committee of Kanebo Cosmetics
Jul. 2, 2013	The voluntary recall is approved by the Management Committee of Kao Corporation. There are 39 identified cases of vitiligo-like symptoms preceding the announcement of the voluntary recall
After the voluntary recall announcement	
Jul. 4, 2013	[Kanebo Cosmetics press announcement (conference)] Announcement of the voluntary recall of products containing Rhododenol. Establishment of the Rhododenol Task Force
Jul. 5, 2013	Announcement of the voluntary recall runs in 53 local and national newspapers
Jul. 10, 2013	Employees begin personal visits to customers
Jul. 17, 2013	[Japanese Dermatological Association] Establishment of the JDA Special Committee on the Safety of Cosmetics Containing Rhododenol. Diagnostic procedures for doctors (dermatologists) published on its website (subsequently updated as necessary)
Jul. 23, 2013	[Kanebo Cosmetics press announcement (conference)] Update on the voluntary recall and response by Kanebo Cosmetics (as of July 19). Following this, updated information is released as necessary on Kanebo Cosmetics website
Aug. 7, 2013	[Kanebo Cosmetics press announcement] Future efforts to investigate the cause and prevent a similar situation from recurrence (1) Internal organization reforms (2) Independent study
Sept. 11, 2013	[Kanebo Cosmetics press announcement (conference)] (1) Report of findings of the independent study by outside experts (2) Kanebo Cosmetics' response to the independent study report
Oct. 8, 2013	[Kao press announcement] Announcement of the integration of research and production divisions by Kao
Oct. 11, 2013	[Ministry of Health, Labour and Welfare announcement] Establishment of a research team to investigate the cause of and to prevent recurrence of white blotches experienced by users of medicated cosmetics containing Rhododenol
Dec. 25, 2013	[Kanebo Cosmetics website] Once again make a request for the recall of products and samples. Announcement runs in eight national and block newspapers on the following day (26th)
Jan. 28, 2014	[Kanebo Cosmetics press announcement] Establishment of Fund for Research into Vitiligo-like Symptoms Experienced by Users of Products Containing Rhododenol

[Response to customers experiencing symptoms in Japan]

Kanebo Cosmetics is conducting company-wide efforts to visit customers who have experienced vitiligo-like symptoms from use of products containing Rhododenol to offer its sympathies and provide consultation on treatment and other matters under the basic policy to care for the customers who have experienced symptoms until they have completely recovered.

The Japanese Dermatological Association is working for the early establishment of diagnostic and treatment methods.

Below is a report outlining the support system, compensation, treatment, investigation into the cause and other matters for customers affected by vitiligo-like symptoms. Please see the Kanebo Cosmetics website for the latest detailed information.

Kanebo Cosmetics' announcement to customers (in Japanese):

<http://www.kanebo-cosmetics.jp/information/>

1. Flow from consultation to personal visit

When customers contact the Customer Contact Center regarding vitiligo-like symptoms, a staff member first confirms the products used, when the onset of symptoms occurred and other details about the symptoms. Then representatives of Kanebo Cosmetics located close to the customers' homes visit customers individually to offer its sympathy and discuss the support system for future treatment.

2. Ongoing care for customers with symptoms

Customer Care Centers have been set up at the Head Office and branches throughout Japan of Kanebo Cosmetics to offer ongoing care for customers who have experienced symptoms and customers continuing to receive treatment. Dedicated teams in each region of Japan to provide consultations on treatment, skin condition checks and special coverage make-up for customers who request it as well as make-up advice and other support corresponding to the individual customer's skin condition.

3. Compensation

(1) Basic approach

Appropriate compensation will be offered to customers who have experienced vitiligo-like symptoms through the use of products containing Rhododenol manufactured and sold by Kanebo Cosmetics.

(2) Details of the compensation

●Medical and travel costs

Kanebo Cosmetics will pay the actual medical costs and transportation costs a customer incurs to receive treatment for vitiligo-like symptoms. Specifically, the company will reimburse treatment-related costs covered by the health insurance system and costs incurred through the use of public transport facilities to receive treatment.

●Compensation for emotional distress

In principle, compensation for emotional distress incurred as a result of vitiligo-like symptoms will be determined based on a standard determined through consultation with legal experts with reference to judicial precedent. Separate sums will be calculated and paid to each affected customer in accordance with the length of time required up to recovery, the state of the symptoms experienced, and other related factors.

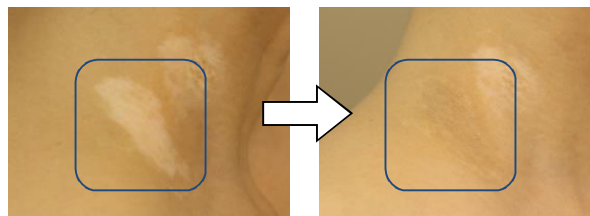
●Special coverage make-up

[Approach to coverage make-up]

We have developed special coverage make-up products that bring the affected areas closer to the skin's natural color. Both liquid foundation and concealer-type foundation are available depending on coverage needs. Darker colors are designed to add color where color is missing and lighter colors are designed for when the skin's natural color is returning during the recovery process. Products are provided to customers according to their symptoms and intended use.



[Special coverage make-up finish]



● Compensation for time taken off work

Kanebo Cosmetics will pay compensation to customers who lost income as a result of time off from work caused by vitiligo-like symptoms. Customers forced to leave work for hospital visits will be paid according to Kanebo Cosmetics' own standards based on documentation confirming both the customer's hospital visits and the time away from work.

When vitiligo-like symptoms result in absences from work not entailing hospital visits, Kanebo Cosmetics will pay the actual sum of lost income after confirming that the customer was obliged to take time off work due to the nature of symptoms and the content of the work. To receive this compensation, the customer must present documentation indicating the day or days of absence from work and the amount of income lost.

(3) Dates of payment

Medical costs and travel costs will be paid as and when called for. Compensation for emotional distress and for time taken off work will be paid at the time of recovery. Customers who are likely to require long-term treatment may receive an advanced payment of a part of compensation for emotional distress before recovery, together with compensation for time taken off work up to the present, if the customer so wishes.

(4) Response to customers whose symptoms have persisted without improvement for a long period

Although there are still uncertainties as to how the ingredient Rhododenol relates to the vitiligo-like symptoms or their prospects for recovery, Kanebo Cosmetics is considering paying out compensation similar to damages payable for aftereffects based on the standards used by Japanese courts and standards applied to accidents in the workplace for customers whose symptoms have persisted without improvement for a long period. Kanebo Cosmetics continues to visit these customers in person to check on their symptoms and the progress of their recovery. Kanebo Cosmetics will be reporting again on this matter once more information has been acquired.

[Response to customers outside of Japan]

Kanebo Cosmetics brightening products are also used by many customers outside of Japan. We have conducted a recall of products containing Rhododenol in the countries and regions in which the affected products were sold following the policy of the respective pharmaceutical authorities. Just as in Japan, we are taking responsibility to care for customers who have experienced vitiligo-like symptoms until they have recovered.

[Measures with the Japanese Dermatological Association]

The Japanese Dermatological Association (JDA) set up the JDA Special Committee on the Safety of Cosmetics Containing Rhododenol, chaired by Professor Kayoko Matsunaga of Fujita Health University, on July 17, 2013.

The committee is focusing top priority on treating customers who have experienced symptoms by providing information for medical facilities, dermatologists and patients through the Japanese Dermatological Association website. The JDA is also conducting activities to quickly determine the pathology and treatment methods.

Kanebo Cosmetics is providing the necessary data to the Japanese Dermatological Association.

Latest information on diagnosis and treatment (in Japanese); Japanese Dermatological Association website; Link to FAQ page
<http://www.dermatol.or.jp/news/news.html?id=174>

Facilities offering diagnosis (in Japanese); Japanese Dermatological Association website; List of facilities offering diagnosis
<http://www.dermatol.or.jp/info/news.html?id=108>

[Establishment of the Fund for Research into Vitiligo-like Symptoms Experienced by Some Users of Products Containing Rhododenol]

Kanebo Cosmetics has provided grant funding to establish the Fund for Research into Vitiligo-like Symptoms Experienced by Some Users of Products Containing Rhododenol for the purpose of subsidizing research to determine the pathology and establish treatment methods early. For approximately two years from January 23, 2014 to March 31, 2016, Kanebo Cosmetics plans to offer grant funding of 30 million yen per year for a total of 60 million yen over the two years. In managing the fund's operations, a steering committee chaired by Dr. Yutaka Kawakami, professor of Keio University Graduate School of Medicine, is independently calling for and screening grant applications and providing research grants to ensure neutrality.

[Independent study by outside experts]

One factor that increased the harm to people affected by vitiligo-like symptoms was our inability to listen to feedback from customers and the opinions of experts, take feedback from employees seriously, compile this information, and promptly take action in response. Kanebo Cosmetics therefore had outside experts (lawyers) conduct an independent study. Please see the Kanebo Cosmetics website for the full text of the report.

Report of the findings of the independent study (in Japanese) (Date of report: September 9, 2013)

<http://www.kanebo-cosmetics.co.jp/company/pdf/20130911-01.pdf>

[Steps to ensure a similar situation does not happen]

1. Reform of internal organization to prevent a recurrence

The Kao Group is implementing the following reforms to its internal organization to ensure higher levels of safety and reassurance.

(1) Merging of divisions involved in quality assurance into Kao Corporation (as of Aug. 12, 2013)

Kanebo Cosmetics' divisions involved in quality assurance have been merged into the Product Quality Management of Kao Corporation to ensure that quality-related matters can be controlled by an integrated quality assurance regime for the Kao Group. This move aims to strengthen safety standards and quality assurance functions by conducting detailed in-house screenings for pre-release processes, carefully studying information gained from customers after product releases, sharing information with experts from the Japanese Dermatological Association and elsewhere, and strengthening links with related government ministries and agencies.

(2) Merging of customer consultation centers into Kao Corporation (as of Aug. 12, 2013)

Kanebo Cosmetics' Consumer Center, the main interface for consultations between Kanebo Cosmetics and its customers, was integrated with Kao Corporation's Consumer Communication Center. This integration is designed to enhance the call center function and provide prompt and appropriate response to consultations about cosmetics from customers as well as further enhance coordination with the relevant government ministries and agencies.

2. Product manufacturing based on new safety standards

In April 2014, Kao Group introduced new safety standards for cosmetics to verify more rigorous and broader levels of safety. Kanebo Cosmetics is conducting product manufacturing based on these new safety standards.

New Kao Group safety standards (in Japanese)

http://www.kao.com/jp/corp_csr/safety_03.html

New Kanebo Cosmetics safety standards (in Japanese)
<http://www.kanebo-cosmetics.co.jp/company/csr/quality.html>

Below is an outline of Kanebo Cosmetics' new safety standards.

(1) Strict selection of safe materials

The safety of materials is thoroughly assessed using safety information from a broad range of fields and even more rigorous conditions and testing methods than in the past. Materials are also selected based on how gentle they are to people and the environment.

(2) Verification of formulation safety

The absence of skin reactions is verified using patch tests or other methods for all products developed.

(3) Verification through a variety of use tests

Before products are launched, use tests using monitors are conducted for a longer time and on a larger scale than in the past to verify that the products do not cause skin problems.

(4) Customer counseling

While verifying individual customers skin problems and skin conditions, we offer advice on recommended products, how to use them, and how to care for skin. For customers with concerns about the use of the cosmetics, we also provide a "skin and cosmetics compatibility check" that customers can do on their own.

(5) Continual safety inspections after market launch

The details of every report received from customers and medical institutions are verified individually and used in safety inspections. At stores we listen intently to our customers. Opinions and requests from customers are used in improvement activities.

3. Quality assurance organization with the participation of all employees

Information received from customers and medical institutions is handled seriously by all employees from the customer's perspective. The details of all consultations are verified at the Quality Improvement Study Meeting that involves top management and reviews measures to take in response.

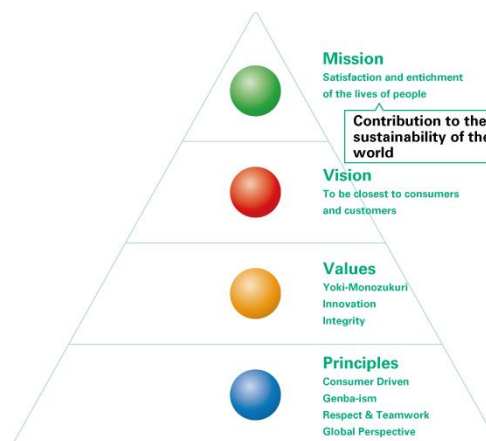
Kao Sustainability Statement

The Kao Group developed the “Kao Sustainability Statement” to represent its approach to sustainability and announced it both inside and outside the group in July 2013. The Statement defines the ways in which Kao aims to contribute to a sustainable society through our business activities, including three key focus areas of Conservation, Community and Culture.

The Kao Way & the Kao Sustainability Statement

The starting point of all of Kao's sustainability activities is *Yoki-Monozukuri*, as defined in our corporate philosophy, the Kao Way. In the Kao Way, we define *Yoki-Monozukuri* as “a strong commitment by all members to provide products and brands of excellent value for consumer satisfaction.” Our mission as defined in the Kao Way is “to strive for the wholehearted satisfaction and enrichment of the lives of people globally and to contribute to the sustainability of the world.” As members of the Kao Group, in order to fulfill this mission, we commit fully to working together to share joy with consumers and customers through products and brands of value, contributing to clean, beautiful and healthy living and, in the chemical business, contributing to the development of industries.

The Kao Sustainability Statement both defines Kao's approach to contributing to a sustainable society through our products and brands, as well as identifying key material issues for the Group.



The Kao Way

Materiality for Kao

To further contribute to a sustainable society through our business, we must clearly identify the material issues for the Kao Group. Through the process of identifying material issues described below, we defined the three key focus of Conservation, Community and Culture.

■ Process to identify material issues

- 1) Assessing the current situation
Sustainability Department led a project to identify and assess social issues recognized by the Kao Group and Kao's current Group-wide efforts to solve these issues.
- 2) Identifying opinions from stakeholders and the expectations of society
We then interviewed outside experts and reviewed the opinions of our stakeholders by gathering opinions from consumers and employees. We also conducted a review of international standards and principles including the UN Global Compact, ISO 26000 and surveys by global evaluation organizations for socially responsible investment (SRI) to identify expectations of the Kao Group.
- 3) Reviewing priority from the perspective of our business strategy
We then discussed the priority of the issues in terms of the Kao Group's business from the five perspectives on the right.
- 4) Determining the material issues
Sustainability Committee selected and finalized two target issues for each of the three key areas shown on the right as where to focus our efforts.

■ Five perspectives

- 1) Aligned with the Kao Way
- 2) Linked to Kao's mid-to-long-term management plan
- 3) Social urgency of solving the issues
- 4) Availability of effective resources in the Kao Group to solve the issues
- 5) Impact on the sustainability of the Kao Group

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.

Gaining Employee Understanding and Support

To develop activities based on the Kao Sustainability Statement, all Group members need to fully understand the thinking behind it. Since July 2013 when we first announced the Kao Sustainability Statement, we have been conducting a wide range of educational activities for employees.

• Briefing sessions for all divisions and Group companies

We continue to conduct briefing sessions for managers in all divisions of Kao Corporation and Group companies within and outside Japan. The sessions cover the background to drafting the Kao Sustainability Statement and include specific examples of activities in each key area and time for question-and-answers. In 2013, we held 15 briefing sessions for Kao Corporation divisions, committees, and other internal groups. Sessions were also held at three Group companies in Japan and four Group companies outside Japan. We will continue to conduct these sessions in 2014.



Briefing session at Kao (Taiwan)

• Web based communications

Since the July 2013 announcement, we have utilized the company Intranet to deepen understanding of the Kao Sustainability Statement among Kao Group employees in Japan. There is an FAQ page dedicated to the Kao Sustainability Statement and we release a monthly Sustainability Essay written by an employee from a division involved in key activities.



Articles in our in-house magazine KAO FAMILY

• Internal publications

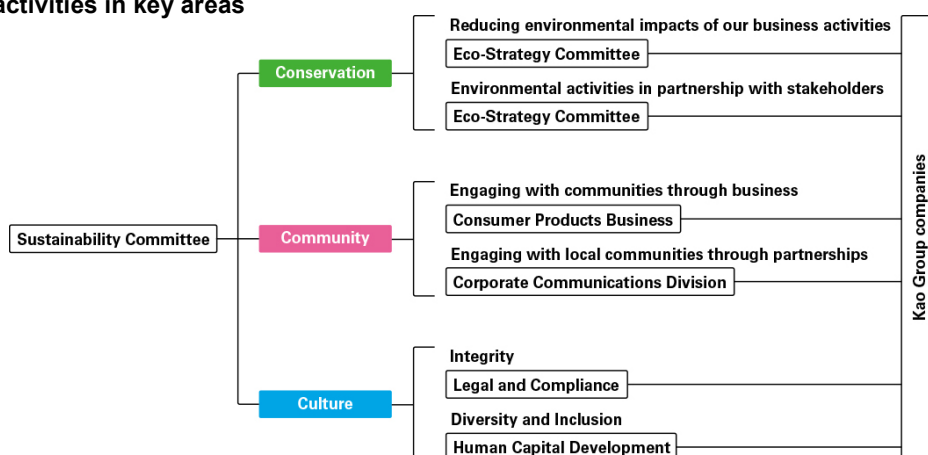
Our internal magazine for all Kao Group members, *KAO FAMILY*, published four times a year in both English and Japanese has also featured a series of articles aimed at deepening employees' understanding of the Kao Sustainability Statement. An article in the October 2013 issue described the background to drafting the Statement, as well as detailed coverage of its content and specific examples of activities. This publication will continue to feature articles on Kao's sustainability activities.

Sustainability Promotion Structure

• Activities in key areas

For activities in the key areas, related divisions are responsible for setting targets and managing Group-wide activities following the PDCA cycle. The chart below shows the promotion structure.

■ Structure to promote activities in key areas



2013 Results & 2014 Targets

■ Conservation

Material issue: Reducing environmental impacts of our business activities

Target issues		Activities	2013 targets	2013 results		2014 targets
Medium-term Objectives of the Kao Environmental Statement	<CO ₂ > 35% reduction by 2020 for consumer products (across product lifecycle, per unit sales in Japan, relative to 2005)	Develop environmentally-conscious products •Expand water-saving products •Promote product downsizing and concentrated formulas, 4Rs* ¹ for packaging	•Expand water-saving products •Expand refill products	17% reduction	•Launched <i>Ultra Attack Neo</i> •Launched refill for <i>Attack</i> powder detergent •Introduced polylactate label for <i>Healthya Green Tea</i> drink	•Expand water-saving products •Expand refill products •Expand bioplastic container
		Promote energy-saving activities at production sites, offices and in distribution	•Introduce cogeneration system in plant •Operate environmentally-conscious logistics centers (solar panels for in-house power generation, LED lights, etc.)		•22% reduction in emissions from Kao Group (in Japan, relative to FY1990) •Plants: Introduced cogeneration system (Kashima) •Logistics: Started operations at Atsugi LC, an environmentally-conscious logistics center •Logistics: Shortened delivery distances by optimizing the production structure and delivery areas	•Increase use of highly energy-efficient facilities (high-efficiency cogeneration, heat recovery) •Increase use of LED lighting at plants and logistics centers •Increase use of shared delivery with other companies and direct shipment from plants
	<Water> 30% reduction of water consumption during product use by 2020 (per unit sales in Japan, relative to 2005)	•Expand water-saving products	•Expand water-saving products	22% reduction	•Launched <i>Ultra Attack Neo</i>	•Expand water-saving products
	<Chemical Substances>	Appropriately manage chemical substances throughout their lifecycles in line with SAICM* ²	•Establish and release 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	•Established SAICM policy and released SAICM Promotion Policy (released on Kao website on May 27, 2013) •Finalized substances subject to priority risk assessment and formulated a medium-term risk assessment plan •Decided risk assessment tools for production sites and identified and took measures to address risky tasks	•Conduct risk assessments for priority assessment substances following the medium-term plan and draft risk assessment report •Begin development of lifecycle management system for chemical substances •Determine substances to be managed in production and	

Kao Sustainability Report 2014

					conduct risk assessments at sites that handle them •Study uniform disclosure method for SAICM activity results and ways to communicate with local communities
	<Biodiversity>	Expand use of certified raw materials	Switch from Book and Claim system* ³ to Mass Balance system* ⁴	•Started purchasing Mass Balance certified palm oil •Wakayama Plant acquired RSPO SCCS certification •Started sales of products with FSC certification logo	•Promote switch from Book and Claim system to Mass Balance system for certified palm oil •Expand RSPO SCCS certification to plants outside Japan
		Promote biodiversity conservation activities at plants	•Promote activities at Wakayama and Sumida •Conduct evaluations on biodiversity conservation at other plants in Japan	•Improved footpath and installed information signs in the pine grove (Wakayama) •Cut down invasive species (Sumida) •Conducted evaluations of current situation (Kawasaki, Toyohashi)	•Promote activities at Wakayama, Sumida and other plants •Conduct evaluations on biodiversity conservation at other plants in Japan

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

*2. SAICM: Strategic Approach to International Chemicals Management

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

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

Material Issue: Environmental activities in partnership with stakeholders

Target issues	Activities	2013 targets	2013 results	2014 targets
Environmental education and conservation activities	Promote educational activities at diverse contact points including schools, factory tours and stores, and partner with government bodies, NGOs, etc.	Continue to promote all activities conducted in 2012	<ul style="list-style-type: none"> •Distributed “eco together” diaries to 541 schools •Conducted guest lectures on the environment at 54 schools •70 school visits to Eco-Lab Museum •Provided subsidies to 38 groups in the Kao Creating Forests for Everyone program •Provided 10 teacher fellowships (in partnership with Earthwatch, Japan) •Conducted educational activities at stores 189 times •Received 8,516 entries in the International Environment Painting Contest for Children •Approximately 100,000 participants in China’s Nationwide Cleanliness and Water-saving Initiatives (in partnership with the Chinese government) 	Continue to promote all activities

■ Community

Material issue: Engaging with communities through business

Target issues	Activities	2013 targets	2013 results	2014 targets
Provide solutions to social issues including the aging society, health and hygiene	Develop products and information in consideration of diversity (UD, TV commercials with captions, etc.)	<ul style="list-style-type: none"> • Increase the percentage of new/improved products with UD considerations • Continue educational activities (lectures, etc.) • Continue activities to promote early commencement of full-scale broadcasting of TV commercials with captions 	<ul style="list-style-type: none"> • Percentage of new/improved products with UD considerations: 79% • Set up UD informational website for external use • Conducted educational activities for employees (1 lecture and 9 old-age simulation workshops) • Activities to prepare for full-scale broadcasting of TV commercials with captions (Simultaneous trial broadcasts with 3 TV stations, information-sharing with other companies and related groups) 	<ul style="list-style-type: none"> • Increase the percentage of new/improved products with UD considerations • Continue educational activities (lectures, etc.) • Continue activities to promote full-scale broadcasting of TV commercials with captions (Aim for joint trial broadcasts with other companies)
	Help prevent and treat obesity and lifestyle diseases	Continue proposing new healthy lifestyles to contribute to the creation of an “active senior society”	<ul style="list-style-type: none"> • Established <i>Healthya</i> Club: 80,000 participants • Sponsored walking events: 110,000 participants • Provided QUPiO lifestyle improvement program to 60 companies including health insurance societies 	<ul style="list-style-type: none"> • Continue to attract new <i>Healthya</i> Club members • Sponsor walking events (Target participation: 100,000 people) • Target number of companies participating in QUPiO: 60
	Promote baby health in consideration of local living environments and habits	Expand sales and local production of baby diapers into other countries	<ul style="list-style-type: none"> • Started operations at local plant in Hefei, China, and started sales • Started development of disposable diaper business in new countries in Asia (Thailand, Malaysia, plan for Vietnam in 2014) and the CIS (Ukraine, Kazakhstan in 2014) 	<ul style="list-style-type: none"> • Expand local production of baby diapers and add countries to business development • Conduct educational activities and provide product samples at childbirth and parenting classes (Japan: 680,000 people) • Distribute samples of <i>Merries Tape Diaper</i> Newborn, Size S (Japan: 1.11 million samples)
	Improve hygiene through hand washing education	Expand activities to encourage people to wash their hands	<ul style="list-style-type: none"> • Conducted hand washing lessons in Japan + Asian countries No. of schools: 106 schools in Japan (95 in previous year) • Collaborated with <i>Benesse</i>, a Japanese education company, for the hand washing educational materials targeting 2–3 year old children: 170,000 copies 	<ul style="list-style-type: none"> • Educational activities by visiting elementary schools to give lessons (Japan: 110 schools) • Distribute samples for hand washing education (Japan: 600,000 samples for preschool and elementary school students, etc.) (Taiwan/Thailand: 50,000 samples for elementary school children)

Material issue: Engaging with local communities through partnerships

Target issues	Activities	2013 targets	2013 results	2014 targets
Invigorate corporate citizen activities	Encourage employees to volunteer in corporate citizen activities in each global region	Expand activities to encourage employees to volunteer	<ul style="list-style-type: none"> • Revised survey and set up a system to collect information for creation of KPI standards • Provided information on volunteering to employees 49 times • 19,255 employees volunteered • Publicized information internally and externally 127 times 	<ul style="list-style-type: none"> • Create KPI standards • Create information-gathering and information-sharing systems • Plan and propose activities and lectures of interest to employees

Culture

Material issue: Integrity

Target issues	Activities	2013 targets	2013 results	2014 targets
Promote implementation of the principle of integrity	Continually enhance education on the Kao Business Conduct Guidelines (BCG) Appropriately operate compliance hotlines	<ul style="list-style-type: none"> •Revise BCG through the annual review by the Compliance Committee •Establish the Kao Group Anti-Bribery Program •Plan, implement and enhance regular compliance trainings for the Kao Group as a whole 	<ul style="list-style-type: none"> •Revised BCG (July 2013) •Discussed Kao Group Anti-Bribery Program (Made model for global Anti-Bribery Guidelines) •Planned and held regular compliance trainings for the Kao Group as a whole <ul style="list-style-type: none"> 1) Conducted BCG test held every year for all Kao Group employees: 86.5% participation rate 2) Held compliance trainings for Kao Group managers in Japan: 71.1% participation rate 3) Held integrity workshops for Group company employees outside Japan: 65.1% cumulative participation rate since 2009 	<ul style="list-style-type: none"> •Introduce Anti-Bribery Guidelines •Discuss introducing global guidelines related to avoiding conflicts of interest •Plan and hold regular compliance trainings for the Kao Group as a whole <ul style="list-style-type: none"> 1) Conduct the BCG test held every year for all Kao Group employees: 90% target participation rate 2) Hold compliance trainings for Kao Group managers in Japan: 95% target cumulative participation rate from 2013 3) Hold integrity workshops for Group company employees outside Japan: 75% target cumulative participation rate from 2009 •Study BCG revisions for 2015 <ul style="list-style-type: none"> -Draft BCG handbook -Revise BCG
Promote sustainable procurement	Give more consideration to the environment and human rights in procurement	<ul style="list-style-type: none"> •Continue follow-up surveys to ensure compliance with the criteria •Enhance monitoring activities •Expand purchases of certified products 	<ul style="list-style-type: none"> •Formulated Guidelines for Supplier's Assessment <ul style="list-style-type: none"> 1) Conducted survey with new business partners 2) Issued requests for improvement to partners that did not meet standards and conducted local monitoring •Formulated Guidelines for Sustainable Procurement of Raw Materials <ul style="list-style-type: none"> 1) Expanded purchases of certified products among guideline items (palm oil, paper) 	<ul style="list-style-type: none"> •Conduct procurement based on Guidelines for Supplier's Assessment, Guidelines for Sustainable Procurement of Raw Materials •Conduct education for 100% of employees transferring into Procurement Division

Material issue: Diversity and inclusion

Target issues	Activities	2013 targets	2013 results	2014 targets
Promote diversity and inclusion	Strengthen management training of diverse employees	<ul style="list-style-type: none"> •Improve performance •Continue to hold trainings 	<ul style="list-style-type: none"> •Increased percentage of women managers from 23.6% to 27.7% (Group-wide) and from 9.6% to 10.5% (Kao Group in Japan) •Maintained number of employees outside Japan taking Global Leadership Development training 	<ul style="list-style-type: none"> •Improve results •Conduct survey, investigate issues to accelerate progress

Three Key Areas

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.

Community



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

Culture



Kao conducts business with integrity, respect diversity among our employees and create new value for society through improvements and innovation in our products and ways of working.

Key Area: Conservation

DATA1

Projected maximum rise in the global average temperature by the end of this century

Maximum temperature rise

+4.8°C

The Fifth Assessment Report by the Intergovernmental Panel on Climate Change (IPCC) projects a maximum global average temperature rise of 4.8°C by 2100 compared to the current average (1986–2005) if global warming progresses at the same rate.

DATA2

Rate of increase in domestic water use in Japan

1975→2010

+35.1%

Value based on quantity of water intake using statistics from the Water Resources Department of the Ministry of Land, Infrastructure, Transport and Tourism of Japan. The domestic water use increased from 11.4 billion m³ in 1975 to 15.4 billion m³ in 2010, while the agricultural and industrial water use decreased.



Environmental problems are worsening on a global scale, including climate change, resource depletion and loss of biodiversity. As a company that manufactures products used in daily life and handles chemical substances, Kao's mid-to-long-term management strategy is to advance production that reduces environmental impacts while ensuring high product quality.

In the Kao Environmental Statement released in 2009, we announced that we would proactively work with diverse stakeholders throughout the lifecycle of Kao products from raw materials procurement to production, logistics, sales, use and disposal. These efforts are wide-ranging and encompass using renewable materials such as plant-derived materials, energy-saving activities during the production process, efficient product delivery and reducing containers and packaging. As CO₂ emissions throughout the Kao product lifecycle are highest during product use, we are developing environmentally-conscious products that, for example, conserve water by reducing the amount of water consumed during use. We have also established medium-term objectives with a target year of 2020 for lifecycle CO₂ emissions and water consumption during product use.

Corporations cannot address global environmental issues alone—cooperation with diverse stakeholders including NPOs and NGOs, consumers and government agencies is essential. At Kao, we are working together with customers who use our products, suppliers, retail stores and other business partners as well as the broader community to conduct environmental conservation activities.

Reducing environmental impacts of our business activities

Efforts toward 2020 targets in the Kao Environmental Statement

In the Kao Environmental Statement of 2009, Kao set the 2020 Medium-term Objectives and is promoting efforts to achieve them.

We are promoting three types of “eco together” initiatives with various stakeholders including customers, business partners and the wider community to reduce environmental impacts throughout the product lifecycle from raw materials procurement to manufacturing, distribution, sale, use and final disposal.



Kao Environmental Statement

Kao Environmental Statement: Medium-term 2020 Objectives

- | | |
|---|---|
| <p>1. CO₂
Consumer products: 35% reduction [Japan]
(across product lifecycle, per unit of sales, relative to 2005)</p> <p>2. Water
Water consumption during product use: 30% reduction [Japan]
(per unit of sales, relative to 2005)</p> | <p>3. Chemical substances
Active implementation of the Strategic Approach to International Chemicals Management (SAICM) to promote sound chemical management.</p> <p>4. Biodiversity
Implementation of measures to protect biodiversity through responsible raw materials procurement and other measures.</p> |
|---|---|

Of the four Medium-term Objectives, detailed information on management of chemical substances and protection of biodiversity can be found on the following pages.

[>Chemical substance management initiatives: Sound Chemical Management, p. 65](#)

[>Biodiversity initiatives: Measures for Biodiversity Conservation, p. 70](#)

Reducing CO₂ emissions across the product lifecycle

●17% reduction

Kao aims to achieve a 35% reduction in CO₂ emissions for consumer products in Japan by 2020 (per unit of sales, relative to 2005). In 2013, a 17% reduction had been achieved.

We are conducting various activities to reduce CO₂ emissions across the product lifecycle, including energy-saving activities at plants, marketing water-saving laundry detergents, marketing refill products for powdered laundry detergent, and shortening product transportation distances by optimizing our production structure and logistics territories.

We have updated some CO₂ data for raw materials in 2013. We have added more data provided by suppliers and are working to compile more accurate statistics.

■Changes in CO₂ emissions throughout the product lifecycle★



* CO₂ emissions throughout the entire lifecycle of products are defined 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 consumer products in Japan by their annual sales quantity. However, this does not include CO₂ emissions from use and disposal of industrial products.

* Some data entries through 2005 have been retroactively modified.

Reducing water consumption during product use

● 22% reduction

At Kao, we are aiming to reduce water consumption by developing water-saving products and have set the objective of a 30% reduction in water consumed during use of consumer products for Japan by 2020 (per unit of sales, relative to 2005). In 2013, a 22% reduction had been achieved.

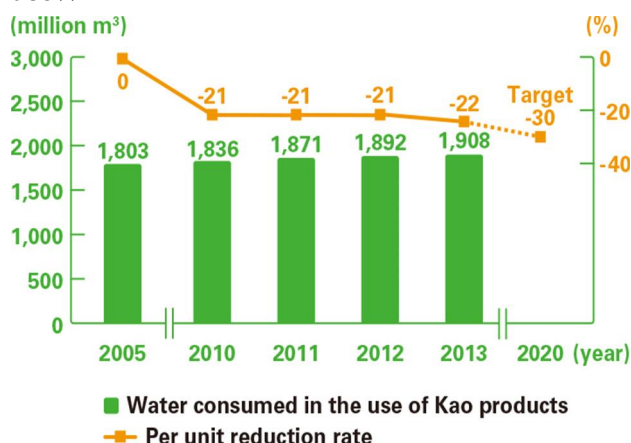
● Expanding water-saving products

In 2009, Kao marketed the concentrated liquid laundry detergent *Attack Neo* as a water-saving product, employing ultra-concentration technology that requires only one laundry rinse cycle to save not only water but also 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* and *Funwari New Beads Neo*.

In August 2013, we released *Ultra Attack Neo*, which uses a new cleansing ingredient that enables high-performance, speedy laundering able to powerfully remove dirt and odors with just five minutes of washing time.

Since 2010, our *Merit Shampoo* has adopted 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 to shampoo hair while using less water.

■ Changes in water consumption during product use★



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

* Some data entries through 2005 have been retroactively modified.

Eco-shampoo skill

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

Displaying the “eco together” logo on products with lower environmental impacts

● Strict standards for obtaining the logo

Kao displays the “eco together” logo on products that minimize their environmental impact, including the aforementioned water-saving *Ultra Attack Neo* laundry detergent, refill products and other products that meet our original strict certification standards. In principle, the “eco together” logo is displayed on the products that satisfy the following two requirements, compared to the previous or concurrently sold products.

- 1) Reduces lifecycle CO₂ emissions
- 2) Clears one or more environmental certification standards set by Kao
 - Energy saving
 - Uses recycled materials
 - Resource saving
 - Uses plant-derived materials
 - Water saving
 - Reduces CO₂ emissions
 - Reduces waste
 - Carbon offset

Details about “eco together” logo display standards

http://www.kao.com/jp/corp_csr/eco_activities_01_01.html



● Sales increase to 25%

Since beginning to display the “eco together” logo in 2009, sales of products with the logo have accounted for an increasing percentage of total sales, reaching 25% as of 2013.

List of products displaying the “eco together” logo
http://www.kao.com/jp/corp_csr/eco_activities_01_02.html

■ Percentage of sales from products displaying the “eco together” logo



*Percentage in the consumer product sales in Japan

TOPICS

Kao selected as CDP Top Public Disclosure Company for 5th time

CDP (former Carbon Disclosure Project) is an international not-for-profit organization based in London. It motivates companies worldwide to disclose their strategies to address climate change and global warming gas emissions and announces the results of this disclosure.

In a CDP survey of Japan's top 500 companies based on market capitalization, Kao's information disclosure was highly evaluated and Kao was selected as a Top Public Disclosure Company at the CDP 2013 Japan briefing held in Tokyo on November 6, 2013.

Kao has responded to the CDP questionnaire every year since CDP began it in 2003, and this is Kao's fifth time to be recognized as a Top Disclosure Company. This recognition was based on Kao's environmental activities not only in Japan but Group-wide on an international scale as well as Kao's approach toward disclosing information to stakeholders.

Environmental activities in partnership with stakeholders

“eco together” with diverse stakeholders

Since the Kao Environmental Statement in 2009, Kao has been conducting “eco together” initiatives, collaborations of companies and local communities to reduce environmental impacts, together with diverse stakeholders such as business partners, consumers, local governments, NPOs.

Photo: Environmental education event on conserving water and electricity and reducing waste held at a store in Ehime Prefecture



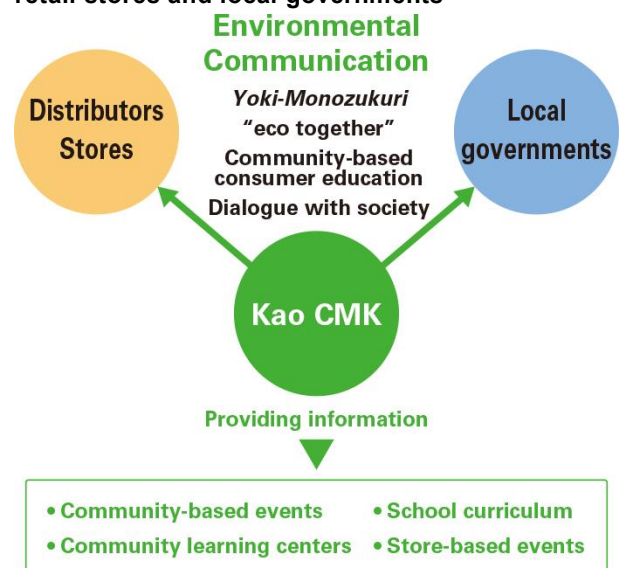
Product lifecycle perspective

● Use and disposal have large environmental impacts

Since the launch of *Attack* compact laundry detergent in 1987, Kao has incorporated LCA (lifecycle assessment) perspective into the development of environmentally conscious products. Initially the perspective was on where environmental impact could be lowered for individual products, but currently we calculate the level of environmental impact of the whole products sold by Kao. This has shown that about 70% of the environmental impact (CO₂ emissions volume) of Kao products is generated during use and disposal by consumers.

Therefore, to reduce the impact during use and disposal, we are working to create conditions that facilitate action on the part of consumers.

■ Environmental communication in cooperation with retail stores and local governments



● Connections with stores and communities from the retail standpoint

Kao Customer Marketing (Kao CMK), Kao's affiliate responsible for selling Kao consumer products to retailers, believes in the effectiveness of educational activities conducted through its national network of bases in Japan. These activities involve retail stores that are frequent customer contact points as well as local communities and governments. Through environmental events in stores and with local governments, Kao CMK promotes conserving water and electricity and reducing waste together with local retail stores and local communities and governments.



Educational kits promoting eco-action that aim to change eco-awareness in consumer households.

Raku-Toku-Eco (Easy-Economical-Ecological) environmental campaign

● Easy ways to save money and help the environment

Together with distributors and retail stores, Kao CMK has been holding environmental campaigns at stores since 2010 with the goal of popularizing environmentally-conscious products. In 2013, Kao CMK held the *Raku-Toku-Eco* (Easy-Economical-Ecological) campaign to promote products that enable efficient use with the message of “easy ways to save money and help the environment at the same time.”

● Held at 17,000 stores throughout Japan

The campaign was held at approximately 17,000 stores throughout Japan, mainly in June, designated as “Environment Month,” and October, designated as “3R’s Promotion Month.” The campaign promoted a group of products that conserve water and electricity and reduce waste by showcasing waste-reducing refillable products and the *Attack Neo* series of laundry detergent that requires only one rinse cycle and can save water, electricity and time.



Environmental campaign

Energy-saving efforts in cooperation with local governments

● Summer electricity-saving campaign in Toyama Prefecture

In fiscal 2013, Toyama Prefecture held the Toyama Negawatt Power Plant Project to establish and expand electricity-saving practices. This was an interactive project with Toyama residents to promote ways to have fun while saving electricity. When households and businesses in Toyama Prefecture registered their electricity-saving practices (switching to energy-efficient light bulbs or refrigerators, replacing production facilities with high-efficiency equipment, installing solar power generation systems, etc.), a virtual “negawatt power plant” was constructed and put into operation.

● Together with customers at 200 stores in Toyama Prefecture

Kao CMK agreed the purpose of this project and sponsored a summer electricity-saving campaign during July and August of 2013. Project announcements were posted in 200 stores in the prefecture and customers who participated in the project received *Ultra Attack Neo* products. In addition, the top electricity savers, who saved more electricity during the campaign period compared with the previous year and were awarded prizes by Toyama Prefecture, received *Ultra Attack Neo* gift sets.

This project fostered cooperation among the local government, stores in the community and Kao CMK to address an environmental issue in the community. We intend to continue contributing to a sustainable society through these kinds of environmental activities in cooperation with local stakeholders.



Poster of Toyama Negawatt Power Plant Project



Introducing the Toyama Negawatt Power Plant Project in environmental education events at stores

Key Area: Community

DATA1

Risk reduction by washing hands with soap

Diarrhea	Acute Respiratory Infection
approx. 50%^{*1}	approx. 20%^{*2}

Around the world, many children under the age of five die from diarrhea and pneumonia. Washing hands properly with soap is one of the most simple and effective ways to prevent these illnesses. Proper hand washing has the potential to save the lives of great numbers of children worldwide.

^{*1} Cairncross S, Hunt C & Boisson S et al. (2010) Water, sanitation and hygiene for the prevention of diarrhoea. *International Journal of Epidemiology* 39(Suppl 1), i193-i205

^{*2} Rabie T & Curtis V (2006) Handwashing and risk of respiratory infections: a quantitative systematic review. *Tropical Medicine & International Health* 11, 258-267

DATA2

Number of NPOs in Japan

As of December 31, 2013

48,611
organizations

The number of organizations obtaining NPO status based on the Act to Promote Specified Nonprofit Activities, which went into effect in December 1998 in Japan. The NPOs in a broad sense include volunteer and citizen groups regardless of certification or NPO status.



A variety of global issues including poverty, sanitation and aging are becoming more diverse and complex. In recent years, the calls for companies to use their capabilities including their resources and know-how to resolve these issues, which threaten sustainability in society, have been particularly strong. Cooperation among numerous sectors will be necessary to do this.

Since our founding, Kao's mission has been to contribute to the enrichment of the lives of people globally. Especially in the areas of sanitation and health, we support people to live healthy lives through products and services that mobilize our accumulated technologies. We are proactively engaging with communities through our business by researching the differing cultures, practices and social issues of countries and regions in detail, providing products and services that meet consumers' needs, and proposing a variety of related lifestyle practices.

Meanwhile, by conducting social contribution activities and supporting employee volunteer activities as a company, we are also striving to deepen ties with communities, NPOs and citizen groups. Kao encourages the spirit of volunteerism in employees and supports employee engagement with their communities. Through social contribution activities, Kao is building partnerships with communities and working to contribute to resolving increasingly diverse and complex social issues.

Engaging with communities through business

Helping children lead healthy lives with proper hand washing

Kao's mission is to contribute to the enrichment of the lives of people globally, through *Yoki-Monozukuri*. To do this, Kao has been creating innovative products and at the same time, proposing a variety of lifestyle practices.

One of these is a program to visit schools and give hand washing lessons, with Kao employees acting as the teachers. In the lessons, children learn the hygienic habit of proper hand washing using foaming hand soap.

Photo: Hand washing lesson at an elementary school. Children remember proper hand washing motions while singing a hand washing song



Learning proper hand washing

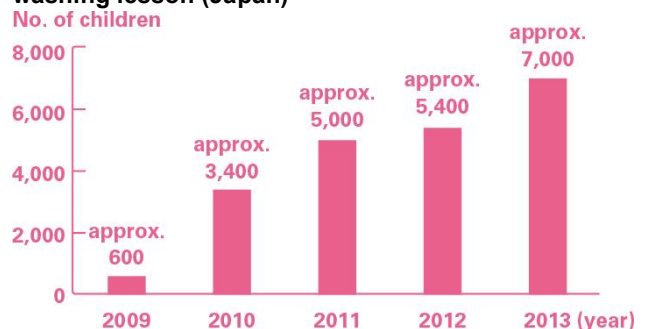
● Fun hand washing lessons teach how to properly wash hands

Kao has been conducting Hand Washing Educational Program for children in the lower grades of elementary school since 2009. Just pumping the dispenser of *Bioré-u Foaming Hand Soap* produces foaming soap, making washing hands easy even for children who cannot lather soap themselves. Children learn the importance of washing hands in the lessons and a fun way to properly wash hands while singing Kao's original hand washing song, *Awa awa tearai no uta*.

● Kao employees become teachers and give hand washing lessons

In 2013, Hand Washing Educational Program was conducted for approximately 7,000 children at 106 elementary schools in 34 prefectures in Japan. Since beginning the program in 2009, more than 20,000 children in total have learned proper hand washing technique. Many employees from various divisions of Kao Group companies have participated in the program as teachers. The program also provides an opportunity for employees to learn about Kao's corporate citizenship activities through their interaction with children.

■ Number of children who have taken the hand washing lesson (Japan)



Bioré-u Foaming Hand Soap

TOPICS Kao receives Kids Design Award

Kao's Hand Washing Educational Program has been recognized by society and in July 2013, Kao received the 7th Kids Design Award in the Design for Children's Future category for elementary and junior high school students. This award recognizes not only products and services for children, but also beneficial products, facilities, programs and research activities for adults that incorporate a child's perspective.

The program was highly evaluated as "an activity that is a new idea, innovation or technique helping children grow into self-reliant consumers of the future."



Expanding healthy living around the world through hand washing

● Promoting hand washing in Thailand

The humid climate in Thailand contributes to an increased risk of illness for young children, especially from the time they are born until they reach five years of age. These illnesses include hand-foot-and-mouth disease, diarrhea and the flu. Kao Commercial (Thailand) is conducting activities to reduce the risk of these infectious diseases.

The move first began in the aftermath of the Bangkok floods in 2011, with our multi-purpose germ and bacterial-killing product *Haiter* to improve hygiene in the affected areas. We then expanded our efforts by donating *Magiclean* household cleaner and *Bioré Foaming Hand Soap*.

As schools began to resume, we distributed hand soap products to local schools and held hand washing lessons there in partnership with the Thai Ministry of Education and leading supermarket chains.

To make the routine easy to remember, we introduce six recommended poses for hand washing and a Kao original hand washing song in Thai, based on the Japanese program. Children would go home and share what they learned with their family to spread proper hand washing habits even wider.



↑ Distributing foaming hand soap to children at over 150 kindergartens and elementary schools affected by floods

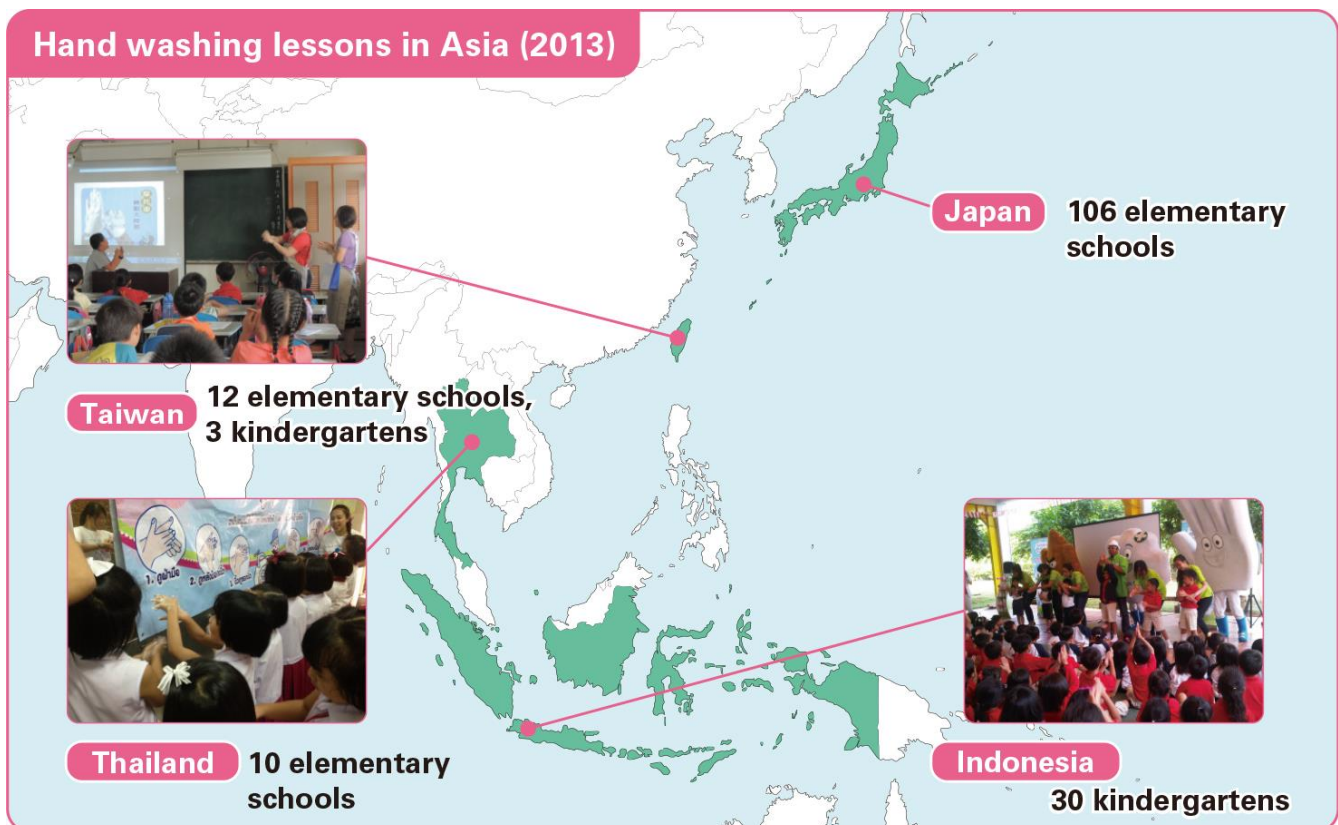


← Card showing proper hand washing motions with the message "Wash hands every day for good hygiene"

● Spreading hand washing in Asia

Hand washing lessons are conducted in Japan and Thailand as well as Indonesia and Taiwan. Kao will continue to expand this program throughout Asia.

Hand washing lessons in Asia (2013)



Engaging with local communities through partnership

10th anniversary of Heart Pocket Club partnering with NPO or citizen groups

Heart Pocket Club, an employee-participatory donation organization founded from employees' desire to give back to society, marked its 10th anniversary in 2014. Heart Pocket Club has deepened its partnerships with NPOs and citizen groups with the goal of creating better communities. Employees who support its objectives become members and donate funds collected in monthly installments from their salary to NPOs and citizen groups. The funds are also used to subsidize members' social contribution activities and offer support when large disasters strike. In principle, employee donations are matched by equal contributions from Kao Corporation.



Community Grants program for community building together with citizen groups

● Helping local community building

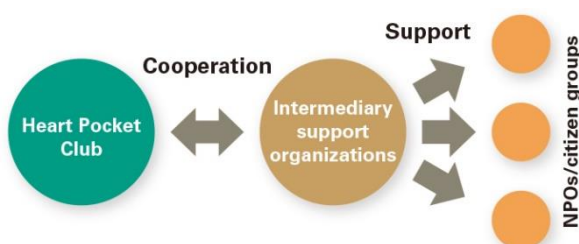
The Heart Pocket Club supports NPOs and NGOs active in the four areas of social welfare, the natural environment, international cooperation and cultural education. In addition, it uses a portion of its funds as Community Grants program to assist groups that conduct community-based activities in Tochigi, Wakayama and Ibaraki prefectures where Kao has plants.

The Club coordinates with NPOs (intermediary support organizations) that have information on local citizen groups in each region to support NPO and citizen group activities. It selects groups to support through employee vote.

● Aiming to build good relations with communities

The grants adds momentum to NPO and citizen group activities and assists local community development, so Community Grants program aims to support community development with members of NPOs and citizen groups in the communities where Kao has plants. In addition to funds, the Heart Pocket Club sends messages of support from employees to the groups since we value relationships.

System of local grants



Example of Community Grants program in Wakayama region

Wakayama Rakuraku-kai

We hold storytelling performances at places such as Wakayama Prefecture Kii-fudoki-no-oka Museum of Archaeology and Folklore and the Wakayama Prefectural Library as well as laughter therapy sessions as part of community outreach. We also started training children as *rakugo* storytellers four years ago and hold children's *rakugo* storytelling workshops monthly at the prefectural library.

We plan to engage in community building, elderly care and children's wholesome education together with other volunteer groups in the future.



Work Cafe☆Owners

We conduct activities designed to give young people a brighter future with a focus on "work" as the foundation. Our activities help young people build goals for themselves as they meet a diverse range of people in different occupations and industries and come into contact with various values. Our activities aim to create a society where as many young people as possible find hope in work.



VOICE From a partner group (Wakayama)

Six years ago, we received a proposal from Heart Pocket Club to support the activities of local groups and began the Community Grants program in Wakayama Prefecture. The corporate support seems to have sparked activity among local NPOs. We have heard things like, "Being recognized by companies gave us confidence in our activities and led us to cooperate with other groups."

As the needs that NPOs are expected to fill become more diverse, NPOs are being called on to develop new programs. I sense first-hand how things that could not be done alone can be achieved through collaboration among corporations, government agencies and other NPOs. I would like to develop these initiatives together.

Ms. Yukiyo Ueda, Manager, Wakayama NPO Support Center



Contributing to resolving global issues

● For the eradication of poverty

We are supporting activities to achieve the United Nations Millennium Development Goals (MDGs), which include halving global poverty by 2015. For example, we support Action against Child Exploitation in India to eradicate child labor and CARE International Japan's activities in Vietnam to eliminate discrimination and prejudice against HIV/AIDS orphans. To resolve global issues, we are working together with NPOs and NGOs.

For more information on the Millennium Development Goals, visit the United Nations website

<http://www.un.org/millenniumgoals/>

● Workshops to deepen understanding

To deepen understanding of these global issues, we have held workshops led by the Japan NGO Center for International Cooperation (JANIC) about what the MDGs are and how we can help children in developing countries. The workshops were an opportunity to learn about conditions in developing countries and have individual employees think about what they could do. Employees who participated said they were glad to experience social contribution activities first-hand and were actively interesting in doing more.



Children's village meeting in India as part of the "Project for Child Friendly Village"

(Photo courtesy of Action against Child Exploitation)

Support given (total up to 2013)

395 organizations, **62.4** million JPY

Membership (as of Dec. 31, 2013)

2,576 people

VOICE What I learned through Heart Pocket Club activities

Through these activities, I have become involved with groups from many fields including the environment, society and international cooperation. By allowing me to participate in supporting organizations' activities, I have studied the diversity of social issues and come to believe that I need to take action on social issues myself. I would like to use the knowledge and perspectives I have learned in what I do at work and outside of work in the future.

Kimiyo Nishida, Procurement Division
Member of the Heart Pocket Club Steering Committee 2013



TOPICS Employees and their families participate in making picture books

The Heart Pocket Club has participated in a project sponsored by Shanti Volunteer Association to deliver picture books to children since 2005.

This project aims to give children in developing countries a chance to have books, because few picture books are published, children cannot read and not many people read books to children there. Stickers with translations of the pages in the respective language are placed in picture books published in Japan and sent to children so they can read them in their mother tongue.

Employees help finish the picture books by placing the sticker translations in them. Between 2005 and 2013, a total of 1,506 employees participated in the project and sent 1,680 picture books to children in Cambodia and Laos. For the local children, the books are not only fun, they also offer valuable reading and writing practice. Illiteracy can produce many harmful effects, such as stepping on a land mine because the person could not read a warning sign, or improperly taking medicine because the person could not read the instructions. Literacy ultimately helps protect people's lives. This project also gives employees an opportunity to learn about local conditions in these countries.



An employee and her daughter making a picture book



Local children enjoying books
(Photo courtesy of Shanti Volunteer Association)

Key Area: Culture

DATA1

Percentage of countries with a Corruption Perceptions Index of 50 or less

70%
of 177 countries

According to the Corruption Perceptions Index (CPI) 2013 published by the NGO Transparency International, which expresses countries' CPI scores on a scale from 0 (high corruption perceptions) to 100 (low corruption perceptions), two-thirds of 177 countries received a score of 50 or less.

DATA2

Japan's rank in the Global Gender Gap Index

105th
out of 136 countries

The Global Gender Gap Report 2013 published by the World Economic Forum ranks countries' gender gap against each other. In 2013, Japan was ranked 105th out of 136 countries, down from 101st.



Kao believes employees are the most important resource to further contributions toward a sustainable society. Therefore, at Kao we are conducting a variety of initiatives to instill in all employees the principle of integrity, which is a driver of our corporate actions, and ensure that they observe laws, behave ethically and conduct business activities in a fair and honest manner. We are working to develop sound business activities not only among our employees but also with all of our business partners throughout the value chain.

To practice integrity in daily work, Kao has drafted the Kao Business Conduct Guidelines (BCG) and holds BCG workshops based on the nature and situation of individual countries to establish the BCG among Group employees globally. In our supply chain as well, we conduct procurement activities while requesting our suppliers to comply with environmental and social laws and regulations.

At the same time, recognizing that the dynamism generated by diversity supports our business development, we are advancing Diversity & Inclusion initiatives so that our diverse employees can demonstrate their full abilities and passion. We are putting special focus on female employee engagement and support for non-Japanese employees and providing support through various measures. We are working to expand the roles of female employees and raise the percentage of female managers, including in the Kao Group in Japan.

Integrity

Kao upholds the principle of Integrity and promotes sustainable procurement activities

Society is constantly changing, and sustainability in society and expectations from society to Kao are constantly changing as well.

Kao is advancing various initiatives to respond to the changing expectations from society.



Photo: Integrity workshop at Kao Germany. The workshop presents specific case studies related to the 11 Fundamental Rules of the BCG that should be given attention and require action in daily work, allowing participants to make discoveries while engaging in group discussions.

Kao Business Conduct Guidelines were revised in line with social changes

● Responding to changes in society

What companies should do toward a sustainable society and what social roles people expect of companies are constantly changing. Kao drafted the Kao Business Conduct Guidelines (BCG) in 2003 to ensure integrity as a corporation and has established various internal regulations related to compliance. The details of these are reviewed every year by the Compliance Committee and revised as necessary to meet the ever-changing expectations of society.

● Preventing bribery and corruption

In July 2013, the BCG were revised for the fifth time to define the Kao Group's strengthened approach toward preventing bribery and corruption. The revisions specify that bribes shall not be given to or received from government officials, private companies, or other business associates regardless of affiliation. Furthermore, the BCG prohibits facilitation payments, which are small payments to government officials to speed up routine non-discretionary government action.

● Communicating with and educating global employees

Kao has released the BCG in Japanese and English on the Kao website and has created translated versions of the BCG in Chinese, Thai, Indonesian, Vietnamese, German, Spanish, French, Italian, Russian and Korean to share the BCG with employees of all Kao Group companies.

BCG educational activities include workshops using discussions of case studies for new employees, newly appointed managers and overseas Kao Group company employees. In addition to these established workshops, the three trainings on the right were incorporated in our activities for 2013.

■ Results of 3 trainings (2013)

- 1) BCG test given every year to all Kao Group employees in and outside of Japan
Of the 31,737 employees, 27,471 took the test.
Participation rate: **86.5%**
- 2) Compliance training for Kao Group company managers in Japan
Of the 2,550 managers in Japan, 1,811 participated in the training.
Participation rate: **71.0%**
- 3) Integrity workshops for all employees of Kao Group companies outside Japan
Of the 11,000 employees, a total of 7,170 have taken the workshop since 2009.
Participation rate: **65.1%**

Empowerment of African women through the purchase of the raw ingredients

● Purchase of natural shea butter in a sustainable manner

In 2006, *JERGENS® Shea Butter* was introduced in the U.S. as a deeply hydrating lotion that provides women with soft, radiant skin. The hero ingredient, pure African Shea Butter, has benefits that extend beyond the radiance it provides skin, and is, in fact, an ingredient of empowerment and beauty for the world.

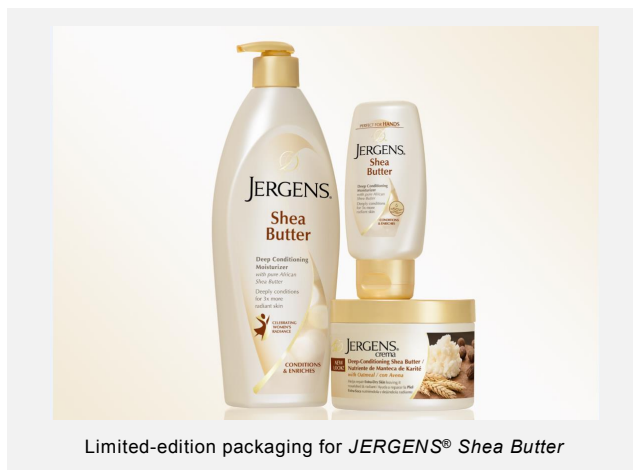
In West Africa, shea is known as “women’s gold,” because the harvesting and processing of the shea nut is done completely by women and the income earned empowers them to make financial decisions to support their families. Kao USA, with the purchase of raw shea butter through our supply chain extending to West Africa, continues to uplift the lives of these women every day.



African women harvesting shea nuts

● Supporting West African women through business

In addition to the positive impact of sustainable sourcing practices, the *JERGENS®* brand began a celebration honoring the women of West Africa through a 2013 marketing initiative, the “Celebrating Women’s Radiance,” campaign. The campaign, supported by first-hand video footage of the harvesting process in Africa, is driving awareness of the women’s gold story and the role of *JERGENS®* in the empowerment of West African women and their families. In addition, the brand worked with the Global Shea Alliance, an organization committed to the education and empowerment of the more than 16 million women who collect and process the shea nut across Africa. As a result of all efforts, sales of *JERGENS® Shea Butter* increased, directly impacting the number of women supported through the incremental purchase of the raw ingredient. Consumers recognized the connection of their purchase to these women. As one consumer said, “Nice way to soften our skin and our hearts. Thanks, Jergens!”



Limited-edition packaging for *JERGENS® Shea Butter*

VOICE Improving the status of women while valuing beauty and the traditions of West Africa

Lisa McClinton, U.S. Brand Manager (*JERGENS®*), Kao USA

As a brand team, we were truly inspired by the women’s gold story because it is so closely related to Kao’s mission. The further we researched, the more we discovered how well it aligned with the *JERGENS®* brand because it is a story of empowerment that is so deeply rooted in beauty and tradition for the women of West Africa. By purchasing and producing Shea Butter into our moisturizers, we were already playing a role in uplifting the lives of these women and allowing them to better the lives of their families. The more products we sell, the greater the impact we have. Our consumers felt the same way, and wanted to support our efforts by buying our products. For centuries, Shea Butter has been recognized as a secret of beauty and we are proud to be able to extend the tradition to women around the globe.



Diversity & Inclusion

Be a company where diverse human resources can demonstrate their abilities

Kao recognizes that the dynamism generated by diversity supports business development and is striving to create workplaces that allow diverse employees to fully demonstrate their abilities and passion.



Photo: Manager training at Kao Consumer Products (Southeast Asia)

Diversity & Inclusion for Kao

● Promotion of Equal Partnership

Kao believes that each employee can better demonstrate the abilities at the workplace where there are the understanding of diversity and mutual respect of each other. Aiming to create these workplaces, Kao has conducted Equal Partnership (EPS) promotion activities since 2000. In 2008, Kao established a network comprised of members from the Human Capital Development Division and HR staff from Kao Group companies to firmly establish EPS basics and foster a culture accepting of diversity.

● Priority efforts

Meanwhile, to achieve Kao Group Mid-term Plan 2015 (K15) announced in 2013, it is necessary to promote *Yoki-Monozukuri* globally. To do this, Kao is placing priority on female employees engagement and support for non-Japanese employees and advancing a number of initiatives.



EPS Awareness Activities Meeting

Female employees engagement

● Women's abilities are indispensable

Starting in 1934 with the establishment of the Nagase Housework Science Laboratory staffed mainly by female employees to conduct education and marketing aimed at housewives, the awareness that women's abilities are indispensable to Kao's business is already established. In September 2010, Kao signed the Women's Empowerment Principles, which are international guidelines for women's participation in society based on UN Women and the UN Global Compact.

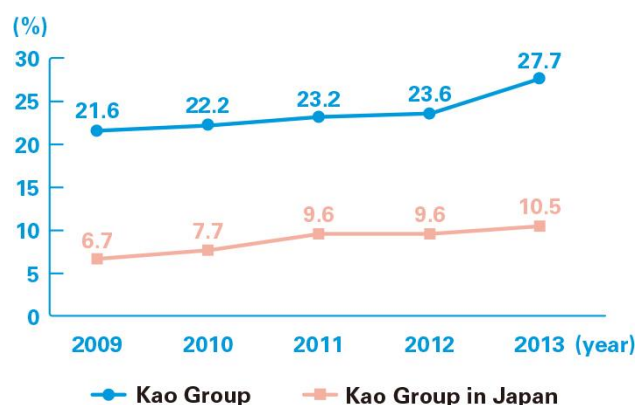
● Expanding the number of female managers

Evaluating and promoting employees based on their ambition and abilities and not attributes such as gender leads to expanded roles for female employees. In 2010, a woman was appointed Director in charge of quality assurance and continues to hold this position today.

Kao's percentage of female managers continues to rise and reached 27.7% as of December 2013 for the Kao Group including Group companies outside Japan. The percentage of female managers in the Kao Group in Japan is now 10.5%, a sharp increase from 6.5% five years ago.

Kao will continue to actively hire and expand placement of female employees as well as strengthen awareness on the part of superiors. At the same time, Kao will continue to implement work-life balance support measures to create environments conducive to women's employment and strive to widen areas of participation for female employees.

■ Changes in percentage of female managers



TOPICS

Kao selected for Nadeshiko Brand and Diversity Management Selection 100

In February 2013, Kao was selected as one of 17 brands for the first Nadeshiko Brand, a designation begun jointly by the Ministry of Economy, Trade and Industry and Tokyo Stock Exchange. One company in each industry is selected to receive this designation in recognition of its proactive promotion of women's participation, including by creating environments that facilitate women's continued employment.

Then in March 2013, Kao was also selected for the Diversity Management Selection 100. The Ministry of Economy, Trade and Industry designates 100 companies for this recognition that generate value and innovation by mobilizing diverse human resources and providing opportunities that allow them to demonstrate their maximum potential.



Participation by non-Japanese employees

● Global implementation of systems

To advance *Yoki-Monozukuri* globally, Kao is advancing globally unified operations, including standardizing work assignments, coordinating jobs and sharing the Kao Way, our corporate philosophy. While standardizing our HR evaluations and other systems, we are also giving employees transfers, promotions and training opportunities through a global HR selection process to promote participation by employees regardless of nationality.

● Attracting global human resources

The Global Leadership Development Program (GLDP) is a global program in which members selected from companies in the Kao Group study Kao management issues from a broader perspective and make proposals to executive management. Held since 2010, approximately the same numbers of Japanese and non-Japanese staff participate in the GLDP, where they engage in vigorous discussions.

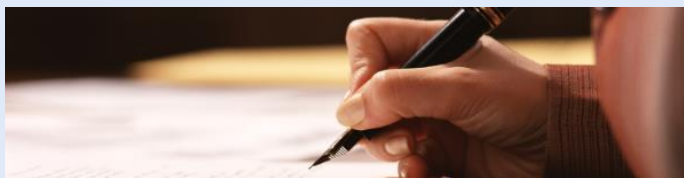
Kao also has other globally implemented training programs including facilitation workshops and manager trainings.



Lausanne, Switzerland GLDP session

Governance

Corporate Governance



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

Compliance



Kao strives to implement and establish compliance on a global basis in order to behave lawfully and ethically and conduct fair and honest business activities.

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 【34, 38, 39, 40, 41, 42, 45, 51, 52, 53】

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

Policies/structures

• Basic approach

Kao's basic position on corporate governance is to establish and operate a management system 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 shareholders and all other stakeholders.

• Structure outline

Kao has introduced, within the framework for the Board of Directors (half of the Board of Directors are Outside Directors) and the Audit & Supervisory Board (majority of the Audit & Supervisory Board are Outside Audit & Supervisory Board Members) the Executive Officer system in order to separate the supervision function from the execution function. Following the conclusion of the 108th Annual General Meeting of Shareholders held in March 2014, Kao has: six (6) 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-six (26) 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. Also, Kao is promoting the appointment of diverse human resources, and it has assigned one (1) female Outside Audit & Supervisory Board Member and one (1) female Executive Officer. Two (2) out of three (3) Outside Directors and all Outside Audit & Supervisory Board Members maintain their neutrality, independent from Kao's management. In order to improve the transparency of discussions in the Board of Directors, an Independent Outside Director has become the chairman of the Board after the 108th Annual General Meeting of Shareholders held in March 2014. The term of office for Directors and Executive Officers is one year.

• Board of Directors

Meetings of the Board of Directors were held 17 times during the fiscal year ending December 2013, including extraordinary meetings. At the end of the fiscal year ending December 2013, the average attendance rate of Outside Directors was 98.0%, and Outside Audit & Supervisory Board Members 98.0%. To facilitate thorough discussions in each meeting of the 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.

• 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

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 (reorganized as the Committee for the Examination of the Nominees for the Members of the Board of Directors and Executive Officers in February 2014), 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 Committee members. The results of the examination and evaluation are to be reported at a meeting of the Board of Directors. A meeting of the Compensation Advisory Committee was held in February 2014, 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 2014. Also, Kao decided to add all Outside Audit & Supervisory Board Members to the members of the Committee at the meeting of the Board of Directors held in February, 2014.

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. A meeting of the Committee was held with the attendance of all Committee members, in advance the election of Chairman of the Board of Directors and President and CEO following the reelection of the Members of the Board of Directors at the 108th Annual General Meeting of Shareholders in March 2014. The Committee subsequently submitted to the Board of Directors its opinion that it considered appropriate the retirement of the Chairman of the Board of Directors (An Outside Director has been the chairman of the Board from March 28, 2014) and the reelection of the President and CEO. Also, Kao expanded the scope of examination to all nominees for the members of the Board of Directors and Executive Officers, and reorganized the committee into the "Committee for the Examination of the Nominees for the Members of the Board of Directors and Executive Officers" at the meeting of the Board of Directors held in February, 2014.

•Efforts to strengthen the function of the Audit & Supervisory Board Members

The Audit & Supervisory Board maintains neutrality independent from Kao's management. It consists of three (3) Outside Audit & Supervisory Board Members, of whom one (1) is a woman, and two (2) Full-Time Audit & Supervisory Board Members. For improving the auditing effectiveness and strengthening and maintaining the auditing function, the Audit & Supervisory Board Members regularly and as necessary share information with Representative Directors, attend meetings of the Board of Directors, Management Committee and other important meetings, participate in regular Conferences of Audit & Supervisory Board Members of Domestic Group Companies, share auditing information with the internal auditing division and Accounting Auditor, and gather opinions from internal divisions and subsidiaries.

•Policy on determining the amount of remuneration of members of the Board and Audit & Supervisory Board Members

Kao's fundamental position on remunerations of members of the Board of Directors, Audit & Supervisory Board Members and Executive Officers is as follows: (1) compensation system which attracts diverse and excellent candidates to establish and improve competitive advantages; (2) compensation system which promotes continuous improvement of corporate value and shares interests with shareholders; and (3) objective and transparent decision making process regarding compensations.

Based on the outside research institution's data on Members of the Board of Directors' and Audit & Supervisory Board Members' remunerations, Kao decides on compensations of the members of Board of Directors and Audit & Supervisory Board Members by setting a benchmark every year with other well-known manufacturing companies with a similar business size and in a similar business category as the companies of the same rank, and comparing their remuneration system and the level of remunerations with those of Kao's.

The remunerations of the members of Board of Directors except Outside Directors consist of three factors below, and they are decided based on the roles as members of Board of Directors and positions concurrently held by such members.

(1) Monthly fixed salary

(2) A short-term incentive compensation in the form of bonus

The amount of bonus is set between 20–35% of the estimated annual standard salary of each position, and this linked amount is set to fluctuate between 0–200% depending on the circumstances of achievement of EVA target and both sales and operating income targets.

(3) A long-term incentive compensation in the form of stock options(Share Remuneration Type Stock Options) The amount of compensation in the form of stock option is set between about 10–20% of the estimated annual standard salary of each position.

The compensations for the Outside Directors independent of the execution of Kao's operations consist of monthly fixed salary and stock options (Share Remuneration Type Stock Options).

The compensations of the Audit & Supervisory Board Members consist only of monthly fixed salary.

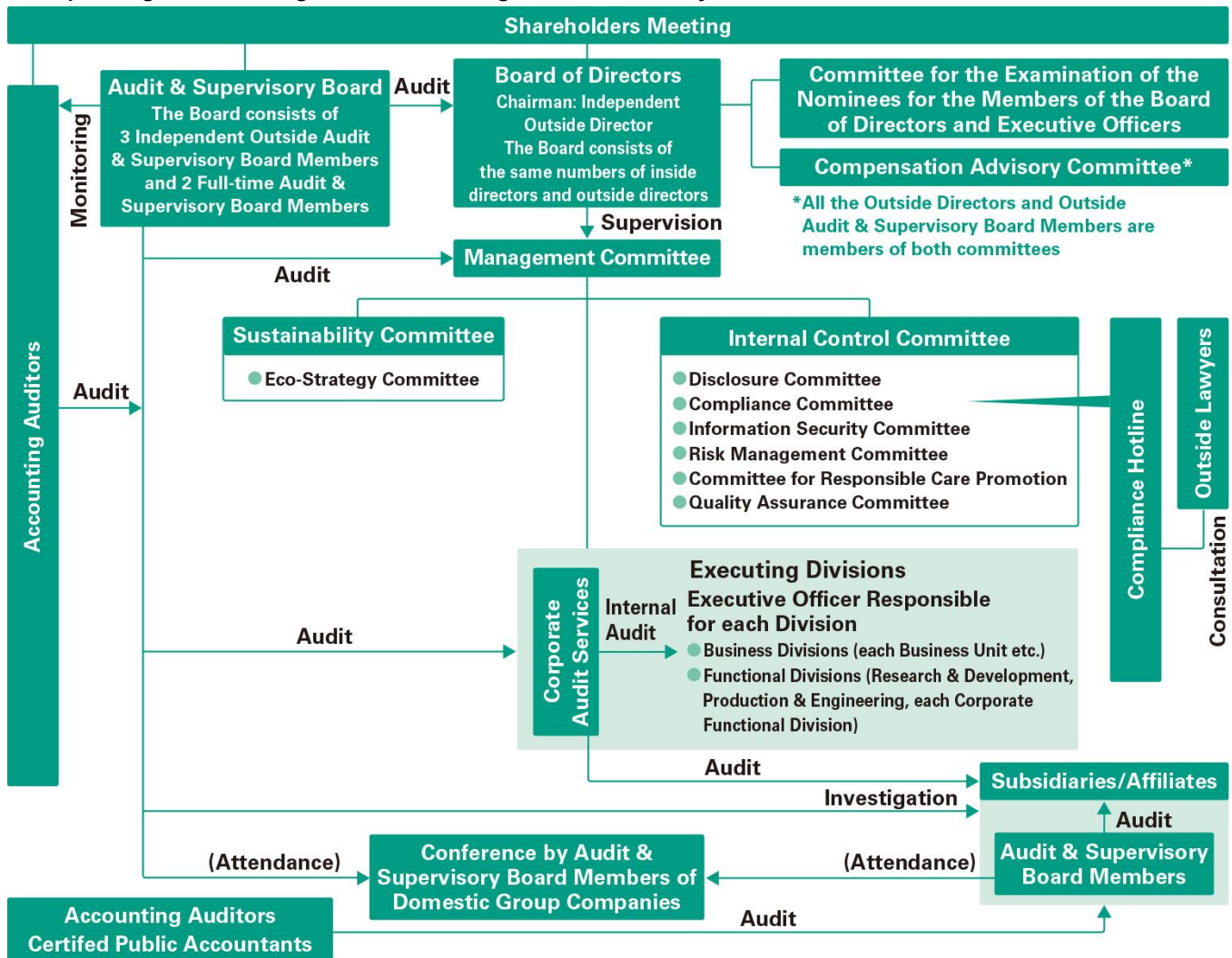
Kao has no retirement bonus system for both the members of Board of Directors and the Audit & Supervisory Board Members.

The total amount of remunerations for the Members of the Board of Directors and the Audit & Supervisory Board Members in fiscal 2013 is available in the "Report Concerning Corporate Governance."

Reference: "Report Concerning Corporate Governance"

http://www.kao.com/jp/en/corp_imgs/corp_info/governance_001.pdf

■ 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)

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. Except for one Outside Director, 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

Policies/structures Internal control

Kao formulated its Basic Policy Regarding the Internal Control System in May 2006, reviews it every year and revises it 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 committees 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 committees' 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 activities or conduct which offends social norms or morality 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

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.

Each committee sets targets to be achieved globally, establishes the necessary rules to promote activities and develops activities on a global basis.

Compliance 【57, 58, DMA】

Kao strives to implement and establish compliance on a global basis in order to behave lawfully and ethically and conduct fair and honest business activities.

Policies

Kao upholds the principle of integrity, passed down from our 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 integrity as the starting point of compliance and promotes it as a foundation for earning the respect and trust of all stakeholders.

Goals

To put the above policy into practice, we have defined the following three compliance priorities. These activities are implementing by the Kao Group as a whole.

- (1) Establish and revise the Kao Business Conduct Guidelines (BCG)* and other internal compliance-related guidelines
- (2) Set up and operate compliance hotlines to enable early discovery and resolution of legal and ethical violations
- (3) Conduct educational activities to promote each employee's understanding of the BCG

* Kao Business Conduct Guidelines (BCG)

http://www.kao.com/jp/en/corp_info/compliance.html

Structures

1. Compliance promotion structure

Kao has established the 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 the establishment and revision of the BCG and other compliance-related internal guidelines, implements activities to promote wider permeation and establishment of corporate ethics both in and outside of Japan, monitors the operation of and responses to the compliance hotlines once every six months, and reports important matters, provides an overview of activities and makes proposals to the Board of Directors as appropriate.

The Compliance Committee has installed a secretariat and holds a secretariat meeting each month. At the secretariat meetings, members of the secretariat review and discuss the responses to inquiries made to hotlines both in and outside of Japan, consider new approaches to promote compliance and make plans to provide compliance education.

2. Auditing and monitoring structure

Kao regularly conducts the following auditing and monitoring to gather employees' opinions and take necessary measures.

- Auditing by the Kao Global Internal Audit
The Kao Global Internal Audit conducts regular internal audits for all companies and divisions of the Kao Group, which include verifying conduct on compliance related issues based on guidelines related to entertaining and gift giving.
- Self-appraisal of individual divisions
Once a year, the Compliance Committee members of individual divisions conduct self-appraisals concerning whether there are violations of the BCG and the progress of activities to promote compliance in their own divisions.
- Employee opinion survey
The Kao Group monitors the status of compliance awareness among employees through the companywide opinion survey "Find" conducted every other year.

- Supplier satisfaction survey

Kao conducts a business partner satisfaction survey on a regular basis, targeting outside vendors (suppliers) and other business partners to create an opportunity to review its own conduct.

> p. 108 “Partnering with Our Suppliers”

- Self-check exercises at seminars

Compliance seminar participants do self-check exercises on their compliance awareness.

Global

Reviewing guidelines to prevent bribery and corruption based on the BCG revision

In July 2013, the BCG was revised for the fifth time to clearly specify that bribes shall not be given to or received from government officials, private companies, or other business associates regardless of affiliation. Furthermore, the BCG prohibits facilitation payments, which are small payments to governmental officials to speed up routine non-discretionary government actions. Based on this revision, in 2013 Kao introduced items and specific provisions, including those covering a Group-wide anti-bribery stance and company-specific operational procedures, to form the basis of its Anti-Bribery Guidelines.

In 2014, Kao plans to introduce Anti-Bribery Guidelines at the individual company or business region level closely aligned to Kao's global template. Kao confirms that in line with the BCG, the Kao Group did not offer any political contributions in 2013.

Global

Establishment and operation of compliance hotlines

- Kao Group operational policy

Kao Group companies have established and operate two kinds of compliance hotlines: one internal and one external.

Both respect the individual's privacy, strive to ensure that callers suffer no disadvantage as a result of their good faith consultation, and receive callers consent when a third party needs to be involved.

In 2013, companies across the Kao Group saw an average of 13 calls per month to the hotlines, none of which presented a serious risk.

- Kao Group companies in Japan

Kao Group companies in Japan have established internal compliance hotlines operated by members of the Compliance Committee secretariat and external hotlines operated by outside specialists including lawyers and counselors. Some of the internal and external hotlines accept reports and inquiries not only from Kao employees but also from related parties including business partners.

- Kao Group companies outside of Japan

Kao Group companies outside of Japan have established and operate either internal compliance hotlines in which the company president or HR manager handle inquiries, or external compliance hotlines operated by outside service providers, or both.

The “Integrity Lines,” which are external compliance hotlines, have been successively set up at Group companies in different countries starting in 2007 and are available in the caller's own language 24 hours a day, 365 days a year. Anonymous inquiries are accepted, but callers are encouraged to use their real names due to the limited nature of investigations based on anonymous reports.

In 2013, Kao Group companies in the United States created the Integrity Card and distributed them to all employees in January 2014 to increase awareness of the compliance hotlines. The Integrity Card lists 4 key reflection points to guide employees through difficult decisions and the internal and external compliance hotline information. Distribution of these cards will continue in 2014.



Poster and Integrity Card for Kao USA's Integrity Line

Global

Serious violations of laws and regulations by the Kao Group in fiscal 2013

Kao upholds a principle of disclosing serious violations of laws and regulations in the Kao Group's business operations. However, in cases where there are legal or contractual confidentiality obligations, the risk of affecting public interest, the need to take privacy into consideration, or other similar limiting factors, the violation may not be made public.

No serious violations of laws and regulations occurred in the business operations of Kao Group companies in 2013.

But minor violations such as traffic infractions occurred in business operations in Japan, and relevant improvement measures were taken internally.

Global

Eight years on the World's Most Ethical Companies list

In March 2014, Kao was named as one of the World's Most Ethical Companies 2014 by the U.S. think tank, Ethisphere Institute. We have been on this list for eight straight 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 eight 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. In this year of the award, more than 1,000 companies participated in the evaluation, with 144 companies (of which 38 are outside the United States) in 41 sectors around the world ultimately making the list. This recognition reflects that the spirit of Integrity as passed on by our Kao predecessors continues to be implemented by all Kao Group members through practice of The Kao Way and the BCG.

Kao Group in Japan

Measures ensuring full compliance in daily work

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 communicate information and educate as needed through various means such as in-house workshops.

In addition, various internal rules that are useful in putting the BCG into practice are available on the Intranet system at Kao Group companies in Japan.

Laws and regulations revised in fiscal 2013 for which laws and regulations experts conducted relevant activities:

- Telecommunications and Internet Users' Personal Information Protection Regulations
 - Local Tax Act
 - Act Concerning Prevention from Radioactive Hazards due to Radioisotopes, etc.
 - Narcotics and Psychotropics Control Act
 - Ethical Guidelines for Analytical Research on the Human Genome/Genes
- 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 2013

Number of laws for which laws and regulations experts have been appointed: 340 laws in total
Number of internal regulations registered: 586

Global

Safeguarding intellectual property

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 brand names.

The R&D - Intellectual Property 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 R&D - Intellectual Property). Kao also actively pursues the acquisition of 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.

Information Security and Protection of Personal Information

Policies/goals/structures

Kao has established Guidelines on Handling Trade Secrets, Guidelines for Handling Personal Information, and IT Security Guidelines based on its Information Security Policy to ensure that 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 the 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 employees is also managed properly.

Kao Group in Japan

Implementing divisional self-patrols

In April and May of every year, divisional members for protection of TS and supervisors who handle personal information conduct self-inspection to examine the conditions under which trade secrets and personal information are managed within their own divisions. Issues uncovered as a result of the 2013 self-patrols, including thorough education on TS and personal information protection for new and transferred employees in divisions, were shared at the TS & Personal Information Protection Promotion Meeting held in July 2013 and set as improvement goals for 2014.

Kao Group in Japan

The 20th TS & Personal Information Protection Promotion Meeting

The Kao Group in Japan holds regular meetings for the purpose of protecting TS and personal information, which are attended by divisional member for protection of TS and supervisors who handle personal information. At the 20th TS & Personal Information Protection Promotion Meeting held in July 2013, a guest speaker from a leading IT company gave a presentation on the risks and threats that exist in the rapidly evolving world of social networking services and appropriate security measures. Related divisions will lead efforts to prepare appropriate responses to these issues.

Kao Group in Japan

Revision of the Guidelines on Handling Trade Secrets

Kao revised and implemented the Guidelines on Handling Trade Secrets in October 2013 aiming to increase individual employees' awareness toward TS as well as further share information among the Kao Group while maintaining strict information management. The revision includes introduction of labels displaying the period of handling information as confidential and amendment of classifications of confidential information.

Risk Management [2, 14, 45, 46, 49]

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

Policies/structures

In order to practice *Yoki-monozukuri* as stated in the Kao Way, Kao's corporate philosophy, we should visualize the various risks pertaining to business activities and implement measures to minimize their frequency and influence. Meanwhile, we must be prepared at all times to minimize damage and loss in the event that such risk becomes a reality. Kao conducts risk management activities with this in mind, administering 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 has established the Risk Management Committee, in which the Executive Officer in charge of risk management presides at the chairman and the committee members are assigned by the chairman. The Risk Management Committee has the following responsibilities for the purpose of promoting and advancing risk management activities companywide by: 1. Deliberations and decisions of basic policy for risk management activities, 2. Deliberations and decisions of development and operation plans for risk management activities, 3. Support to expand the concept of risk management and the organizational activities throughout the Kao Group, and 4. Sharing information of each division's risk management activities.

Moreover, the Board of Directors regularly ascertains and supervises the corporate framework for risk management and also sets basic directions for management and action against major risks as necessary.

Under such system, the risks related to management strategies that affect business opportunities are evaluated and proper measures are taken by the relevant divisions. These risks and their management are deliberated and supervised in the Management Committee and Board of Directors when necessary.

For the management of operational risks, a member responsible for promoting risk management of each division advance the activity to clarify, evaluate, avoid and minimize various risks on a regular basis.

Risk Management, Corporate Strategy promotes a PDCA cycle of the risk management, observing the risk management activity status of each division, proposing further improvements and enforcing risk control from a companywide perspective. Risk Management, Corporate Strategy also acts as the secretariat for the Risk Management Committee.

■ Risk management structure



Goals

Kao identifies a risk as any event and its occurrence factors directly or indirectly obstructing ongoing business activities and the achievement of business objectives of any division. Risk Management Group, Corporate Strategy sets the following priority themes and promotes those activities.

1. Identification of risks that could seriously affect the business activities and strengthening of the countermeasures
Kao conducts risk surveys on events that could affect *Yoki-Monozukuri* and business continuity at key divisions in Japan as well as Kao Group companies outside of Japan. We are implementing steps to reduce negative impacts on our business activities by identifying events and their occurrence factors that could seriously affect Kao Group business activities and having the divisions responsible for the relevant risks take preferentially proactive measures in advance.

2. Development and strengthening of the emergency response system

As our business becomes more global, emergency situations that require our response broaden in scope to encompass accidents and disasters, political and social unrest and labor disputes in Japan and overseas. In addition, when an emergency situation occurs, the influence to the business is increasing in terms of both the scale and speed. We are developing and strengthening our emergency response system to be able to respond to these kinds of situations in Japan and overseas.

3. Strengthening business continuity plan (BCP)*

We are improving our business continuity plan for the events that could seriously affect the continuity of our business activities, such as an operational stoppage due to a large-scale earthquake or an outbreak of an epidemic, in order to strengthen our processes to ensure the delivery of our products that our customers need.

* Business continuity plan (BCP)

A plan for continuing corporate key activities by the procedures to decide in advance which operations and functions should be continued, and which method should be applied for continuing the activity with supposing various situation that the interruption and/or shutdown of business activities occur due to various events and their occurrence factors.

Global

Identifying risks that could give serious negative impact to the business activities and strengthening countermeasures

In the risk survey conducted in 2013, we defined the events that could affect *Yoki-Monozukuri* and business continuity at the Kao Group in Japan as the risk which could give serious negative impact to the business activities, and worked to identify such risks and to study countermeasures. We also worked to strengthen the countermeasures based on the evaluation of them by divisions responsible for concerned risks. The identified risks and their countermeasures have been reported to the Board of Directors and other meetings.

In 2014, the risk survey will be expanded to the whole Kao Group with the same definition of the risks and we will strive to identify risks that could seriously affect our business activities. We will evaluate the countermeasures of the identified risks with various viewpoints and then try to improve the countermeasures following the risk management policy.

Through these activities, Risk Management, Corporate Strategy is leading efforts to improve our level of risk management by promoting the PDCA cycle for Kao's Group-wide risk management.

Global

Development and strengthening of the emergency response system

In 2013, we developed the emergency response system for various incidents in and outside of Japan such as accidents and disasters, political and social unrest and labor disputes and so on by revising the disaster management system that has so far focused on accidents and disasters in Japan. Moreover, we formulated a conduct guidelines for safety and risk management for the Group companies outside of Japan to strengthen our initial response capabilities at the time an emergency incident occurs.

In 2014, we will conduct initial response drills for emergency repeatedly across wide area at mainly Kansai Zone (Wakayama, Osaka) which would serve as an alternate base, supposing the event that an earthquake with an epicenter in Tokyo temporarily disrupts functions at the Head Office and in Tokyo region. We will further strengthen our initial response capabilities with conducting the evaluation of improvement on issues in the previous year.

Global

Strengthening the business continuity plan (BCP)

In 2013, we continued to strengthen our supply chain system to ensure delivery of products to customers through reviewing each process of procurement of raw materials, production of priority products and logistics against the issues learned from the experience of the Great East Japan Earthquake.

For the procurement of raw materials, we have promoted flexible purchasing according to conditions, by having multiple vendors and getting standard specifications in the whole Kao Group including the Group companies outside of Japan.

To strengthen our manufacturing system, we have taken measures such as seismic strengthening and liquefaction-proof to make plants more disaster resistant. In addition, we are restructuring our production base globally to ensure the delivery of priority products.

In 2014, we will study how we should maintain both the Head Office and the supply chain functions under the situation that we get serious damage to the key bases and we can't secure personnel for the above functions due to an earthquake with an epicenter in Tokyo. We will also to strengthen our operation to ensure the delivery of necessities of life to customers with improvement to the business continuity plan.

Responsible Care Activities [14, DMA]

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/structures

Kao carefully safeguards individuals and the environment at every step of 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 the Environment and Safety Division, formulated the global "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 goals, and are currently implementing activities based on our annual plan.

Activities include holding a meeting of the Committee for Responsible Care Promotion twice a year in September and December. This committee comprises 11 members: 10 RC Promotion Members selected from the 10 divisions and business companies promoting RC activities within Kao Group in Japan, plus one representative from 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.

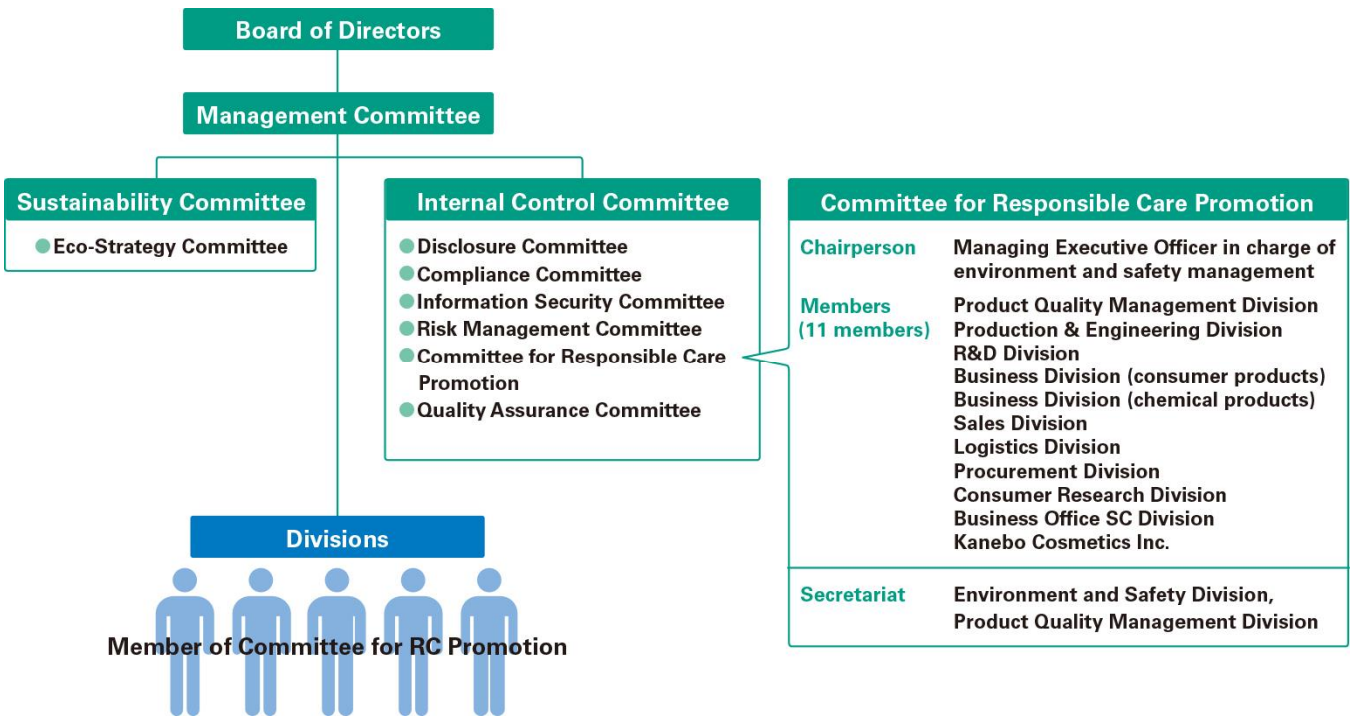
At the meeting in December, based on these activity goals, individual RC Promotion members report their respective division's plan for the next year, which the committee then deliberates. The RC Promotion members convey the deliberation results to their respective divisions, relating the detailed contents 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 conservation, process safety and disaster prevention, occupational safety and health, chemical and product safety, distribution safety) and communication with society

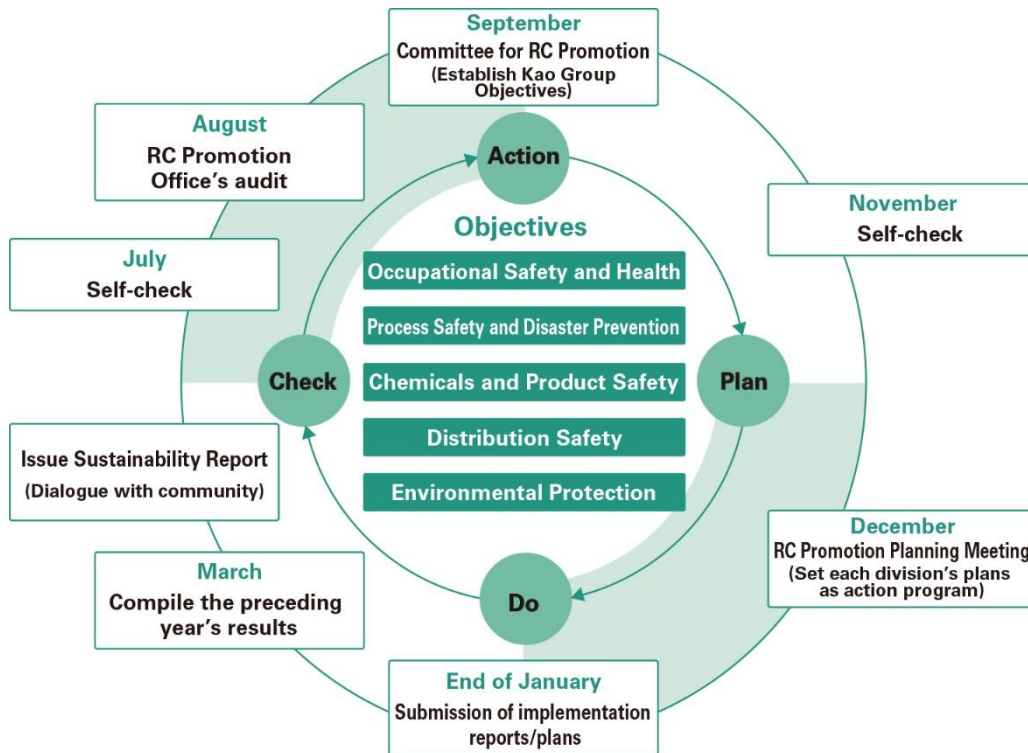
Kao Responsible Care Policy

- **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.

■ RC promotion system



■ Annual schedule for RC activities



Global

Standardizing RC activities

The 2014 Japan targets and global targets were set at the Committee for RC Promotion meeting in September 2013.

At the December 2013 meeting, the annual schedule of RC activities in light of global developments and the new global promotion system and its operation were reviewed and approved for successive roll out from 2014.

The Committee has been receiving reports on the activities of overseas subsidiaries since 2011. Kao Specialties Americas gave its report in September 2013, and Kao Industrial (Thailand) gave its report in December.

Global development of RC activities got underway from 2012 mainly for Group companies with production plants in Asia and chemicals plants in Europe and the United States. Preparations for the new audit system were made in 2013, including the revision of regulations based on the Kao Responsible Care Policy and the creation of a new checklist. In addition, senior management made written requests to Kao Group companies in various countries for RC promotion and we gave explanations to logistics centers and offices to create a system for companywide activities going beyond just plants and further promote activities.

We plan to establish global RC activities including in Europe and the United States by 2015.



Kao Specialties Americas RC activities report (Sept. 2013)



Kao Industrial (Thailand)'s RC activities report (Dec. 2013)

Global

Utilization of environmental and safety database

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.

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

At Kao, individual divisions in charge of RC promotion conduct self-audits in July, and the Responsible Care Promotion Office implements audits of individual divisions in charge of RC promotion in August to determine the progress of RC activities and challenges to be addressed.

These results are reported to the chairperson at the Committee for Responsible Care Promotion meeting held each September and help formulate the next year's activity goals. In 2013, Kanebo Cosmetics' audit was delayed and conducted in December. The results found that several numerical targets were not reached. In addition, Kanebo Cosmetics had one case of inadequate regulations concerning RC promotion to be rectified. These are being handled by the individual divisions in charge of RC promotion as matters to rectify and observe, and some have been included in the plans for 2014.

■ Results of audits by Responsible Care Promotion Office (2013)

	Production & Engineering	R&D	Business Units	Corporate	Affiliates*
No. of questions	47	25	65	66	137
No. of items requiring continued observation	2	3	3	12	16
Average evaluation score (5-point scale)	4.83	4.80	4.92	4.82	4.74

*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 employees and the staff of its business partners.

In 2013, the Responsible Care Promotion Office held 24 RC training sessions for employees, with the participation of a total of 356 people.

■ Results of RC education (2013)

	Production & Engineering	R&D	Business Units	Corporate	Affiliates	Total
No. of training sessions	9	2	3	5	5	24
No. of participants	113	28	16	163	36	356

*For Kao Group in Japan

For details, refer to Certification Status of ISO and Other Standards

http://www.kao.com/jp/en/corp_csr/eco_activities_02_11.html

Environment

Environmental Targets and Results



Kao has established and is promoting initiatives for targets concerning CO₂, water, chemical substances, biodiversity and other environmental impacts.

CO₂



Kao is working to reduce CO₂ emissions across each stage of the entire product lifecycle.

Sound Chemical Management



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

Other Environmental Impacts



Kao strives to reduce the effect of waste and a wide range of other environmental impacts.

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.

Environmentally-conscious Containers and Packaging



As part of its “eco together” activities, Kao is promoting initiatives to develop environmentally-conscious containers and packaging from the perspective of the 4Rs: Reduce, Renewable, Reuse and Recycle.

Water



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 Conservation



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.

Environmental Targets and Results

Kao has established and is promoting initiatives for targets concerning CO₂, water, chemical substances, biodiversity and other environmental impacts.

Targets Global 2013 results and future targets

Kao Group in Japan achieved its targets in all categories for 2013.

1) Production and other business activities-related

Kao Group in Japan

Category	Index	Relevant division	2013 targets	2013 results	2014 targets	2020 targets
Greenhouse gas emissions ^{*1}	Emissions (vs. 1990)	All sites + product transportation	20% reduction	22% reduction	21% reduction	25% reduction
Waste reduction	Waste disposal per unit of sales (vs. 2005)	All sites	33% reduction	36% reduction	34% reduction	38% reduction
	Final landfill disposal ratio ^{*2}		0.1% or lower	0.1%	0.1% or lower	0.1% or lower
CSR procurement	Green procurement ratio ^{*3}	All supplier plants	98%	99%	98%	100% ^{*4}

Kao Group

Category	Index		Relevant division	2013 results	2014 targets
Energy/CO ₂	Energy usage	Per unit of sales (vs. 2005)	All sites	28% reduction	29% reduction
	CO ₂ emissions			27% reduction	28% reduction
Water	Water usage			33% reduction	35% reduction
Waste reduction	Waste generation			28% reduction	30% reduction

2) Product-related

Kao Group in Japan^{*5}

Category	Index		Relevant division	2013 results	2020 targets
CO ₂	CO ₂ emissions	Per unit of sales (vs. 2005)	Entire product lifecycle	17% reduction	35% reduction
Water	Water usage		During product use	22% reduction	30% reduction

*1. Emissions of the six greenhouse gases covered by the Kyoto Protocol, expressed in CO₂ equivalent.

*2. The percentage of landfilled waste among total waste disposal.

*3. Ratio of relevant supplier plants implementing an environmental management system.

*4. One-hundred percent of supplier plants meet not only the green procurement criteria but the criteria of global warming prevention, biodiversity conservation and disaster prevention perspectives.

*5. For consumer products sold in Japan.

Environmentally-conscious Containers and Packaging

[EC2, EN1, EN27]

As part of its “eco together” activities, Kao is promoting initiatives to develop environmentally-conscious containers and packaging from the perspective of the 4Rs: Reduce, Renewable, Reuse, and Recycle.

Kao Group in Japan

Container and packaging initiatives

Until their contents have been used up, containers and packaging serve an important role and function as part of our products, protecting contents and preserving quality during transport, and providing a wide range of information to consumers using the products. At Kao, we are working to reduce the environmental impact imposed by containers and packaging by promoting 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, making bottle walls thinner, concentrating products to make them more compact, and downsizing products, all with the aim of reducing the volume of packaging materials used.

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

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

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

Kao Group in Japan

Reducing container and packaging materials

Reducing container and packaging materials not only reduces environmental impact, but also leads to cost reductions. In an example from 2013, the amount of resin used in one bottle of *Attack Neo* concentrated liquid laundry detergent was reduced by 29% by making the walls of the container thinner. In all of 2013, there were 43 such instances in which reductions in container and packaging materials resulted in a reduction in environmental impact, leading in turn to an approximately 2,800 ton reduction in CO₂ emissions per year and an annual drop in costs of about 350 million yen.

Among container and packaging materials used in 2013, figures for plastic, paper and cardboard were almost unchanged from 2012. An increase of about 2,400 tons was seen in use of other materials. This was due to an increase in the use of metal cans with the introduction of the *Healthya Coffee* product.

■ Changes in volume of container and packaging materials used

(Unit: tons)

	2008	2009	2010	2011	2012	2013
Plastic	55,000	56,500	53,600	53,100	54,300	54,600
Paper	21,600	21,300	19,300	17,900	17,400	16,000
Cardboard	71,700	70,600	70,500	69,300	69,700	69,600
Others	2,700	2,300	2,000	2,000	1,900	4,300
Total	151,000	150,700	145,400	142,300	143,300	144,500

*Scope of data: Kao Corporation

TOPICS

Use of lighter containers

● *Attack Neo*

In August 2013, Kao introduced a lighter container for *Attack Neo*.

The container features ribs to provide extra support for the walls, which lost some strength as they were made thinner, reducing the amount of resin used and CO₂ emissions generated across the product lifecycle by about 29%. A window added on the side of the bottle enables consumers to easily see how much product is left.

● *Bioré Cleansing Oil Cotton Facial Sheet*

In August 2013, Kao introduced the new *Bioré Cleansing Oil Cotton Facial Sheet*.

The newly designed container is lighter and three times as airtight, with a multi-layer construction and an interior that uses an oil-proof resin. A wider opening makes sheets easier to remove. The amount of resin used in each container was reduced by approximately 54%, while CO₂ emissions across the product lifecycle were reduced by about 42%.



Kao Group in Japan

Promoting refill and replacement products

Since Kao introduced its first refill product in 1991, their number has continued to grow, and as of December 2013 had reached 201 products. We have continued to make improvements in these refill products according to bottle size, the viscosity of the contents and so on, to make refilling our containers easier for the consumer.

Since 1997, the ratio of refill products has rapidly increased, and is currently at more than 80% (based on number of units). For example, the refill ratio for *Humming* fabric softener (concentrated type) is now at 97%. All of the refill and replacement products sold in 2013 represent a reduction in plastic use of more than 70,000 tons, compared to if they had been packaged in original containers (products in plastic containers).

Additionally, in April 2013 Kao introduced a newly developed refill pouch for powdered laundry detergent that can be placed right in the original box.

TOPICS

Environmentally-conscious refill container for skin lotion wins
37th Kinoshita Award for Development of New Refill Container from the Japan Packaging Institute

Kao was awarded the 37th Kinoshita Award for Development of New Refill Container by the Japan Packaging Institute for its development of an environmentally-conscious refill container for skin lotion that is easy to use without spilling. In terms of environmentally-conscious packaging, refill versions of daily necessities have become common, but widespread use of refill products among more expensive cosmetics has taken longer. In addition to the ability to quickly and easily refill a container, because cosmetics are more expensive than other everyday products, there is a strong need for containers that enable refilling without spilling, and that feature a cosmetic-like design and appearance.

With the development of a proprietary lotion refill container with an angled nozzle and pull-ring cap, Kao has received accolades for responding to environmental concerns with a 52% reduction in resin compared to the original product, and for offering a universal design that makes it possible for everyone, from young to old, to easily refill the original container without spilling. The design is now used with *SOFINA Beauté*, *GRACE SOFINA*, and *ORIENA* products, and has penetrated the market to the extent that about 70% of users purchase the refill product.

Angled nozzle pull-ring cap



Easy to refill without spilling



Kao Group in Japan

Shift to renewable materials

Kao is not only reducing its use of plastics, but promoting the use of biomass materials. Refill packs of *Merit Shampoo*, *Merit Rinse* and *Merit Rinse in Shampoo* introduced in February 2012 all use 10% plant-derived polyethylene. Because this plant-derived polyethylene is made from sugar cane, it is carbon neutral, and can be considered to release zero CO₂ emissions during incineration. Combined with use of a thinner film, CO₂ emissions across the product lifecycle have been reduced by about 12%. Kao also moved to expand this effort beyond *Merit*, to include hair care brands such as *Essential*, *Asience*, *Segreta* and skin care brand *Men's Bioré*. Labels on 350 ml bottles of our *Healthya Green Tea* use a shrink film containing more than 50% polylactide. This has resulted in an approximately 38% reduction in CO₂ emissions.

Kao will continue to expand its use of these biomass materials.

CO₂ [EC2, EN3, EN5, EN6, EN7, EN15, EN16, EN18, EN19, EN30]

Kao is working to reduce CO₂ emissions across each stage of the entire product lifecycle.

Policies/structures

Kao is promoting efforts to reduce CO₂ emissions, which are closely linked to use of raw materials and energy consumption and which are considered the biggest cause of global warming, across every stage of the product lifecycle.

Global

Initiatives at the raw material purchasing stage

To reduce environmental impact at the raw material purchasing stage, Kao believes it is important to reduce purchases of raw materials themselves through efforts to make products more compact, and in each country we offer a wide range of such compact products. Kao also promotes efforts to make proactive use of natural raw materials and to implement the 4Rs in its containers and packaging.

[> p. 108 Procurement of Sustainable Raw Materials](#)

[> p. 57 "Environmentally-conscious Containers and Packaging"](#)

Global

Initiatives at the manufacturing stage

As part of its efforts to improve energy efficiency, Kao is promoting steady energy conservation efforts, while also actively promoting the introduction of Best Available Technology (BAT).

Initiatives in 2013 included, at our Wakayama Plant, an effort to reduce steam levels through the installation of the hot-water producing heat pump already actively being adopted by other plants. Additionally, at the Sakata Plant, work was done to reduce power consumption by installing an absorption chiller that utilizes excess waste steam.

In 2013 as a whole, there were 161 instances of such energy conservation activities that also led to cost reductions, resulting in an annual reduction in CO₂ emissions of approximately 3,700 tons, and about 140 million yen in yearly cost reductions.

One way Kao is working to utilize energy that produces fewer greenhouse gas emissions is in its proactive promotion of the use of natural gas (city gas). In 2012, Kao USA switched from using coal-fired boilers to natural gas boilers, significantly reducing its CO₂ emissions. At PT. Kao Indonesia Chemicals' new plant, which came on line in 2013, they use compressed natural gas (CNG) purchased in tanks, instead of natural gas, whose infrastructure is not yet in place.

Global

Initiatives at offices

Kao Group in Japan is taking part in the Ministry of the Environment's Challenge 25 Campaign, and working to reduce greenhouse gas emissions at offices as well.

Based on the Cool Biz and Warm Biz campaigns launched in 2005, we have also consolidated and eliminated offices, shifted sales fleets to hybrid vehicles, and promoted a wide variety of other measures.

Overseas, we are promoting the spread of activities already rolled out in Japan, including turning off lights during lunchtime, using automatically adjusting lighting and switching to LEDs.

Global

Initiatives at the distribution stage

To reduce environmental impact at the distribution stage, Kao has been implementing a combination of production site optimization, modal shifts, measures to make distribution operations more efficient, and enhancement of fuel efficiency.

In Japan, efforts to reduce delivery distances by optimizing plant structure and delivery areas have resulted in further progress in reducing energy used in distribution.

Additionally, in the fall of 2013 our Atsugi Logistics Center, an environmentally-conscious distribution center, began operation. By employing solar panels, LED lighting and insulated building materials, the Center was rated an “A” by CASBEE Kanagawa (the Comprehensive Assessment System for Built Environment Efficiency, promoted by Kanagawa Prefecture).

In Europe, in 2013 a reevaluation began of package specifications for the *John Frieda* hair care brand. This was based on such considerations as streamlining product distribution from the plant, ease of restocking in retail stores and other factors, and resulted in an approximately one-thirds reduction in annual use of cardboard and other paper.

Global

Initiatives at the product use stage

Over 50% of CO₂ emissions from Kao products come from the product use stage (consumer products sold in Japan). Kao is thus working to develop products that can reduce environmental impact at the product use stage.

In 2013, we introduced *Ultra Attack Neo*, a laundry detergent that gets clothes amazingly clean with just five minutes of washing. Shortening wash time and using just one rinse cycle reduces both electricity and water use, contributing to a reduction in CO₂ emissions during product use.

In the chemical field, products include a low-temperature fusing toner used in photocopiers and printers, and a detergent and rinse that can remove oil adhering to surfaces during the rolling of steel, using hot water at temperatures lower than previously required.

Global

Initiatives at the disposal stage

Kao has also implemented initiatives to lower the environmental impact of products after they are used. In order to reduce containers and packaging, we offer more compact, refill products, use of plant-derived resins in our refill packages and beverage bottle labels, and proactive use of packaging with less plastic. And in order to make the products such as paper diaper lighter at the disposal, we have been continuing the efforts of making the products lighter and thinner.

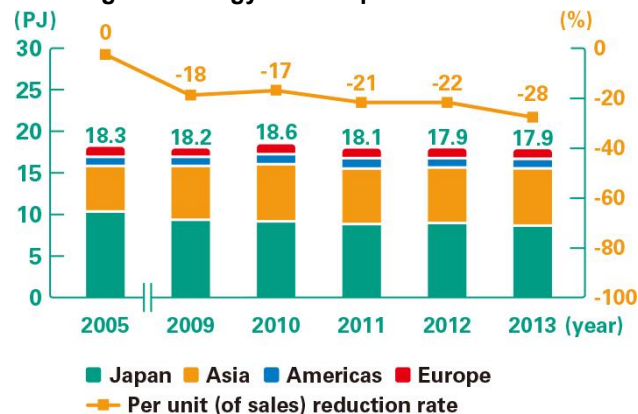
[> p. 57 Environmentally-conscious Containers and Packaging](#)

Global

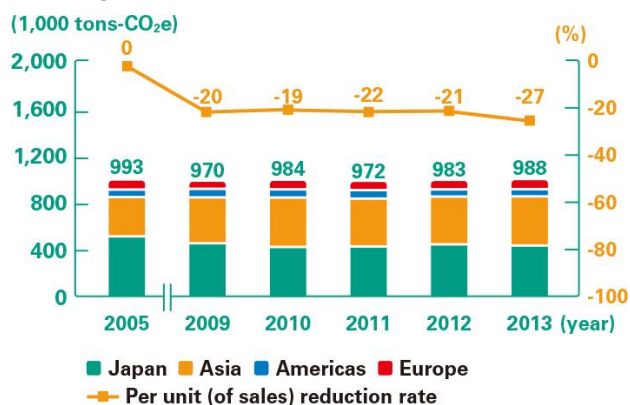
Greenhouse gas emissions

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

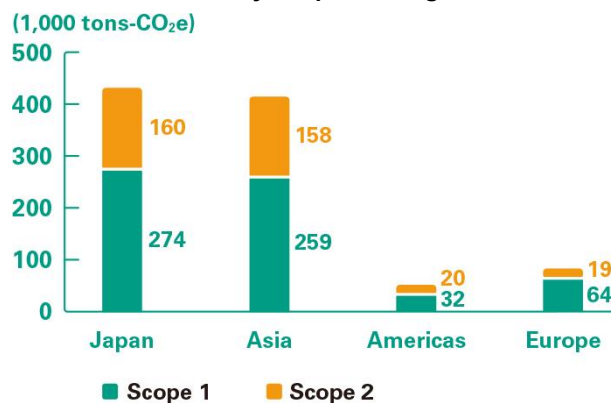
■ Changes in energy consumption★



■ Changes in GHG emissions★



■ GHG emissions by scope and region



* Boundary: 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 CO₂ in the case 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.

* Assurance has been provided for energy consumption and greenhouse gas emission figures.

* Greenhouse gas emission figure of 2005 was reviewed and revised.

Water

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

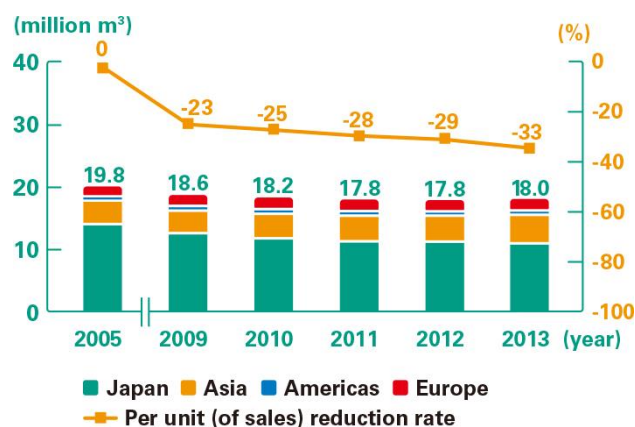
Initiatives at plants and in offices

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.

Despite these efforts, water consumption by the Kao Group as a whole increased by 231,000 m³ year-on-year. This was primarily due to increased production capacity at Pilipinas Kao (the Philippines), which manufactures natural alcohols, and the commencement of operations at a new plant at PT. Kao Indonesia Chemicals. Per unit reduction rate of water consumption ameliorated by 4 points year-on-year.

Water consumption by the Kao Group in Japan decreased by 276,000 m³. By extending the technologies cultivated in Japan throughout the entire Group, Kao will continue to implement efforts to reduce water consumption.

Changes in water consumption★



* Boundary: All Kao Group production sites, as well as non-production sites in Japan.

* Assurance has been provided for water consumption figures.

Global

Initiatives at the product use stage

In Japan and Australia, Kao markets laundry detergents offered as water-saving products. Using proprietary Kao technology, it allows for just one rinse cycle, conserving not just water but electricity, and saving time as well. Kao also markets a laundry detergent in China using the same technology.

In Japan, Kao markets *Merit Shampoo*, which features a cleaning ingredient allowing swift rinsing away of lather, cutting water use during showering by approximately 20%.

To ensure these products can perform to their fullest at the product use stage, Kao participates in government and distributor water-saving campaigns, and educates consumers in the "Eco-shampoo skill," which requires less water usage.

Global

Environmental impact of discharged wastewater after product use

Kao has defined its basic policy for environmentally-conscious design as "promoting the lowering of environmental impacts throughout the entire lifecycle of products," and 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. In addition, in order to understand the impact that products have on the natural environment, Kao also conducts environmental monitoring and other original field surveys, and has been promoting use of models to predict the concentration of chemical substances in the environment. These activities are also being conducted in countries other than Japan where Kao does business, and Kao engages in joint research with local universities and others to ensure that Kao's overseas operations are environmentally-friendly.

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 which are used in the products, and to evaluate their risk to ecosystems. The results obtained so far indicate that the risk posed by these surfactants to aquatic organisms is consistently low.

Sound Chemical Management

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

Policies

Based on its SAICM Promotion Policy, Kao is working to strengthen and promote chemical management in accordance with SAICM.* This policy lays down a company-wide approach to managing chemicals that applies throughout the Kao Group, and constitutes the foundation for Kao's chemical management.

* SAICM (Strategic Approach to International Chemicals Management)

For details, refer to the SAICM Promotion Policy

http://www.kao.com/jp/en/corp_csr/eco_activities_03_05.html

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 Chemical Business, R&D, Production & Engineering and Product Quality Management 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

Since its first meeting on August 23, 2012 through April of 2014, the SAICM Promotion Committee has held six meetings. At the sixth meeting of the SAICM Promotion Committee on April 9, 2014, science writer and head of an organization known as FOOCOM, Ms. Waki Matsunaga, was invited to speak on the topic of "How to Disseminate Risk Information and Communicate with Consumers." Three objectives were identified for Kao's SAICM activities in 2013, including: (1) Selection of substances for priority risk assessment, and formulation of a medium-term risk assessment plan through 2020; (2) Review and establishment of lifecycle risk management methods of chemical substances (especially at production sites); and (3) Systemization and public disclosure of the SAICM Promotion Policy.

As a result of company-wide efforts to promote SAICM in 2013, Kao has determined which chemical substances will undergo prioritized risk assessments and has formulated a medium-term risk assessment plan through 2020, as noted in (1) above. In determining targets for priority risk assessment, chemical substances were selected from among primary surfactants, specialty bases, industrial pharmaceuticals and others, based on volumes manufactured by the Kao Group, amount of exposure to humans and the environment, their importance to Kao's business activities, and other considerations. Regarding (2), above, Kao decided to move ahead with workplace risk assessments using a combination of qualitative risk assessments based on the control banding method^{*1} under the Industrial Safety and Health Act, and the ECETOC TRA^{*2} method employed in risk assessments under European REACH regulations, which provides more detailed risk assessment methods. With regards to chemical substance risk communication noted in (3) above, the SAICM Promotion Policy was set down as a company-wide policy for managing chemical substances, and on May 27, 2013, both Japanese and English-language versions were made public on the Kao website for dissemination worldwide.



The sixth meeting of the SAICM Promotion Committee

The SAICM Promotion Committee will meet on a regular basis, and will play an important role as the key committee responsible for company-wide strategy planning and implementation with regards to chemical substance management.

^{*1} Control banding method:

One method of assessing the risks of health hazards associated with chemical substances. It is a method for managing chemical substances designed by the International Labour Organization (ILO) that incorporates simple, practical risk assessment methods, and is intended to protect worker health in developing countries from hazardous chemicals. For each process that requires handling of hazardous chemicals, risks are ranked into four levels according to three components: the hazardousness of the chemical, its form (volatility/risk of becoming airborne), and the amount being handled. In addition to indicating general items to be implemented in each category, this tool also makes it possible to indicate more specific items to be implemented with regards to other general work tasks.

^{*2} ECETOC TRA (European Centre for Ecotoxicology and Toxicology of Chemicals Targeted Risk Assessment)

A globally-recognized risk assessment tool also used by REACH, the EU's system for registering chemical substances. It provides direction in terms of both judging and managing risk.

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

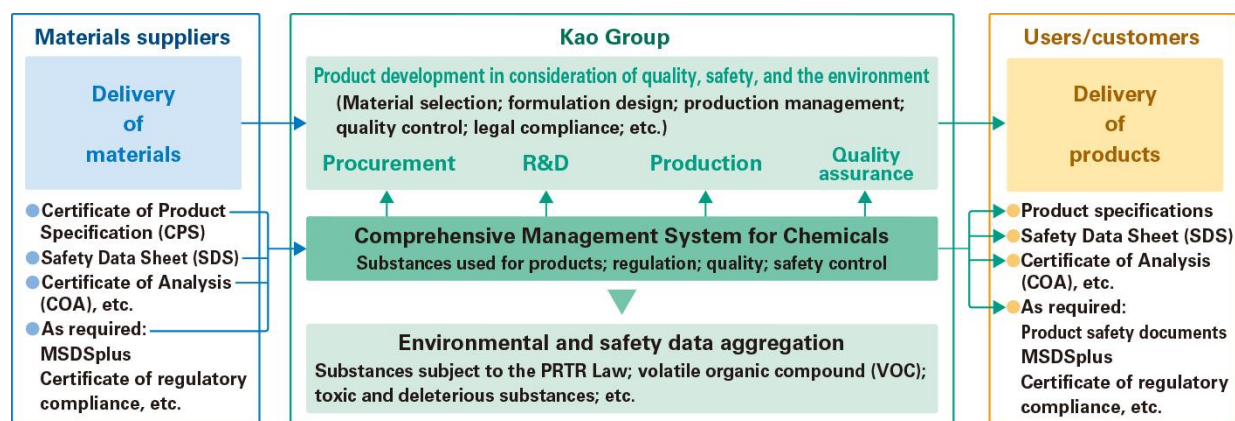
Since 2001, Kao has been operating its Comprehensive Management System for Chemicals, a database of products, materials, and ingredients, each of which is given a common group-wide master code (Master Index).

This system enables us to have safety, antiseptic qualities, related regulations and laws, and other information for each product, material and ingredient group in a very short period of time. Therefore, if a problem occurs with quality or some other matter, the potential affected area can be identified immediately to take quick countermeasures.

The information in the system is shared among and utilized by Procurement, R&D, Production, Product Quality Management, Environment and Safety, and other divisions, functioning as the backbone of *Yoki-Monozukuri*.

In 2012, in response to the enactment of the amended Chemical Substances Control Law, the volumes of chemical substances manufactured or imported by Kao in fiscal 2012 were compiled respectively, using a system newly attached to the Comprehensive Management System for Chemicals in 2011; the data was then submitted to the authorities in June 2013. As Kao manufactures wide variety of different products, the range of substances that have 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. Kao continues to proactively promote the development of systems for sound management of chemical substances in accordance with SAICM, for effective collaboration between research and production, and for further strengthened compliance.

■ Comprehensive Management System for Chemicals



Global

Complying with REACH*¹ EU chemicals regulation

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 produced within or imported into the EU in annual quantities of 1,000 tons or more) 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 (produced or imported in annual quantities 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 substances (produced or imported in annual quantities between 1 and 100 tons), in 2014 Kao has already begun the selection of substances to be given priority registration and commenced the registration process, taking into account the status of Kao's business for each substance in the European market, future volume expansion, etc. To ensure that registration of all required substances is completed by the registration deadline of May 2018, Kao plans to proceed systematically with the registration process each year.

At the same time, in order to ensure compliance with REACH regulations it is also required to share the information of importer, registration, obtained through the supply chain, between the Only Representative (OR) and the EU importer. In 2013, Kao continued with the implementation of the effective communication of information between suppliers using the OR²IS*² system, which supports protection of confidential business information through the encryption of both supplier and registration data.

*1. REACH is an EU regulation framework for Registration, Evaluation, Authorization and Restriction of Chemicals.

*2. OR²IS (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

1. GHS-compliant SDS*¹ and product labeling

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 label in the language of the importing country and integrated management by Comprehensive Management System for Chemical Substances since 2008.

In 2013, Kao continued working on GHS-compliant labeling for products marketed in countries and regions which have introduced GHS (Japan, Taiwan, South Korea, China, the EU, and Singapore), and newly completed preparations of GHS-compliant SDS and labeling (single substance) for Thailand and Indonesia. Kao also made progress with system compliance and other preparations in advance of SDS and labeling in 2014 for Vietnam and Malaysia.

2. Providing and obtaining information regarding chemicals in products

With regards to the provision of information regarding chemicals in products, as a founding member of the Joint Article Management Promotion (JAMP) consortium, Kao is actively promoting the provision of information regarding chemicals through the use of the common MSDSplus^{*2} data sheet.

Revised versions were issued in January (Substances List Ver. 3.020) and July (Substances List Ver. 4.000) of 2013, and have been distributed to customers via our sales distributors, as well as being uploaded onto the corporate website. Also in 2013, Kao produced an English-language version of MSDSplus for products of our Asian subsidiaries and posted it to each of those subsidiaries' websites as well.

In order to further the efficient dissemination of information via MSDSplus, which increases every year, Kao is working to provide MSDSplus to its customers via JAMP-IT^{*3} and to support the introduction and use of JAMP-IT by its sales distributors, some of which have begun providing information via JAMP-IT. Additionally in 2013, Kao worked to obtain more MSDSplus data sheets for raw material from suppliers, and established a system for obtaining them via JAMP-IT.

3. Risk communication on chemical substances

Kao has been participating actively in the Japan Initiative of Product Stewardship (JIPS),^{*4} 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.

Kao has always been proactive in its SDS and MSDSplus disclosure as part of its chemical substance-related communications, and in recent years has also been implementing eSDS^{*5} disclosure with respect to the EU, and has made available on the Kao Chemicals website and on the ICCA GPS chemical portal site a GPS safety summary^{*6} that outlines, in an easy-to-understand manner, information and risk management measures relating to hazard and exposure information (for both humans and the environment). Kao considers the risk communication on chemical substances with stakeholders conducted by means of the publication of this GPS safety summary to constitute one of the important elements in Kao's SAICM activities.

In fiscal 2013, Kao also began MSDSplus disclosure for products from its Asian subsidiaries, while also publishing a new GPS safety summary in both English and Japanese that covers nine types of fatty alcohol substances with an alkyl distribution. Kao will be expanding the scope of subject products and expanding disclosure to include its overseas subsidiaries, implementing proactive risk communication with customers and with society as a whole on a global basis.

*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 (Global Product Strategy: 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 general public. 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.

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 and substances are added in this category each year. In response to the new Priority Assessment Chemical Substances that were added in 2013, Kao has revised the SDS for the subject chemical products, and provided customers and sales distributors with information regarding chemical substance content.

2. Revisions to SDS and to product labeling

To comply with the 2012 revisions of the Industrial Health and Safety Law (IHSL) and the Law Concerning Pollutant Release and Transfer Register (PRTR Law), revisions were required to the SDS and product labels of almost all chemical products. Kao began revising the SDS in January 2013, as well as revising product labels, starting with those sites which have completed preparations.

Kao Group in Japan

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

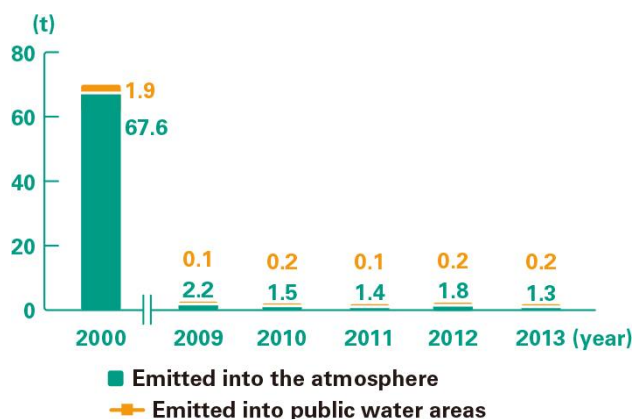
The number of chemical substances subject to the PRTR Law which Kao handled during 2013 was 75, and the total discharge of such substances into the atmosphere and public water areas was 1.5 tons.

In addition, we are voluntarily monitoring and controlling emissions and transfers (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.

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

■ Emissions of chemical substances subject to the PRTR Law



Kao Group in Japan

Management of VOC emissions based on voluntary activity goals

Although Kao has no facilities subject to the VOC emission regulations provided by the Air Pollution Control Act, we work to voluntarily 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 2013; the total discharge into the atmosphere was 6.9 tons (★).

Kao Group in Japan

Proper storage and disposal of PCBs

Until final disposal is carried out, PCB waste including transformers and 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. In 2013, 129 units of equipment were properly disposed of as PCB waste by the Japan Environmental Safety Corporation (JESCO).

Measures for Biodiversity Conservation [EN12]

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

Based on the Basic Policies on Conservation of Biodiversity announced in 2011, Kao strives to consider biodiversity in all of its business and community activities.

To further promote reduction of product development's impact on biodiversity, Kao is moving ahead with assessments of the environmental impact of its main products. We have formulated a set of Guidelines for Sustainable Procurement of Raw Materials, which clarify our procurement policies and goals, particularly for palm oil and paper, two key raw materials. We are also rolling out activities at our main plants that take into consideration regional biodiversity. To ensure the solid execution of these efforts, we have also set forth internal targets in line with the individual items of the Basic Policies.

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.

Global

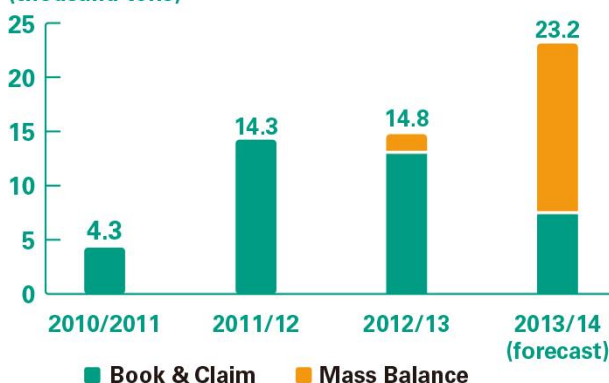
Formulation of Guidelines for Sustainable Procurement of Raw Materials and initiatives toward 100% procurement of sustainable palm oil

In light of such problems as resource constraints, a wide range of environmental problems including biodiversity, and human rights issues, Kao has formulated Guidelines for Sustainable Procurement of Raw Materials, as it works toward procurement of sustainable raw materials. In particular, Kao has set forth a new goal for palm oil, one of the basic raw materials we handle, namely that by 2020, we aim to purchase only certified sustainable palm oil sourced from a traceable place of origin for use in Kao Group consumer products.

In 2007, Kao joined the Roundtable on Sustainable Palm Oil (RSPO), established to address challenges such as ecosystem destruction through the logging of tropical rain forests and poor plantation labor conditions. In

September 2010, we began purchasing certified palm oil under the Book and Claim system,^{*1} one of the systems approved by the RSPO, and in 2011/12 we purchased credits equivalent to certified palm oil for 100% of palm oil used in Japan. Currently, Kao is moving to switch to purchasing certified palm oil of traceable origins using Mass Balance system.^{*2} In 2013/14, we also expect that 100% of palm kernel oil for use in Japan will be certified.

■ Kao Group certified palm oil purchases (thousand tons)



* Total of palm oil, palm kernel oil, and their derivatives.

* Results reported to RSPO (tallied for the period between July and June)

In March 2012, Kao's Kashima Plant successfully passed an RSPO audit and received SCCS certification^{*3} for its production, processing, and shipment of products using certified palm oil, followed by the Wakayama Plant in March 2013. We are currently proceeding with plans to increase the number of certified plants in the Kao Group, including sites outside of Japan, and working to become even more proactive in our efforts to procure palm oil of traceable origins that causes zero deforestation of valuable tropical rainforests and peat lands.

For details, refer to the Guidelines for Sustainable Procurement of Raw Materials

http://www.kao.com/jp/en/corp_csr/procurement_05.html

***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. Mass Balance system**

A certification system that permits mixing of RSPO certified palm oil with non-certified palm oil.

***3. 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

Kao has participated in the Japan Business Initiative for Biodiversity* (JBIB) since its founding in 2008. 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.

* The 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 2000, Kao has continued the Kao Creating Forests for Everyone program, aimed at maintaining green environments in our surroundings for future generations. This program is administered jointly by Kao and the Organization for Landscape and Urban Green Infrastructure in support of citizens' organizations engaged in the protection and expansion of local green areas.

Aid is provided in two areas: forestation and environmental education. Both provide continuous support for a period of three years, enabling citizens' organizations to conduct their efforts from a longer-term perspective.

Kao has so far supported 374 organizations.

In fiscal 2013, 135 organizations responded to our August through September call for applications (87 in the forestation



Supported organization greening activities
(Gozenyama Dam Environmental Center)

category and 48 in the category of environmental education). Selections were finalized in February 2014, with 19 organizations now the new recipients of support.

List of Kao-supported organizations

http://www.kao.com/jp/corp_csr/social_activities_00_16.html



Supported organization educational activities
(Group to Support Mr. Seki's Forest)

Kao Group overseas

“FURUSATO” Environment Conservation Project in Northern Thailand

With social problems such as rapid deforestation and soil degradation affecting Thailand, in 2012 Kao launched the “FURUSATO” Environment Conservation Project in Northern Thailand, for reclamation and sustainable conservation of Thai forests. In 2013, the project's second year, 8,000 trees were newly planted on land covering seven hectares, and the project also provided environmental education to local children, study sessions by experts for the members of the community. Local residents also continued their maintenance of the forested lands by cutting underbrush, applying fertilizer and other activities.



Commemorative photo with participants

Kao Group in Japan

Employees participate in Post Tsunami Monitoring Project

Kao dispatches employees to volunteer with the Post Tsunami Monitoring Project sponsored by Earthwatch Japan. This is a ten-year project by researchers that takes a long-term view to examining through field surveys how biodiversity has recovered during the process of reconstruction in regions affected by the Great East Japan Earthquake. Five Kao employees participated in bioassessments of disaster-affected rice fields, primarily in Ishinomaki City, and provided support to the researchers.



Participating in the Post Tsunami Monitoring Project

1. Pine grove conservation and building nature trails

The Wakayama Plant incorporates biodiversity perspectives in its efforts to conserve the pine grove that extend from within the plant premises and beyond, grove dating back about 360 years which serves as a protection against storm surge. Plant employees maintain the special environment of the pine grove in robust health by conducting surveys of the wild birds, insects and trees that inhabit the grove, and by cutting down other small trees than pine to let more sunlight into the grove and clearing undergrowth.

Our employees are currently installing natural trails within the pine grove to provide a place for employees, local residents, and visitors to get in touch with the natural environment. At the entrance to the trail, a signboard has been put up introducing some of the wild birds that have been spotted in the grove, as well as the history of the pine grove itself. Employees also plan to begin planting pine saplings on slopes with little tree cover.



Sign introducing wild birds spotted in the pine grove, and the history of the grove (made with timber thinned from within Wakayama Prefecture)

2. Enterprise Forest Project participation

Kao participates in Wakayama Prefecture's Enterprise Forest Project, and since 2007, has been involved in forest preservation activities on a 0.7 hectare forest in Kimino Town, Kaiso District. In May 2013, 128 Kao employees and family members participated in forest preservation activities, including work such as weeding and clearing of undergrowth. In the fall, 22 Kao Group employees who had gathered from around Japan and Asia for training at the Wakayama Plant also participated in tree planting.



Enterprise forest project activity

Other Environmental Impacts

[EN21, EN22, EN23]

Kao strives to reduce the effect of waste and a wide range of other environmental impacts.

Global

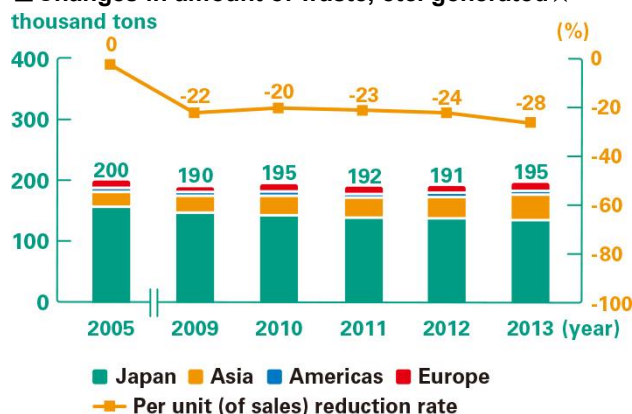
Promoting initiatives to reduce waste

As part of its 3R initiatives toward creating a recycling-based society, Kao is particularly focused on reducing the amount of waste generated and on strengthening efforts to promote reuse.

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 manage the quantity of paper used. As a result of these activities, the amount of waste generated by the Kao Group in Japan per unit of sales was reduced by 36% from 2005 levels (compared to a target of 33%).

Nevertheless, for Kao Group as a whole, the amount of waste generated increased by 4,000 tons year-on-year, due to increased production capacity at Pilipinas Kao (the Philippines) and other sites, with a four-point improvement on a per unit reduction rate basis. Kao will continue to strengthen its efforts to promote waste reduction activities in 2014. Additionally, the capacity, in terms of useful years remaining, of landfills in Japan is growing tight, and Kao is thus working to recycle and reuse the waste it generates in-house, and then proactively repurpose that waste as raw materials for other companies. For example, waste materials can be used in cement production, and combustion residue after incineration can be used as material for road construction, one way in which Kao is proactively reducing the amount of waste that ends up in landfills. As a result of these efforts, Kao was able to clear its target of 0.1% or lower final landfill disposal ratio and achieve zero emissions.

Changes in amount of waste, etc. generated★



* Boundary: All Kao Group production sites, as well as non-production sites within Japan.

* Assurance provided for amount of waste, etc. generated.

Global

Strengthening waste- and recycling-related governance

At Kao, efforts are being promoted to reduce the risk of illegal dumping, etc. with regards to disposal of waste generated by our business activities. This goes beyond managing information about the amount of waste generated, recycled or ultimately disposed of; to ensure that waste is properly disposed of when the disposal is contracted out to other firms, Kao implements regular inspections of facilities of the waste disposal contractors directly commissioned by Kao. In 2013, Kao carried out on-site inspections of 138 facilities belonging to 123 firms with which Kao collaborates.

In Japan, Kao has developed Waste Recycling Governance System for coordinated management of the utilization of contract data and control manifests for industrial waste, as well as other quantitative data and the results obtained in surveys of appropriate waste management. This system is also connected to the Electronic Manifest System. Kao will work to continue expanding its use of this system in line with efforts to expand the use of electronic manifests being promoted by the government.

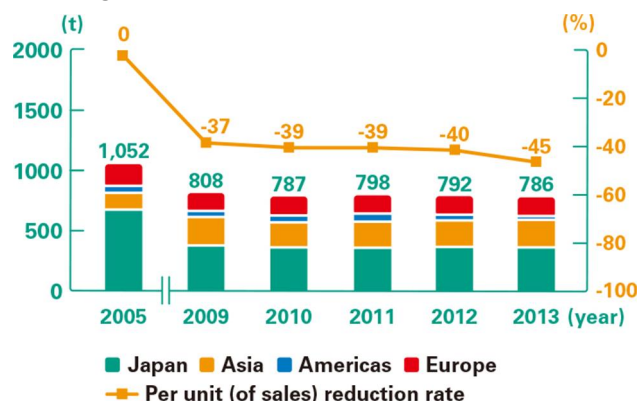
Global

Initiatives to prevent air pollution

In order to prevent air pollution, Kao works to maintain its equipment and facilities, and is proactive in the use of low environmental impact fossil fuels. Emissions of NOx, a substance known to cause acid rain, from our plants fell by 7 tons year-on-year, a 5-point improvement on a per unit reduction rate basis.

While Kao monitors pollutant levels in exhaust gases in accordance with the law and with local government agreements, in 2013 there were two instances in which Kao Industrial (Thailand) exceeded those standards, both of which were reported to the authorities. The problem was caused by aging equipment, and a temporary fix has already been completed. Kao continues to move ahead with considering replacement and upgrade of its equipment.

■ Changes in NOx emissions★



* Boundary: All Kao Group production sites.

* Assurance provided for NOx emission figures.

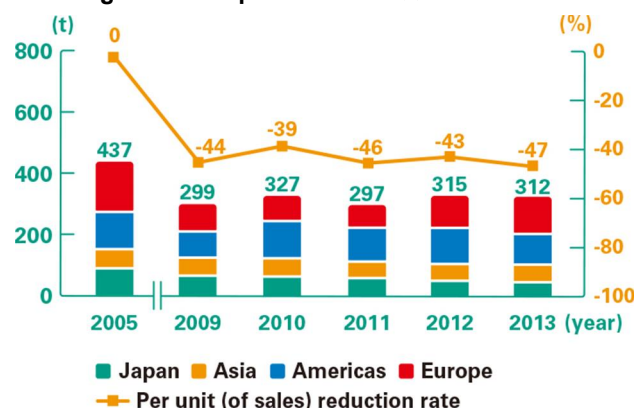
Global

Initiatives to prevent water pollution

In order to prevent water pollution, Kao works to maintain its equipment and facilities. COD pollution loads from its plants decreased by 2 tons, with an improvement of 4 points on a per unit reduction rate basis.

While Kao monitors discharge water pollution levels in accordance with the law and with local government agreements, in 2013 there was one instance at Kao Specialties America in which those standards were exceeded, and which was reported to the authorities. The cause was an influx of wastewater exceeding over the capacity into the discharge water treatment facility. Under the supervision of the authorities, we have since changed to a method of operation so that said wastewater does not flow directly into the discharge treatment facility.

■ Changes in COD pollution load★



* Boundary: All Kao Group production sites.

* The amount of COD pollution load in wastewater entering sewer systems takes into account removal rate from said sewer systems.

* Assurance provided for COD pollution loads.

Kao Group in Japan

Surveys 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 within the premises of each plant every year. In 2013, 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 test items.

Additionally, at our Sumida Plant and Kawasaki Plant, we also conducted an investigation of any soil contamination attributable to our business activities, in accordance with laws, etc., and it was confirmed that levels of all substances checked were below their regulatory limit values.

Environmental Communication

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

Policies/structures

As part of our initiatives under the “Ecology” section stipulated in our Kao Sustainability Statement, the Kao Group states that we will engage in environmental activities in collaboration with our stakeholders. We recognize that we are able to pursue our environmental conservation activities only thanks to the understanding of our customers, our business partners and the public. This is why we believe it is important to maintain ongoing communication with our stakeholders. Under our “eco together” with consumers and customers concept, we solicit feedback from each Kao customer about their awareness of product characteristics, usage and packaging in order to put “eco together” into practice. 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 2005, some of Kao’s affiliated companies and plants have issued Environmental and Safety reports 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 2013, the Kao Group’s seven plants in Japan produced Environmental and Safety Site Reports, which were distributed to local residents and plant tour participants.

Overseas, Kao Chemicals Europe, Kao (China) and Kao Specialties Americas have issued their own CSR and sustainability reports.



Kao Specialties Americas Sustainability Report

Kao Specialties Americas Sustainability Report
http://chemical.kao.com/us/pdf/KSA's_Sustainability_Report_2011-2012.pdf

Kao Group in Japan

Visitors to Kao's Eco-Lab Museum reach the 30,000 mark

Designed to convey to visitors both the state of the global environment and Kao's environmentally-conscious product development, the Kao Eco-Lab Museum opened on July 4, 2011, and July of 2013 saw visitors reach the 30,000 mark. In 2013 alone, approximately 14,000 guests, including those from overseas, visited the museum. The breakdown included about 2,400 from enterprise and government, about 4,900 students and educators, and about 3,800 general visitors, representing a wide range of ages.

In 2013, we introduced a program linked to social studies lessons for elementary school children, and welcomed about 3,500 people, primarily elementary school children from local communities, on tours of our plant and the Eco-Lab Museum.

Additionally, on November 11, 2013, we held the third annual Kao "eco together" Forum, under the theme of "Thinking about Sustainable Lifestyles." Experts from an even wider range of fields were invited, offering participants an opportunity to exchange information with a wide variety of experts on achieving a sustainable future, and to tour the museum and plant. The fourth annual forum is scheduled on November 4, 2014.



Visitors listened intently to their guide

Kao Group in Japan

Exhibiting at "Eco-Products 2013"

Kao participated in the Eco-Products 2013 Exhibition held at the Tokyo International Exhibition Center (Tokyo Big Sight) for three days from December 12 to 14, 2013. The venue was crowded with visitors every day, with more than 10,000 people stopping by Kao's booth.

The theme of Kao's exhibit this year was "Kao's product development for the future—always 'eco together,'" which introduced Kao's approach to sustainability. The demonstration stage at Kao's booth was also used to demonstrate to visitors, through our key eco products, how they can easily maintain an "eco together" lifestyle on an everyday basis, how Kao approaches procurement of raw materials, the secrets behind our containers and packaging, and the eco-technology that goes into our industrial chemical products.

At the hands-on stage set up in Kao's booth, visitors were introduced to Kao's approach to procurement of raw materials through a segment on "Kao's Focus on 'eco' Materials." They could also enjoy a "Stain-removal workshop" using the concentrated liquid laundry detergent *Ultra Attack Neo*, get to know our refill products through a "So easy, eco refill workshop," and experiment with eco-chemical technology through a hands-on event called "Making environmentally-friendly cement—the secret of Kao Visco Top."

The exhibition corner, using panels and other display tools, explained Kao's initiatives related to sustainable raw material procurement and introduced Kao products from an environmental viewpoint covering water and power conservation and waste reduction, as well as Kao's activities reinforcing the 3Rs (reduce, reuse, recycle) in containers and packaging—now 4Rs with the addition of renewable. The booth also introduced industrial products, such as



Kao's booth was crowded with visitors

low-temperature fusing toner, which can reduce photocopier power consumption, as well as modified polyactide resin using renewable raw materials and a binder used in casting sand.

Global

Fourth Kao International Environment Painting Contest for Children

Kao organized the fourth Kao International Environment Painting Contest under the theme “eco together.” Seven Kao Group companies in Japan and Asia invited elementary and junior high schools and children to submit paintings, with entries received from school children in 49 countries and regions worldwide. Entries exceeded the previous year in number, totaling 8,516 (1,703 from Japan, and 6,813 from overseas).

During the Eco-Products 2013 Exhibition, eight contest winners were invited to the awards ceremony at the Kao booth and 32 works including those of eight winners were displayed there. The eight winners shared their thoughts about the environment and the message illustrated in their entries, how they came up with ideas for creating their works, and what their dreams are for the future.

To enable as many people as possible to see the prizewinning works, they have been also displayed at Kao offices and plants and environmental events in Japan and overseas, and in our plant tours.



Winners posed with judging Chairman Professor Masuda (rear right) and Kao President Sawada (rear left)

Prizewinning works for the fourth 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_06.html

TOPICS

“eco together” – Planet Earth Grand Prix: Thoughts from Artist Narathip Choemue (age 8, Thailand)

For me, nature begins with soil and water. When water soaks into the soil, grass and trees grow.

When trees produce fruits and nuts, it attracts animals, who come to eat. Human beings also get fresh air to breathe, surrounding greenery increases, and global warming is reduced.

When trees get old, human beings take seeds from them for planting. This leads to an ongoing life cycle resulting in an everlasting ecosystem.

What I am saying is not just an imaginary dream, it is a fact. In my village, I am proud of being able to contribute to “eco together” using my two hands and to continuously send out this energy to everyone in this world.



“My Nature and Green World”
Narathip Choemue (8 years old, Thailand)

Kao Group overseas

Children attend awards ceremonies for the Kao International Environment Painting Contest for Children

Each of the Kao Group companies that calls for entries in the painting contest uses the opportunity to interact with children in their region through the contest.

Among these, Kao (Taiwan) and PT Kao Indonesia selected their own winners from among the applications received in each of their countries, and held their own awards ceremonies.

Kao (Taiwan) received 518 entries. They selected 22 outstanding works, and invited the children and their families to attend an awards ceremony in Taipei. Their pieces were also displayed for a week at an art gallery in the city, where the public could enjoy them.

At PT Kao Indonesia, a very active campaign for entries led to an overwhelming 1,313 entries being received. PT Kao Indonesia held an awards ceremony in Jakarta, both to express gratitude to the children who put their thoughts about the environment into their paintings, and to ask that they continue practicing environmental conservation in their everyday lives. It was a friendly occasion, shared by the children who were so excited to be selected, and their families, who were busy taking pictures of their big moment.



Taiwan winners posed with the president and vice-president of Kao (Taiwan)



Indonesia winners posed with the president and management of PT Kao Indonesia

Kao Group in Japan

Society for Sustainable Food & Life Styles hosts dialog

Since 2011, Kao Corporation has worked with Ajinomoto Co., Inc. and environmental and CSR consulting firm E-SQUARE, Inc. to establish the Society for Sustainable Food & Life Styles, which conducts consumer eco-awareness surveys, provides opportunities to consider more ecological lifestyles, and disseminates ecology-related information.

In 2012, the Society sponsored a forum at the 2012 Eco Products exhibition entitled “Food and Life Create the Future of the Earth—Let’s Make Sustainable Lifestyles Together,” which drew about 550 participants—mostly women—with an interest in food, lifestyles, and the ecology.

In 2013, the Society planned a gathering centered around tours of corporate plants and research facilities, with dialogs on the topic of “Let’s all think about ‘eco together!’” held on September 6 at Ajinomoto’s Kawasaki Plant, and on October 30 at the Kao Eco-Lab Museum in Kao’s Wakayama Plant. At the Wakayama event, 14 people participated from Osaka, Hyogo and Wakayama, and after a tour of Kao’s environmental activities at the Eco-Lab Museum, held a discussion of ecological actions and awareness from the viewpoint of the ordinary



A lively discussion among forum participants

consumer. There was a lively exchange of opinions on subjects such as how to be more ecological in everyday life, and what people can do together with companies, friends, and families.

Global

Exhibit at the eighth Annual Eco-Products International Fair

During the three days from March 14 to 16, 2013, Kao exhibited at the eighth Annual Eco-Products International Fair held at the Sands Expo & Convention Center in Singapore. Kao's booth welcomed many business visitors during the exhibit.

At the booth, Kao used display panels and video to introduce visitors to the history and brands behind the Kao Group and Kao Singapore. Visitors were also introduced to Kao Singapore products from an ecological viewpoint, including *Attack Liquid* refill products, replacement products such as *Magiclean* and super-slim *Laurier* sanitary products with improved absorption performance and reduced raw materials.

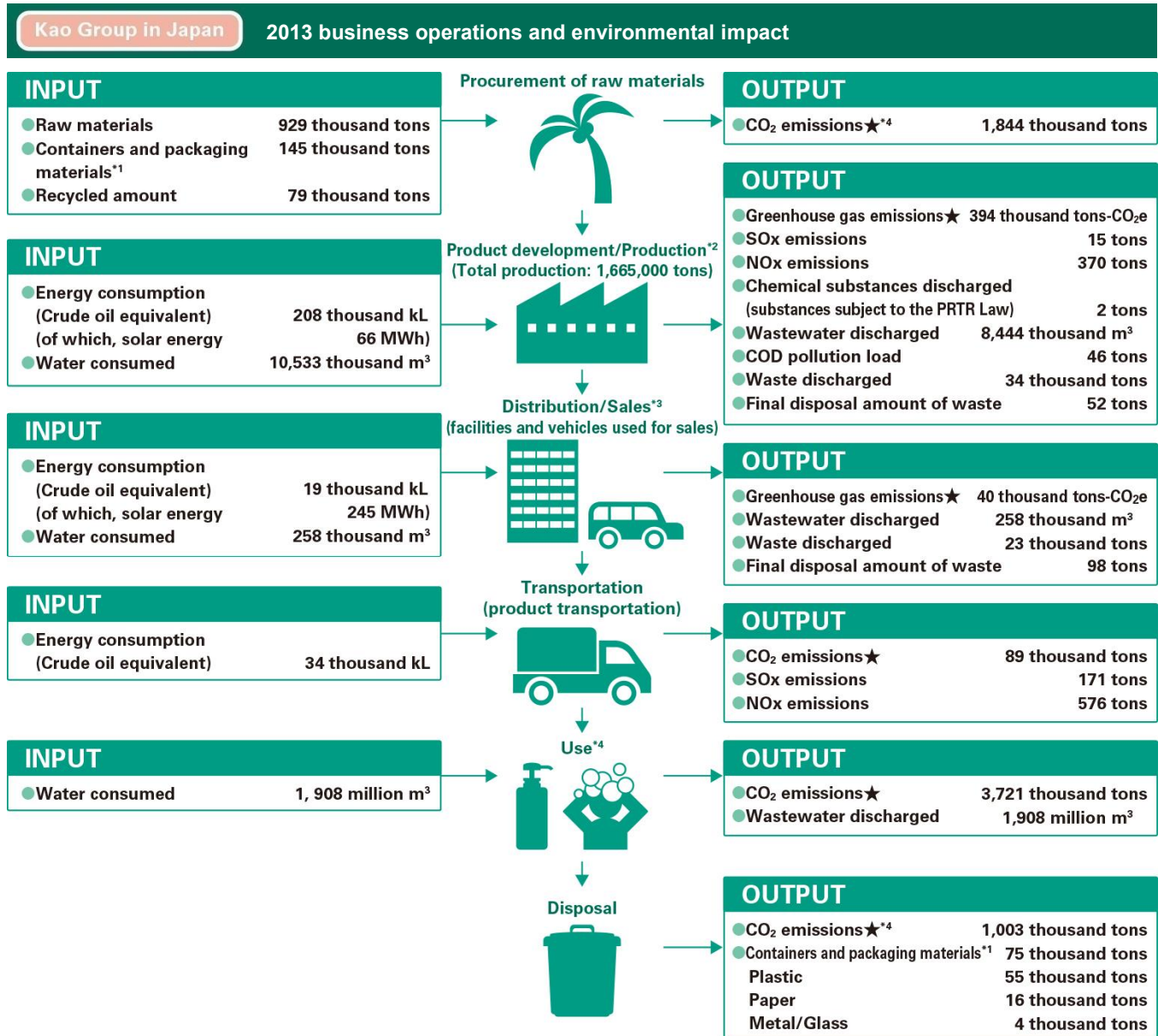
In industrial products (chemicals), Kao introduced visitors to its sodium lauryl sulfate product *SLS*, which is produced using a low-energy process and natural raw materials.



Kao's booth was crowded with visitors

Product Lifecycle and Environmental Impact [EN1, EN2, EN3, EN30]

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



Scope of Calculations

*1. Figures for Kao Corporation.

*2. Figures for all production sites.

*3. Figures for all non-production sites (including training facilities, company dormitories, etc.).

*4. Figures for consumer products sold in Japan.

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 of emissions of the six greenhouse gases covered by the Kyoto Protocol, generated from business activities, expressed in CO₂ equivalent

▼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 sold in Japan

▼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.

▼CO₂ emissions

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 Accounting [EN31]

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

Kao Group in Japan

2013 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 domestic subsidiaries.
3. The period of accounting is from January 1, 2013 to December 31, 2013.

■ Environmental conservation costs (categories corresponding to business activities)

(Unit: million yen)

Categories		Key activity and outcome	Investment	Cost**1
(1) Business area costs			2,442	4,169
Breakdown	1) Pollution prevention cost	Air pollution prevention; water contamination prevention	522	1,710
	2) Global environmental conservation	Energy conservation	1,631	593
	3) Resource circulation cost	Resource conservation; waste processing and disposal	289	1,866
(2) Upstream/downstream cost		Plant and equipment for eco-conscious products, containers and packaging recycling	566	2,659
(3) Administration cost		Acquisition and maintenance of ISO certification, environmental publicity, tree planting within work sites	18	1,024
(4) R&D costs		Eco-conscious R&D	682	3,372
(5) Social activity cost		Natural environmental conservation and tree planting activities outside work sites, donations	0	70
(6) Environmental remediation cost			0	0
Total			3,708	11,294

*1. Cost includes depreciation costs.

■ Environmental conservation benefits (physical quantity benefits)

Categories	Environmental performance indicators (units)	2012	2013	Change
Related to resource input into business activities	Energy consumption (crude oil equivalent, thousand kL)	231	228	-3
	Water consumed (million m ³)	11.1	10.8	-0.3
Related to waste or environmental impact originating from business activities	Greenhouse gas emissions (thousand tons-CO ₂ e)*2.	446	434	-12
	SOx emissions (tons)	23	15	-8
	NOx emissions (tons)	371	370	-1
	Wastewater amount (million m ³)	8.9	8.7	-0.2
	COD pollution load (tons)	50	46	-4
	Waste discharged (thousand tons)	56	57	1
	Final landfill disposal amount of waste (thousand tons)	0.1	0.2	0.0
	Emissions of chemical substances subject to PRTR Law to the atmosphere (tons)	2	1	-1

*2. Greenhouse gas emissions (CO₂ equivalent) are calculated based on the Calculation and Reporting Manual on Greenhouse Gas Emissions (Ver. 3.4) of May 2013 published by the Ministry of the Environment and the Ministry of Economy, Trade and Industry

Kao Sustainability Report 2014

■ Economic benefits associated with environmental conservation activities*3

(Unit: million yen)

Details of benefits		Amount**4
Revenue	Sales value of valuable resources and fixed assets	256
Cost reduction*4	Reduction in costs through energy conservation	208
	Reductions in cost through resource saving	1,280
	Reduction in operation costs (maintenance costs, etc., of eco-conscious equipment)	199
Total		1,943

*3. 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.

*4. 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	1,631	577
2) Cost related to ozone layer protection measures	Switch to alternatives to CFCs	14	47
3) Cost related to air quality conservation measures	Prevention of air pollution, prevention of dust pollution, malodor prevention	217	500
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	291	1,173
6) Waste and recycling measures	Resource savings, industrial waste volume reduction, recycling	855	4,510
7) Cost related to measures to reduce chemical risk and emissions	R&D on products and production	682	3,375
8) Cost related to natural environmental conservation	Natural environmental conservation and tree planting activities outside plants, donations	0	70
9) Other costs	Acquisition and maintenance of ISO certification, environmental publicity, tree planting activities within plant premises	18	1,036
Total		3,708	11,294

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

	2011	2012	2013
1) Environmental conservation cost			
Investment (million yen)	5,326	3,627	3,708
Cost (million yen)	11,813	12,458	11,294
2) Environmental performance indicators concerning environmental conservation benefit			
Energy consumption (crude oil equivalent, thousand kL)	231	231	228
Water consumed (million m ³)	11.1	11.1	10.8
Greenhouse gas emissions (thousand tons-CO ₂ e)	425	446	434
SOx emissions (tons)	43	23	15
NOx emissions (tons)	362	371	370
Wastewater amount (million m ³)	9.0	8.9	8.7
COD pollution load (tons)	58	50	46
Waste discharged (thousand tons)	58	56	57
Final landfill disposal amount of waste (thousand tons)	0.2	0.1	0.2
Emissions of chemical substances subject to PRTR Law to the air (tons)	1	2	1
3) Economic benefit associated with environmental conservation activities			
Actual benefit (million yen)	2,442	1,988	1,943

Partnering with Consumers

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



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 【PR3】

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.

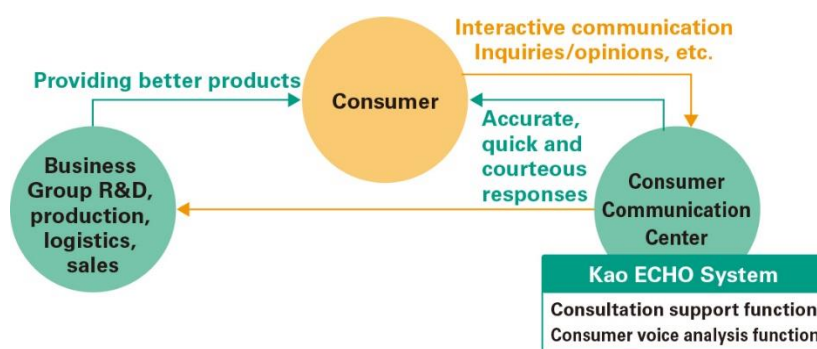
Structures

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



In 2013, Kao Corporation and Nivea-Kao together handled approximately 186,000 consumer inquiries received via phone and e-mail (106% compared to the previous year). This number has been increasing in recent years, with an increase in inquiries from the elderly reflecting Japan's aging population.

Kanebo Cosmetics received about 48,000 inquiries (84% of the previous year's number, excluding inquiries related to the voluntary recall of brightening products).

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. Information on labels from approximately 1,100 items has been made available in order, as we work to support the ability of consumers to select the products that meet their needs.

As our top priority is consumer safety and comfort, the website also provides essential information, such as the importance of skin sensitization test (human patch test) before using hair color, the proper use of aerosol products, and emergency treatment for when a product is accidentally ingested.

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. Because most flashing accidents caused by aerosol products occur when customers are discharging residual gas from cans indoors, in 2013 we put out information about the dangers of doing this indoors. In response to requests from older customers, we also published instructions for easily finding product information from among Kao's various websites.



The main inquiries page

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

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



Inquiry example

Products Q&A

This is a compilation of the many inquiries received from our customers, in question and answer format. Links to the product catalog provide a rich database of additional detailed information with a display of actual products for easy searching.

In 2013, for our customers sensitive to oral stimulation, we added a list where they can check the refreshing levels and whether alcohol is used in any of the formulations for our liquid toothpaste and mouthwash products.

Products Q&A

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



Products Q&A main page



Products Q&A example

Product catalog:

This is Kao's consumer product catalog site. It includes approximately 1,100 items, with more information on product components, usage and other information as printed on product packages being added in order.

The catalog is also linked to the product Q&A section and other sites, with users able to view relevant product Q&As from each of the product pages. It includes information on precautions when using hair color and aerosol products and an "Emergency Treatment SOS," a link consolidating various treatments for urgent situations including unintentional product ingestion, helping to ensure consumers can use their Kao products safely. For example, a link to a Q&A entry listing scent strengths for fabric softeners, where fragrance is important, is useful for consumers trying to choose a product.

In addition to introducing new products, the catalog provides notification of product discontinuations two months in advance, as we work to keep regular users informed about the products they enjoy.

Kao also provides information on product enhancements, listing specific improvements in performance, fragrance, containers, design and other areas in a format that is as easy to understand as possible. In 2013, we received numerous user inquiries expressing concern that the product they had purchased might be outdated because the color of the liquid had changed slightly. We realized once again how sensitive regular users are to product improvements (and changes), and are working to be even more considerate of those concerns when issuing product information. Since many regular users wish to continue using their favorite products, Kao provides an extra level of reassurance by listing not only specific product improvements, but also what remains unchanged about the product.

Product Catalog

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



Product Catalog main page



Product Catalog example

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 single site—the product catalog for discontinued products.

In 2013, we added notifications about the *Wonderful Clean Dog Toilet*, *Family Fresh* dishwashing liquid detergent, and *Bioré UV Milk weak acid sunscreen*, and other products.

Information on discontinued products

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



Main page for discontinued product announcement



Example of discontinued product announcement

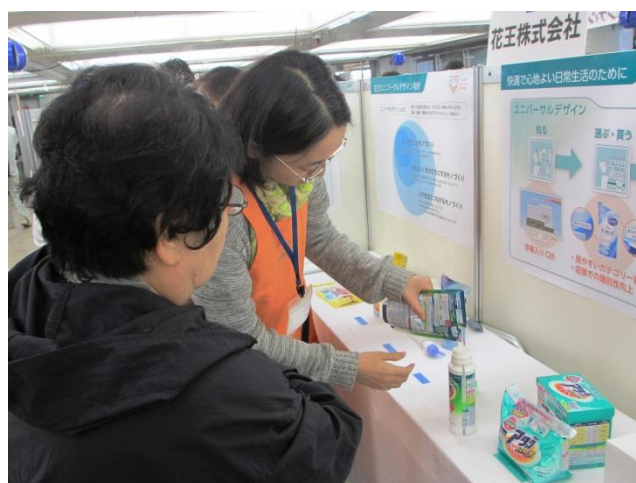
Kao Group in Japan

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 2013, Kao exhibited at seminars held by government institutions and at consumer education events. This year, at the request of an organization for the blind, we also held health care lecture on the topic of beverages. They were very pleased with our ability to communicate information through hearing, smell, touch, and taste.

Kao continues to contribute to society through such activities.



Lifestyle Festa Tokyo 2013

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 annually and conducting television conferences, etc., to share consumer support skills and consultation information, leading to faster, more accurate 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.

Universal Design

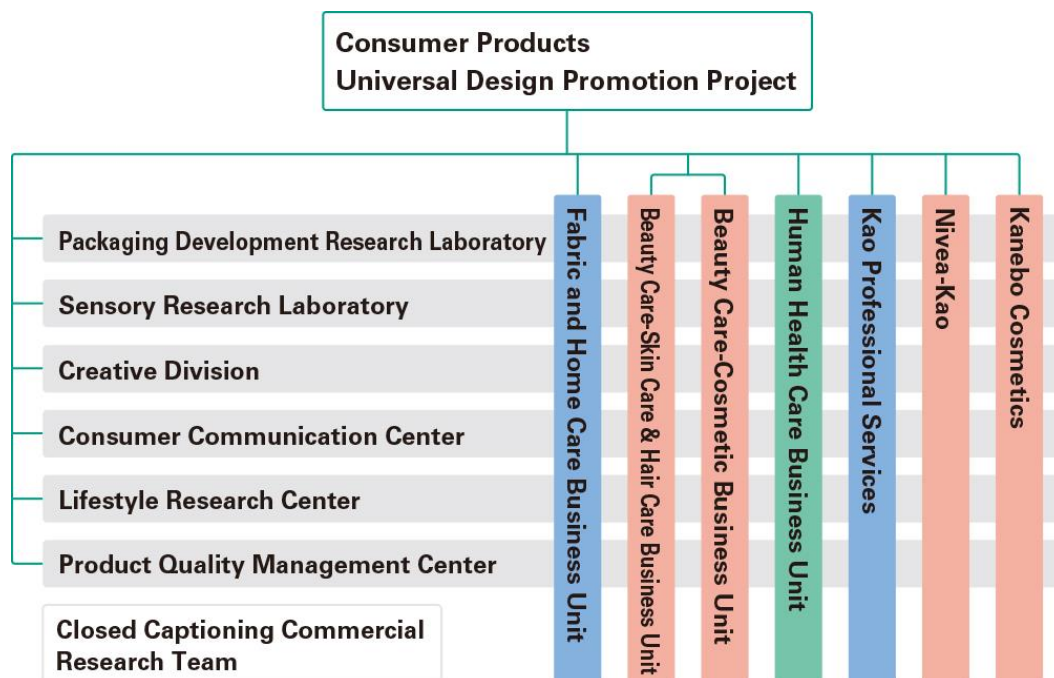
With a diverse range of consumers in mind, we develop user-friendly products—making products easy for everyone to use—while we focus on the relationships between individuals, and between individuals and society, working to promote social inclusion. Kao also aims for barrier-free access to information, 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 ensure fuller corporate sharing and permeation of this concept, Kao formulated its Guidelines of Universal Design to be shared among all employees for the promotion of Universal Design (UD). Centered around the Universal Design Promotion Project made up of individuals in charge from related divisions across the company, divisions share information about UD-related issues with Kao products, including ease of use and simplicity, and various initiatives in response to those issues. This information then supports cross-divisional activities, including the formulation of guidelines.

■ Universal Design Promotion Project organization



■ Kao's Guidelines of Universal Design



■ Kao Universal Design activities logo



The logo expresses the idea of connecting people through products and services.
The connected hands are also symbolic of an ongoing effort.
The three people and three colors symbolize the Kao's three UD guidelines and the diversity of people.

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.

Through these efforts, Kao works to improve its products and services. Our goal is to ensure that a universal design perspective is incorporated into improvements to all new and enhanced products as they are brought to market, so that even more customers build an attachment to the products they use.

TOPICS Senior experience workshop

In 2013, Kao began a new series of initiatives under the watchwords “*Yoki-Monozukuri*” based on Empathy.” One of these is our senior experience workshop. About ten employees participate in each workshop, which takes place in a rental studio based in a single-family home, where they spend half a day doing household chores while fitted with equipment that replicates the experience of someone requiring Level 1* nursing care.

The program starts with lunch, where participants find that chopsticks are more difficult to use and the food hard to see. What should be an enjoyable meal turns into a dry exercise in simply trying to get food to the mouth. Participants then turn to cleaning, laundry, and washing the dishes, and after four hours of working with the equipment on, they begin to move much like old people. At the end, everyone writes down and shares their thoughts and impressions. They experience just how much poor vision and hearing can rob a person of their positive outlook and desire to do things.

This hands-on workshop also gives participants a chance to imagine their future, older selves, and to think about what they can do beginning now to change that future. The extensive feedback and empathy for seniors they gain through the workshop can then be tied into product improvements from a universal design perspective.

*Level 1 Nursing Care

An individual who has gone from requiring support (someone who is able to handle basic activities of daily life—ADLs—on their own, but who may require some assistance, or who may require support with instrumental ADLs as a way of preventing a need for full nursing care), to requiring partial nursing care due to a deterioration in the ability to handle instrumental ADLs.



Senior experience workshop

• Example 1. Powdered laundry detergent refills

Refill products were traditionally designed to replace the contents into the original container, but with powdered laundry detergent refills, the entire pouch can be placed in the empty box before opening. This makes it possible to refill the container without worrying about scattering or spilling the powder. The pouch is also shaped to fit easily into the original box, and designed to tear open by hand in a clean, straight line while fitting snugly into the box once opened. An illustration on the front of the pouch shows how to use this new type of refill. This has been well-received by customers who have actually used the product, with some commenting that they like the new refill because they thought it was a waste to throw away the original box and scoop, and others saying they're happy with the way the refill fits perfectly into the original box.



• Example 2. Compact for foundation

The compact for *Sofina Primavista Dea Skin Tone Up Powder Foundation UV* features a magnifying mirror that makes it possible to see the finest details even without glasses, making application and retouching of eye makeup a pleasure. In addition, the included sponge has been redesigned to pop up when the compact is open, making it easier to remove. The sheet of film covering the foundation has also been attached to the compact itself, ensuring it will continue protecting the product until the final use.



• Example 3. Fingertip toothbrush set

Deep Clean introduced a fingertip toothbrush set designed to brush the teeth with a massaging action. Because individuals' fingers are of different sizes, a flange has been added so that brush can be held down with the thumb to keep it from turning. The tube uses a hinged cap design, making it easy to open with one hand even when using the fingertip toothbrush, without worry of dropping the cap. Finally, because the standing tube design is similar to that used for facial scrubs and other products, listing the product category on the outside of the tube at the top improves differentiation.

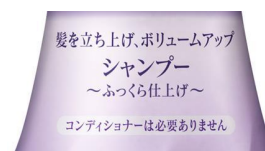


・Example 4. One step volume finish shampoo

Segreta Volumizing Shampoo was introduced to respond to customers concerned about losing body, shine and volume in their hair. This product has been designed in a smaller size than usual to accommodate both personal use and improved portability and ease of refill. The compact, balanced shape of the bottle provides stable pumping action when used in the bath, and the smaller surface of the base is designed to leave less liquid behind. Use of color helps differentiate the product from others in the *Body & Shiny* series, and balances well with the shape of the container, reminiscent of a perfume bottle. The description on the front of the product also clearly notes that the shampoo can be used as a stand-alone product, with no need for conditioner.



Compact, easy-to-use pump bottle with an attractive design



Product description is easy to read

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 its initiatives in support of full closed captioning of commercials. Closed captioning not only provides hearing-impaired viewers with information about products, 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 the use of televisions in public facilities where sound is prohibited.



Example of closed captioning television commercial

Kao began airing closed captioning commercials in 2011. We have surveyed the hearing impaired and their families, along with related organizations, incorporating their feedback into our research, yielding new guidelines. Since 2012, we have also continued trial broadcasts during Kao-sponsored programs on several television stations.

We have shared the results and findings we have gained through these activities with government agencies, related organizations and other companies, and are working to generate greater general interest in the issue. In 2013, broadcast rules were reexamined and several companies conducted trial broadcasts, in preparation for the introduction of closed captioning commercials.

Kao will collaborate with related industries and continue its proactive efforts toward the full introduction of closed captioning commercials, ensuring that information can be clearly conveyed to all viewers.

Kao Group in Japan

Making sales floors and shelves more user-friendly for everyone

Kao is working to develop retail sales floor layouts that make it easier for customers of all ages to purchase products. In addition to our existing efforts to create senior-friendly layouts, in 2013, we began working with retail stores on creating fabric care merchandising that is better adapted to increasingly diverse lifestyles. We surveyed customer attitudes regarding laundry and analyzed data regarding purchasing histories, and as a result found that buying behavior changes depending on the individual's degree of involvement with laundry and differences in lifestyle. We relocated detergents for delicate washables and fabric bleaches—two markets expected to grow—to a more central position, and improved sales floor layouts to make products easier to find and select, efforts we continue to roll out in collaboration with retailers. Consumers have responded that it is now easier to locate the products that suit them, and that the layouts encourage them to try new products, which has led to increased sales for many of our retailers as well as expanded rates of usage for our products.



Fabric care merchandise arranged to account for differences in buying behavior depending on degree of involvement with laundry chores

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.

In the case of *Emal* laundry detergent, because most of the instructions on the product itself are in the form of illustrations, we listed the entire instructions in the form of sentences.

使用量の目安	<p>一般の洗たく機 ⇒ 水30Lに40ml (上の目盛り) ドラム式洗たく機 ⇒ 衣料1.5kgに40ml (上の目盛り) 手洗い ⇒ 水4Lに10ml (下の目盛り(20ml)の半分)</p>
お洗たく方法	<p>衣料の取扱い絵表示を必ず確認し、お洗たくできる衣料が見分けてください。 ※取扱い絵表示のない衣料は洗えません。</p> <div style="display: flex; justify-content: space-between;"> <div style="width: 45%;"> <p>洗えます</p> <p>または</p> </div> <div style="width: 50%;"> <p>お洗たく方法 ※水温は30℃以下で</p> <div style="display: flex;"> <div style="flex: 1;"> <p>洗たく機で洗う</p> <p>衣料を洗たくネットに入れて、手洗い/ソフト/ドライ対応コースで洗う。 洗たく後はすぐに取り出して干す。</p> </div> <div style="flex: 1;"> <p>手洗い</p> <p>やさしく押し洗い後、軽く脱水*。 2回水をかえてすすぎ、軽く脱水*。 *脱水は、洗たく機のドライ(手洗い/ソフト)対応コースで1分以内。</p> </div> </div> </div> </div> <div style="margin-top: 10px;"> <p> このマークがついた①②③④は洗えません</p> <p>①絹・レーヨン・キュプラ ②スーツ類・皮革・和服 ③刺しゅう、起毛などの表面加工があるもの ④色落ちするもの(目立たない所に原液をつけ、5分後に白い布に色移りするもの。)</p> <p>洗えるものもあります くわしくは、エマールのWebサイトで。</p> </div> <p>※以下は、音声読み上げソフトで聴く場合のために、上の画像部分を文字化したものです。</p> <p>■「洗濯機の脱水で洗う」または「手洗い」の表示がある衣料品は、エマールでお洗たくできます。水温は30℃以下にしてください。</p> <p>【洗たく機で洗う場合】 衣料を洗たくネットに入れて、手洗い/ソフト/ドライ対応コースで洗う。洗たく後はすぐに取り出して干す。</p> <p>【手洗いの場合】 やさしく押し洗い後、軽く脱水し、さらに2回水をかえてすすいでから、軽く脱水する。脱水は、洗たく機のドライ(手洗い・ソフト)対応コースで1分以内。</p> <p>■「水洗いできない」の表示がある衣料品で、以下にあてはまるものは、洗えません。</p> <p>(1) 絹・レーヨン・キュプラ (2) スーツ類・皮革・和服</p>

Product catalogue: example of chart transformed into sentence format (*Emal* laundry detergent)

Chart content is shown in sentence format (with sentences read aloud)

Kao Group in Japan

Providing information to the visually impaired

•Providing voice-based information

Kao offers information for everyday life in *Home Life*, a voice-based magazine published by the Japan Braille Library for its over 6,500 members. In July and December 2013, the following information were provided in text-to-speech format narrated by Kao employees: how to gently shampoo hair, as well as on perspiration and laundry odors and housedust (July), hand care advice, housekeeping shortcuts, suggestions for dealing with hay fever (December).



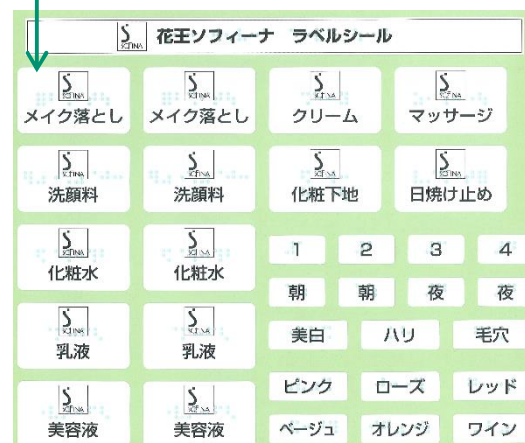
A Kao employee narrates *Home Life*, providing lifestyle information

•Braille tools for product differentiation

To make it easier to identify different product containers with similar shapes, Kao has developed two types of braille tools, one for household products and another for cosmetics, and is distributing them free of charge. They feature large-print black lettering on a white background, making them useful for older customers as well as the visually impaired.

For household products, we have stickers such as “BODY SOAP” to “SHAMPOO,” “CONDITIONER,” “FACIAL CLEANSER,” “MAKEUP REMOVER,” “TOOTHPASTE,” “TOILET,” “BATH,” and “CHLORINE-BASED.” And for cosmetics, we also have braille stickers which can be used by product types, usage conditions, target problem area, color of lipsticks and other makeup, and additional characteristics.

The stickers are even more convenient when used in various combinations.



Braille labels for use on cosmetics

Kao Group in Japan

Developing Universal Design Education Program for elementary school children

Thanks to a request from an elementary school teacher who visited Kao's booth at the 4th International Conference for Universal Design in Fukuoka, held in October 2012, we began working together with Tokyo Gakugei University, which is well-versed in the educational system, to develop a new education program for ages 9 to 10 elementary school children that would introduce Kao's Universal Design (UD) initiatives.

We developed the program to convey to the children Kao's approach to UD by helping them understand why Kao began adding notches to its shampoo bottles, and which would introduce them to closed captioning television commercials as a way of getting them to think about the importance of ensuring that as many people as possible can live a better life.

The program has provided the children with an opportunity to look at their everyday lives from a new perspective, and some children have even taken on independent research projects, looking for examples of UD in the world around them.

Kao conducts these education programs in the hopes to help children improve their life skills. This program is also being offered as a way to convey how having a UD perspective can actually lead to a better quality of life.



School children felt the notches on shampoo bottles

Kao Group in Japan

Promoting Universal Design in the hotel business

Kao proposes a number of ways in which hotels can ensure that customers from around the world, as well as visually impaired guests, can enjoy their stay in comfort and security.

•Amenity information via QR code

More hotel guests today are bringing their own smartphones and tablet devices with them. Kao is promoting a system by which guests can use their own mobile devices to read QR codes and gain information on product components and use, even on room amenity products that may be too small for multilingual labeling. The system not only converts the content from Japanese to other languages, but is also considerate of cultural differences.



Universal design proposal for a hotel



QR codes used to provide multilingual information on amenities

• Braille tools for product differentiation

To help visually impaired guests identify different product containers of similar shape, Kao provides hotels that wish to use them with braille stickers to apply in addition to the notches already found on our pump bottles of shampoo (rinse in shampoo). We also have stickers available for air fresheners and bath powders. In addition to braille, the stickers feature large-print black lettering on a white background, making them useful for elderly guests as well as the visually impaired.

For those with poor color vision, we have made adjustments to bottle color and labeling that enable them to distinguish between shampoo, conditioner, and body soap.

This effort also helps reduce errors when hotel staff replenishes products in the guest rooms.



Examples of braille stickers



Braille stickers
(Hotel use)

Product Quality Management 【PR1】

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 production, 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.

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

For details, refer to the "Basic Policy for Quality Management Activities"
http://www.kao.com/jp/en/corp_csr/safety_00.html

Structures

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

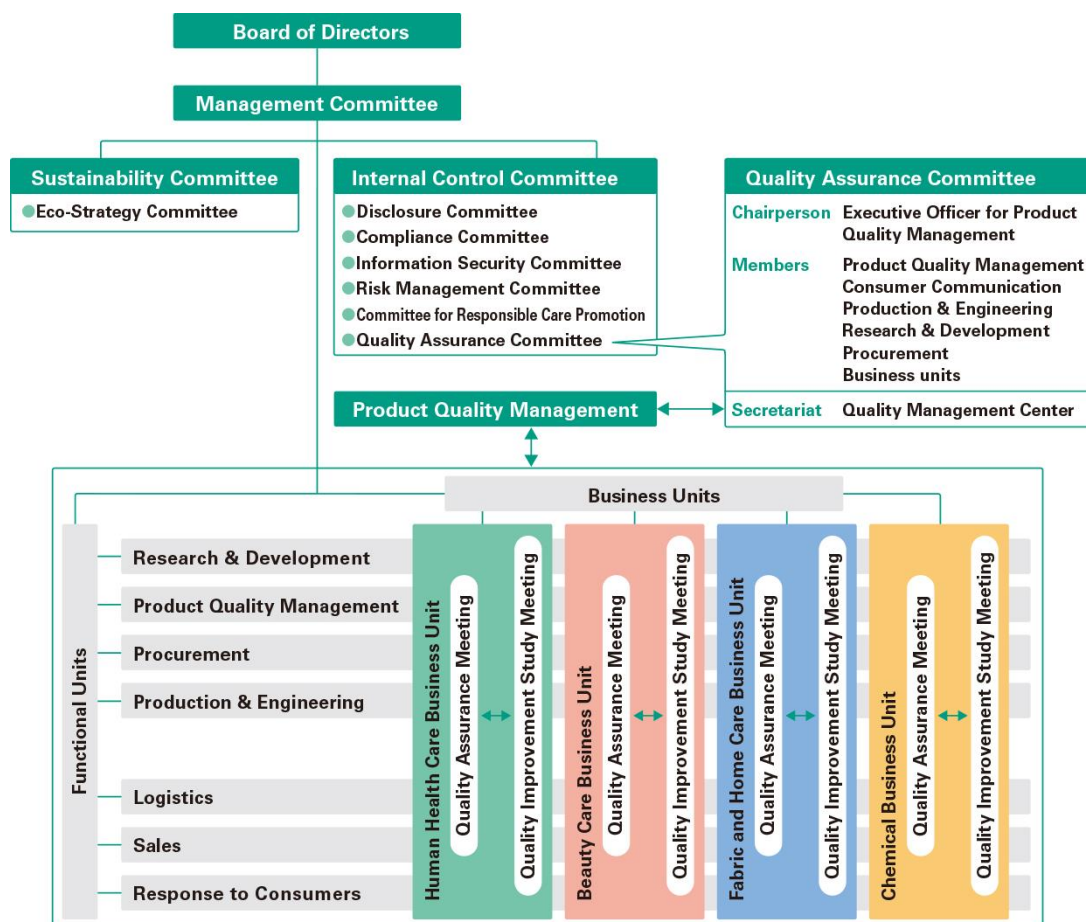
Based on the policies set by Quality Assurance Committee, Quality Management Meetings are held at the business unit level to assess each unit's quality assurance policies, quality issues and progress with quality assurance activities.

Each month, the respective units also sponsor Quality Improvement Study Meetings to assess quality issues with new and improved products prior to the initiation of sales.

Each meeting is attended by representatives from both the respective business units and the corporate divisions, with perspectives from both sides exchanged to promote matrix management. Product Quality Management 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 from customers, external organizations, and distribution sources is accumulated at Consumer Communication, which, in the event of any potentially serious or critical situations, delivers a report from the consumer perspective to Product Quality Management. The division has its own structure in place for responding to emergency and/or serious situations, through which it performs its own quick assessment of the potential for hazard or escalation of the problem, informing top management and related internal divisions of any emergency and/or serious quality issues. Further, in order to fulfill its social, quality assurance, and disclosure responsibilities as a manufacturer, Kao strives to establish close relationship not only to related in-house divisions, but also to government, related agencies, and distribution sources.

■ Product quality management system



Kao Group in Japan

Safety assessment and management

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 consider ensuring the safety of all of our products as our primary social responsibility. To ensure that its consumers can feel confident in using its products, in April 2014 Kao Group reevaluated its safety standards, establishing a new and even more extensive set of safety standards which have since been made available on the Kao Group website.

Consumer Product Safety Standards

http://www.kao.com/jp/corp_csr/safety_06.html

Cosmetics Safety Standards

http://www.kao.com/jp/corp_csr/safety_03.html

Kao will continue to ensure safety based on updated safety information, pursuing alternatives to animal testing, and conducting final safety verification on humans, and will reevaluate its strict corporate standards governing the safety of products for human use and the effect of products on the environment.

Furthermore, we will take responsibility for verifying the components, characteristics, directions for use, warning labels, and advertisement wording to ensure that products can be used safely. Whenever products feature new uses or significant improvements, Product Quality Management, Consumer Communication, Research & Development including safety and

other related divisions liaise to evaluate not only how consumers actually select and use our products, but in terms of environment, lifestyle practices, national origin, ethnicity and other social science points of view.

Once products are on the market, Kao works to deal sincerely with, and thoroughly investigate and respond promptly to consumer feedback, continuously conducting ongoing, detailed checks of product safety and working with a network of government agencies and other parties to manage safety.

Global

Evaluating the safety of alternatives to animal testing

Moves to eliminate animal testing are now global. Kao supports this approach, and since the late 1980s has been proactively working to explore technologies that provide alternatives to animal testing. Kao Corporation and Kanebo Cosmetics, which conduct cosmetics research, not only employ alternatives to animal testing, but also conduct research to further develop those technologies. Specifically, in skin sensitization testing, human Cell Line Activation Test (h-CLAT) jointly developed with Shiseido Co., Ltd. began verification at European Centre for the Validation of Alternative Methods in 2010. The process concluded in 2012, and as of December 2013 the assays are undergoing international review. Moreover, verification of cells used in short-term exposure (STE) eye irritation trials were completed in Japan, and as of December 2013, these are also undergoing international review. Additionally, Kao is also participating—and maintaining a key role—in a project exploring alternatives to animal testing being pursued by Cosmetics Europe.*

Kao believes that alternatives to animal testing should involve publicly-available methods that can be used worldwide. To that end, we continue to cooperate with industry groups, our competitors and others in Japan and overseas toward the establishment of international testing guidelines, and toward furthering the development of alternative testing technologies and other global initiatives.

* Cosmetics Europe (The European Cosmetic Toiletry and Perfumery Association)

An association of the European cosmetics industry. Established 1962. Members include over 16 corporations and organizations from over 25 nations.

Global

Company-wide quality management initiatives

Kao's Basic Policy on Quality Management was established based on our consumer-driven principle that product quality is determined by the consumer/customer, and Product Quality Management supervises our product quality management system. We have established strict policies governing every stage of a product, from research, development, production, distribution, and sales and usage by consumers, to storage and disposal, promoting product quality management throughout the entire product lifecycle.

In 2013, as part of our efforts to balance sustainable, profitable growth with contributions to a sustainable society as a whole, and to achieve the goals of the Kao Group Mid-term Plan 2015 (K15), Kao Group formulated a set of key quality management measures and worked to unify and promote its total quality management (TQM) initiatives. In addition, to further strengthen our foundation for quality, and as part of risk management in quality assurance, Product Quality Management now has primary responsibility for responding to any emergency and/or serious problems that arise with products already on the market. At the same time, with the consolidation of the customer communications and quality management divisions at Kao Corporation and Kanebo Cosmetics, Kao also reevaluated its system for responding to emergency and/or serious problems, and focused on implementing measures to address issues with the potential to develop into serious problems. Further, we worked to strengthen our consumer-driven quality competitiveness, and to promote the formation of quality management standards within the Kao Group.

Global

Consumer-driven quality management activities

In 2013, Kao pushed ahead with the deployment of its Global Echo system, which provides global, integrated management of consumer/customer feedback, not only in Japan, but in our consumer products and chemical businesses throughout Asia, EMEA, and Americas. At the same time, to promote company-wide quality management activities aimed at overall quality improvements, we have introduced and begun using a global data analysis system, named *QMMplus*, which is capable of organizing and analyzing such global data. Working with our related companies in Japan and overseas, we are strengthening our efforts to provide consumers and customers with more timely responses.

[> p. 86 "Communication with Consumers"](#)

Global

Conducting quality management audits/self-checks

Product Quality Management thoroughly understands Kao Group product quality audit activities and implements audits and self-checks. As part of Kao's external audits in Japan, we received the audits by prefectural governments as to renewal of manufacturing approval and surveillance of manufacturers per the Pharmaceutical Affairs Law, and we successfully passed such inspections. Kao Group companies in Japan as well as in Asia, EMEA and Americas also underwent audits by certification bodies for the ISO9001 standard, maintaining their certification, and conducted audit and product quality meetings with internal and external auditors, contract manufacturers and suppliers of raw materials.

Kao Group in Japan

Implementation of thorough product quality management for food products

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*1 that spans the entire course, from original materials*2 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 used for raw materials, have undergone radiation inspections since 2011. Expanding on this, all beverages in the *Healthya* series, which are designated Foods for Specified Health Uses, have also been checked for radioactivity since 2012 in line with management standards adhering to new values indicated by Food Sanitation Act.

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.



Healthia Green Tea product information page

Value Chain Initiatives

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.

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 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.

Partnering with Our Suppliers 【DMA】

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 Policies for Procurement 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 policies, 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 "Policies for Procurement"

http://www.kao.com/jp/en/corp_csr/procurement_00.html

Goals

Kao has established Guidelines for Supplier's Assessment, 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. The ratio of suppliers meeting these standards is established as a green procurement ratio target; a target based on the green procurement ratio is also set for the ratio of suppliers achieving socially responsible standards. 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, among others, ISO26000, the international standard for social responsibility; the revised OECD Guidelines for Multinational Enterprises; and the United Nations Guiding Principles on Business and Human Rights. Kao has established a database for CSR assessment results, offering its buyers online support for their supplier evaluations.

In recent years, depletion and contamination of water resources have gained attention as major issues for sustainable development. Kao is also considering risk assessments for water within its supply chain.

For details, refer to "Guidelines for Supplier's Assessment"

http://www.kao.com/jp/en/corp_csr/procurement_04.html

Global

Status of supplier guideline compliance

■ Social issues: Number of suppliers monitored and percentage meeting CSR Procurement Standards

	Suppliers to Kao Corporation	Suppliers to the Asian Kao Group
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%)
Up to FY 2013	992 (97%)	708 (96%)

■ Environmental issues: Number of supplier plants monitored and percentage meeting CSR Procurement Standards

	Supplier plants to Kao Corporation	Supplier plants to the Asian Kao Group
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%)
Up to FY 2013	1,330 (99%)	510 (97%)

Kao Group in Japan

Implementation of a supplier satisfaction survey

Kao conducts a supplier satisfaction survey every three 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 results of 2013 survey showed improvements on two areas “to provide clearer acceptance/rejection notifications to suppliers” and “to clarify conditions of estimate” compared to the previous survey, but based on these results, Kao will be working to further ensure that acceptance/rejection notifications are always issued, and we will be enhancing our conditions of estimates. Issues were also found with the ordering process, and efforts will be made toward improvements in that area as well.

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 about basic policies for sustainable purchasing and other issues.

■ Changes in the number of companies that participated in the vendor summit

(Number of companies)

	Held in Japan	Held outside of Japan	Total
FY 2009	180	139	319
FY 2010	169	219	388
FY 2011	183	187	370
FY 2012	-	205	205
FY 2013	184	151	335

* Due to Kao Corporation's change in the fiscal year end, a vendor summit was not held in Japan during FY 2012.



Vendor summits

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,*¹ beginning in 2012 the Procurement Division encourages its employees to take the Certification Test for Environmental Specialists (Eco Test*²). Currently, 64% of the employees of the division have become certified.

*¹ 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.

*² 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,*¹ 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 impact created by its procurements.

Kao recognizes that its business depends on natural capital, and as raw materials derived from 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. In 2013, Kao formulated its Guidelines for Sustainable Procurement of Raw Materials.

For details, refer to the "Guidelines for Sustainable Procurement of Raw Materials"

http://www.kao.com/jp/en/corp_csr/procurement_05.html

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. Our goal is that by 2020, all palm oil and palm kernel oil used in Kao Group consumer products will be certified, and only sustainable oil of traceable origins will be purchased.

[For details, refer to p. 70 "Measures for Biodiversity Conservation"/"Formulation of Guidelines for Sustainable Procurement of Raw Materials and initiatives toward 100% procurement of sustainable palm 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 policies for containers and packaging as well, and purchases paper meeting FSC*2 certification 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 74% conformity with the Green Procurement Standard in its office stationery use. A full 100% of the copy paper used is FSC-certified. Kao is also promoting use of recycled and FSC-certified paper for product containers and packaging.

Kao's goal is to, by 2020, be using only recycled or sustainably produced paper and pulp products.

3. Sustainable sourcing of plant resources

As the scarcity of natural plant resources has become clear, Kao continues initiatives to diversify sourcing routes and to convert from natural plants to cultivated ones, considering the natural environment and local communities.

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.

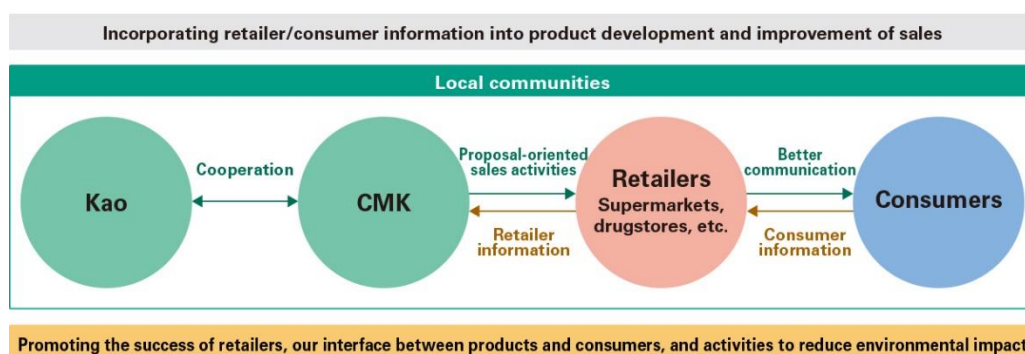
Consumer Products Business

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

Proposing a customer-driven selling space to retailers

Every year, Kao Customer Marketing Co., Ltd. (CMK) holds Trade Conference for Key Accounts for key retailers throughout Japan. The conference held in November 2013 focused on lifestyle changes and other aspects of customer-driven selling space creation. One example presented was the “Laundering the Whole House” project, designed to help consumers lead cleaner everyday lives. One of the issues revealed during in-home surveys of actual laundry habits was that fabric items such as curtains, sheets, and pillowcases are often not adequately laundered; this project is intended to address that issue by suggesting consumers launder these items using laundry detergents that allow for shorter washing times. This drew a great deal of interest from retailers, who noted that it was of enormous interest in terms of offering an opportunity to create a new market.



An actual living space was replicated for retailers to show them how curtains and other fabrics are actually laundered, and how to use selling spaces and sales techniques to support customers with their laundry chores.

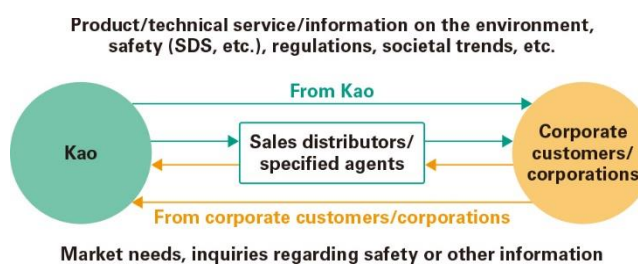
Chemical Business

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 oleo chemicals (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

In light of newly announced and revised domestic and overseas laws and regulations related to chemical substances, conveying information within the supply chain is an essential part of chemical substance management, and the role of the sales distributors of Kao products is expanding and gaining in importance in terms of compliance with import and export regulations, handling of sales distribution* during earthquakes and other disasters, and in other respects.

In 2013, Kao and its ten 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 2012 PDCA activities regarding overall safety and 2013 plans. Kao, meanwhile, explained the latest international trends in chemical substance-related laws and regulations and described some of Kao's initiatives. Participants also exchanged information on a wide range of duties related to conveying information about chemical substance management, and reconfirmed their respective roles and handling of issues within 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

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 September 2013 session was held over two days at the Wakayama Complex, with over 60 individuals in attendance. During the training, sales distributor employees were given basic knowledge of Kao products, as well as information necessary for handling such duties as packaging, logistics, and ordering. The training also covered Kao's overall safety management initiatives, and included tours of the plant and research facilities, hands-on training, and an introduction to Kao's "eco" initiatives with a tour of the Kao Eco-Lab Museum.



Training session for new sales distributor employees

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.

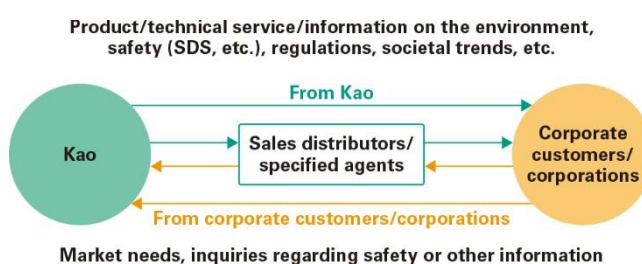
Policies/goals/structures

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 offer an environment for gentler nursing care through a combination of products based on our skin care technology and our diapers for seniors; and in the area of recreation, we strive for total comfort through cleanliness and the ultimate in hospitality through quality guest care.

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



KPS collaborates with our food service customers to improve worksite hygiene management in restaurants and food processing plants, creating food safety and security, and comfortable 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 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 2013, we implemented 100 customer appraisals at 265 locations, and conducted 207 hygiene lectures.



Hygiene management workshop



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 2013, we added three new locations and held 51 “Infection Control Best Practices Program” (working groups) for nurses, care workers, and other medical professionals from 439 hospitals and 102 nursing-care facilities.

Kinki area seminars were attended by 923 health professionals of 392 hospitals and nursing-care facilities.

To better share information with health professionals of hospitals and nursing-care facilities, Kao also offers study sessions on the proper use of products and prevention of hospital-acquired infections, and exhibit our products at seminars and academic conferences. 2013 saw an increase in requests for seminars and held more product exhibits as awareness of infection prevention has grown, and we conducted a total of 266 study sessions and 37 product exhibits.



Infection Control Best Practices Seminar



Product exhibit at Infection Control Best Practices Seminar



Infection Control Best Practices Seminar at J Infection Control Network Forum

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, each employee's abilities are mobilized to generate greater strength than the sum of their parts.

Promoting Diversity & Inclusion and Respecting Human Rights



To create workplaces in which individual employees can demonstrate their maximum potential, Kao respects the diversity and human rights of its workers.

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



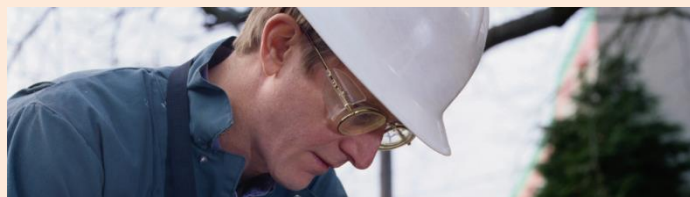
Kao strives to create workplace environments that are conducive to work and facilitate a harmonious balance between work and life.

Consideration for Employee Health and Lifestyles



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 【DMA, LA10】

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 Guidelines for 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.

Guidelines for 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 more effectively promote cross-border and cross-company human capital development, and to conduct even more detailed discussions of each region's issues and initiatives, beginning in 2013 Kao has been conducting Regional Human Capital Development Conferences regularly in addition to the existing Global Human Capital Development Conference centered around those in charge of human resource development in Japan, Europe, the United States, and Asia.

As Kao continues to promote the global standardization of human resource systems already underway, human capital development in the Kao Group has entered a new stage, one that involves examining how to utilize those systems to move ahead with human resource development in each country where we do business.

Global

Implementation of various common global training programs

To promote global harmonization, training programs are unified inside and outside Japan, and human resources who share values, goals and ways of doing business are fostered.

In 2013, as in the previous year, we again implemented our Global Leadership Development Program (GLDP)* and worked to strengthen our leadership development process, and also moved ahead with implementation of common global programs in Japan and other Asian countries, as well as in Europe and the United States.



GLDP Switzerland/Lausanne session

* 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 2010 and had 70 participants in 2013. A total of 284 people have finished the program.

Global

Global rollout of management training

We have implemented the rollout of the Managing Human Performance Program (MHPP) in each country across the globe to strengthen management capabilities that bring together the *Genba*. We have trained a total of 30 internal instructors in Asia, Europe, the United States, and Japan, and are moving toward the harmonized management across the Kao Group. In Asia, we are seeing more instances of cross-organizational cooperation, with internal instructors providing support to other Group companies. We hope to expand the number of people attending the training, working to improve skills at the management level while also increasing the number of collaborative initiatives across the Group as a whole.



Training at Kao (Malaysia)

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 number of internal instructors has increased by two to eight, and in 2013, training was held in Asia, the United States, and Japan.

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 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 individual workplaces.

Further, a new program, the Kao Way Dialog, has been developed around the concept of nurturing leadership based on the Kao Way. The program was tested in 2013, and Kao plans to implement it across the entire Group in 2014.



A test Kao Way Dialog training session at Kao (Malaysia)

Global

Fair and transparent evaluation and compensation

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.

As of January 2013, Kao has standardized its performance management system with affiliates in Japan, Europe, the Americas, and parts of Asia, and has put into full-scale operation an infrastructure to facilitate fair and transparent evaluations by common metrics. The Kao Group will continue working to improve these systems and to give thorough consideration to how they should be designed and operated, as we move one step closer to our goal of growth as a truly global company.

In November 2013, we also rolled out our Self Education & Development Scheme (SeEDS), which aims to support individual skills and career development, and are moving to successively deploy and operate the scheme at Group companies in each country.

The goal of this scheme is to, on a global level, motivate individual employees to develop their capabilities and careers, with support from the company, and to uncover, nurture and promote across the group as a whole those employees with motivation and skill, ultimately leveraging their maximum potential.

Performance management system and Self Education & Development Scheme (SeEDS) are the twin engines driving human capital development in the Kao Group, and we continue to move ahead with cross-border, cross-company cooperation and collaboration that can contribute to profitable growth and the achievement of a more profitable and ethical company.

Promoting Diversity & Inclusion and Respecting Human Rights [10, LA1, LA12]

To create workplaces in which individual employees can demonstrate their maximum potential, Kao respects the diversity and human rights of its workers.

Policies/structures

Based on the recognition that the vitality generated by 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 work to open up appropriate paths to employees with motivation and ability, we are also continuing our awareness efforts, with the goal of achieving a corporate culture that allows a diverse range of employees to flourish.

In particular, we recognize a need to promote diversity in Japan. To that end, we have established an awareness month focused on gender, disability and human rights, and gather representatives from our head office and various worksites and Group companies for regular EPS* Awareness Meetings, with the goal of ensuring these concepts are disseminated throughout the Kao Group as a whole.

* Equal Partnership (EPS) promotion activities

Since 2000, Kao Group companies in Japan have been working to build rewarding workplaces, where every employee can leverage his or her full potential, by fostering an understanding of diversity and an attitude of mutual respect, and firmly establishing these in our employees' minds and behavior.

Global

Utilization of diverse human resources

Kao works to fairly evaluate and promote each individual employee, and to develop those with motivation and ability into global leaders, regardless of gender, nationality, or other factors. For example, half of those participating in our Global Leadership Development program are employees of our affiliates overseas. The number of female participants also continues to grow each year.

As of the end of 2013, women made up 10.5% of management positions in our domestic group companies. While there are differences depending on the type of job and employment status, the number of female employees at Kao Corporation in the areas of consumer product marketing and planning, product development, publicity, consumer communications and social contributions equals or surpasses the number of male employees, and many women are flourishing in positions of responsibility.

Kao will continue to strengthen these efforts toward creating an organization in which an even more diverse group of people can play an active role.

Note that in 2013, Kao was one of only two companies selected for both the Nadeshiko Brand and the Diversity Management Selection 100.

■ Number of Kao Group employees (regular employees)

(as of December 31, 2013)

	No. of Employees	Percentage
Japan	22,088	66.8%
Asia (excluding Japan)	7,137	21.6%
The Americas	1,383	4.2%
Europe	2,446	7.4%
Total	33,054	100%

●Percentage of female employees: 54.4%

●Percentage of female managers: 27.7%

■ Number of employees (Kao Group in Japan)

(as of December 31, 2013)

		No. of employees
Regular employee	Female	12,415
	Male	9,673
Contract employees	Female	1,495
	Male	301

●Percentage of female employees: 58.2%

●Percentage of female managers (regular employees only): 10.5%

■ Status of regular employees (Kao Corporation)

(as of December 31, 2013)

Regular employees	6,172
Average age	42.3
Average length of employment	19.4 years
Turnover(rate)	0.40%

●Percentage of female employees: 21.0%

●Percentage of female managers (regular employees only): 8.1%

Kao Group in Japan

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

In line with its basic policy “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 actively promotes recruiting both at its regular workplaces and at its special subsidiary.

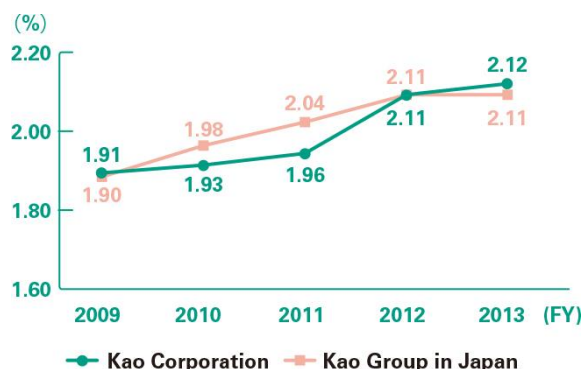
Kao Peony Co., Ltd. was established as a special subsidiary in October 2005, with the goal of encouraging hiring of those with disabilities. As of January 2014, a total of 22 employees work there, including 19 with intellectual disabilities; they are primarily involved with packaging sets of cosmetics and personal care products.

In 2013, we also held a “Challenged” Meeting for hearing-impaired employees working at our regular workplaces. A total of 18 employees from Kao Group companies in Japan participated, and with an outside instructor, also hearing-impaired, learned about communication skills that take into account the unique characteristics of hearing impairment.

In addition, to further understanding of employment of the disabled throughout the company, Kao has established September as a special awareness month, publishing educational newsletters for employees, holding “Learning about Disabilities” seminars and conducting other activities.

Kao intends to expand employment of the disabled as it works to achieve the goals of its basic policy.

■ Kao Group employment rate of people with disabilities*



(As of June 1, 2013)

* 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

Support for the lifetime career development and policy for re-employing retired employees

To support the lifetime career development of its employees, Kao offers employees approaching the age of 45 “Life Career Design Seminar,” giving participants an opportunity to take the initiative in thinking about their own working careers through an understanding of their individual values (in 2013, 149 employees participated).

For those in their late 50s, Kao also holds “Life Plan Seminar” designed to support post-retirement life planning, offering explanations of the public pension system and simulations of budgeting for life on a pension (in 2013, 310 employees participated).

Kao has also introduced Senior Partner policy, which re-employs retired employees as contractors, with the goal of proactively promoting motivated, capable seniors and

creating an environment in which their skills can be leveraged to the fullest.

Kao will continue its efforts to offer systems and create an environment in which motivated, skilled employees of all ages can enjoy a vibrant working life while contributing to our business.

■ Changes in the number of re-employment after retirement (Kao Corporation)

FY	Number of employees who reach the retirement age*	Number of re-employment after retirement	Percentage
2011	106	39	36.8%
2012	94	55	58.5%
2013	116	64	55.2%

* Number of employees who reach the retirement age = Number of retired employees + Number of re-employment after retirement

To prevent harassment, Kao has published on its intranet a series of internal guidelines, including “Guidelines for Preventing Sexual Harassment” and “Guidelines for Preventing Workplace Bullying,” and has also put in place both internal and external consultation services for employees.

The focus in recent years has been on preventing power harassment, and in 2013, Kao conducted training in preventing and addressing power harassment in the workplace for management and administrative-level employees of Kao Customer Marketing Co., Ltd. nationwide.

Kao also designates December of each year as Human Rights Awareness Month, and conducts awareness education through distribution of newsletters and through poster displays and other efforts. In 2013, we issued a newsletter focused on LGBT* and power harassment themes, which was accessed 9,436 times.

We also continue to implement our annual self-assessment using 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 for most of those items.

*LGBT

An acronym for sexual minorities, encompassing lesbian, gay, bisexual, and transgender (those who identify with a gender at odds with that assigned to them at birth, either medically or socially) individuals.

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 Deepening 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 senior management, starting with the President, explains the company's current situation and priority issues regarding personnel development and the like to employee representatives and also answer questions from employees. Since 2011, we have called this opportunity the "Kao Forum" and have expanded the range of participating companies to all Kao Group companies in Japan. We also continue working to develop a system whereby each individual employee can participate more proactively in these kinds of communication.

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.



The Kao Forum

Global

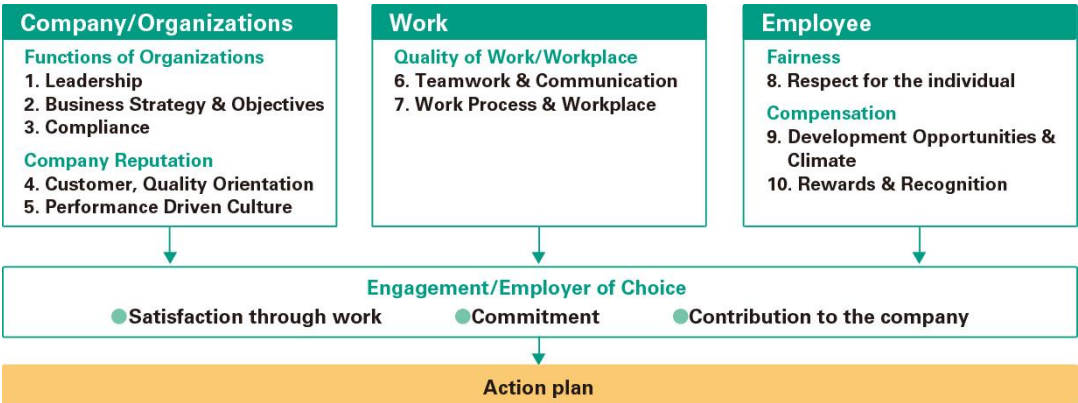
Improving work environments by conducting employee opinion survey "Find"

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 those plans.

With each successive "Find" survey, we are expanding our survey targets to include, for example, employees of Group companies abroad, and it is gaining widespread use as a method for determining the health of the Kao Group's organizational culture and functions.

The survey is scheduled to be carried out for the seventh time in 2014, and will focus on the development and execution of even more action plans than before, as every employee takes part in working to improve the Kao Group's organizational capabilities.

■ Questionnaire Items for “Find”



Work-Life Balance 【LA3】

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

Policies/structures Promoting understanding between management and employees

Kao positions work-life balance as one component in putting in place an environment for promoting diversity and inclusion. In Japan, our goal is to make it easier to balance work with child and/or nursing care, and to achieve a corporate culture that encourages utilization of those systems. To do so, we have established an awareness month and conduct awareness activities; through our EPS Awareness Meetings, we work to ensure that these programs reach all of our employees.

Overseas, we work with the circumstances in each country to enhance a variety of support systems and promote the creation of better working environments.

We will continue our efforts to make raise the awareness of each of our employees and cultivate an appropriate workplace culture.

Kao Group in Japan

Balance support systems

At Kao, we have put in place a variety of systems for supporting work-life balance to assist those employees who endeavor on their own to handle child rearing and nursing care. To ensure these systems can be readily understood by our employees, we have also created “Work and Life Balance Guidebook,” which includes descriptions of in-house and external systems and other useful information, and which has been made available on our intranet.

■ Systems for supporting work-life balance

Key support systems	<ul style="list-style-type: none"> • Extended Child-care/Family-care leave • Sick/Injured childcare leave • Family care leave 	<ul style="list-style-type: none"> • Shortened work hours • Overtime work exemptions • Late-night work exemptions 	<ul style="list-style-type: none"> • Child-care time • On-site day care facilities, etc.
Creating a supportive organizational structure	<ul style="list-style-type: none"> • Work and Life Balance Guidebook • Pre- and post-child-care leave interviews • Child-care leave reports • Seminars for those returning from child-care leave 	<ul style="list-style-type: none"> • F&M (Father & Mother) meetings • e-learning for managers • Nursing care handbook • Nursing care seminars 	<ul style="list-style-type: none"> • Awareness posters/pamphlets • Newsletters, etc.

Kao Group in Japan

Supporting a balance between work and childcare

While putting in place systems to support a balance between work and child-care, Kao also provides a variety of support to help its employees leverage their full potential. To help employees taking an extended child-care leave with a smooth return to the workplace, we have them meet with their supervisors prior to their leave and return, and we have also introduced a system for employees to submit regular reports with updates on their situations. At seminars prior to returning to the workplace, employees can learn about the necessary preparations and how to ready themselves to return to work, and we also provide separate programs for male and female participants. Whether inside or outside of the company, we encourage employees to participate with their partners, providing an opportunity for them to consider as a family how they will handle child-care and their careers.

Kao tries to make it easier for our male employees, in particular, to take advantage of child-care leave, distributing awareness pamphlets to those with newborns and their superiors. We also conduct surveys of our male employees to measure their awareness and ask about workplace culture, information which is used to help us create better working environments.

Workplaces have grown more understanding as well, with our child-care leave system maintaining a high utilization rate of nearly 100% among female employees, and about 37% among males.

Additionally, Kao offers a variety of events that provide an opportunity for employees to meet and share their experiences. These include our Father & Mother (F&M) meetings for employees currently raising children, round-table talks with female managers who are also mothers, and work-life management seminars conducted by outside instructors for our male employees.

These gender-crossing initiatives to support a balance between work and child rearing have been highly acclaimed, and in 2013 Kao was named winner of the inaugural Grand Prize in the Ministry of Health, Labour and Welfare's "Ikumen Company Award."

The number of children on waiting lists for daycare in the Tokyo metropolitan area is a growing problem, and in September 2011 Kao responded by establishing an on-site daycare center called Merries Garden. Many employees have taken advantage of the facility to return to work when they had hoped.



F&M Meeting



Merries Garden

■ Use of child-care support system (Kao Group in Japan)

		FY2011	FY2012	FY2013
No. of employees taking child-care leave	Female	576	581	647
	Male	89	78	75

TOPICS

Kao wins inaugural “Ikumen Company Award” Grand Prize

Kao was selected as a winner of the inaugural Grand Prize at the Ikumen Company Award 2013 sponsored by the Ministry of Health, Labour and Welfare. These awards are part of a project by the Ministry to support men who take an active role in child-care (known as “ikumen”), encouraging more male employees to participate in child-rearing and recognizing companies that are working to make improvements in workplace practices. Out of 49 companies submitting entries, two companies, including Kao, were awarded the Grand Prize, with five companies receiving Special Incentive Award. In being selected for the award, Kao received particularly high marks for its various initiatives, including its efforts to encourage male employees to take child-care leave and its company-wide, cross-gender awareness activities aimed at supporting a balance between work and child-care.

The awards ceremony was held during the “Ikumen Promotion Symposium” held in October, and was followed by a panel discussion in which Kao participated and introduced the audience to its initiatives.



Panel discussion at the Ikumen Company Award 2013

Kao Group in Japan

Supporting a balance between work and nursing care

Based on the results of a survey of employee circumstances regarding nursing care, Kao established a mid-term action plan and is working to promote a system for supporting a balance between work and nursing care. Kao is putting in place a structure for providing nursing care consultation by collaborating with outside companies and organizations that can provide specialized nursing care consultation preparing a manual for HR and labor affairs staff to use in consulting with employees. Through these and other efforts, we hope to strengthen support for addressing the heavy mental burdens placed on those providing nursing care for family members.

In addition, Kao is working to increase employee awareness and create workplace environments that encourage a balance between work and nursing care by regularly including information about nursing care in our newsletter, holding nursing care seminars at its worksites around the country, and presenting case studies on the theme of nursing care as part of our training for newly-appointed managers. In 2013, we also published new “Nursing Care Handbook,” which includes ideas for preparing oneself to balance work and nursing care, and other basic information.

Based on our nursing care support policy, Kao continues to strive to create an environment in which each individual can act on their own initiative, and in which everyone is aware of and supports one another.

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 our offices nationwide, as part of our efforts to enhance awareness in the workplace.

In 2013, a slogan created by a Kao Group employee was selected in the Slogan Division of the 7th Annual Work-Life Balance Awards held by the Japan Productivity Center, the second year in a row a Kao slogan was selected.

More than ever, Kao is focused on improving work productivity and generating greater vitality in the workplace with the goal of driving organizational changes for accelerated business growth.



Original educational poster featuring work-life balance slogan

■ Rate at which paid holidays were used at Kao Corporation

	FY2011	FY2012	FY2013
Rate (%)	66.4	67.8	71.0

Consideration for Employee Health and Lifestyles

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

Policies/structures

Kao has always focused on employee health beyond the provisions of the Industrial Safety and Health Act, but to ensure its measures are disseminated widely among its employees, in 2008 Kao published the Kao Group Health Declaration under the President's name. The declaration incorporates a message from the President that Kao is proactive in supporting healthy employees and hopes that employees will involve their colleagues and family members in practicing good health, and sets out five measures for supporting those goals (see below).

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 2013, 29 employees succeeded in quitting smoking.
- Survey on status of anti-smoking 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 checkup 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 increasing the number of employees with high health literacy, Kao is working to make its health-related activities more visible, engaging in "healthy management" that uses a PDCA cycle to increase employee health levels.

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.

As part of this initiative to increase visibility, since 2009 Kao has provided its 16 health consultation offices nationwide with a statistical summary of the previous year's health data (medical interviews, health checkups, occupations, medical costs, illnesses, etc.). Based on the health data for their respective regions, each health consultation office then establishes and implements a health services plan. In 2013, we again held a Health White Paper study session for the purpose of analyzing the various types of health data and formulating steps to address any issues.

To improve employee health literacy, Kao also advocates use of a health maintenance cycle centered on health checkups, providing pre-check-up learning and offering checkups at various health-related events.

Kao Group in Japan

Further strengthening measures for securing safety and health of workers measures

Under KAO Health 2015,* Kao reviewed its past initiatives and made a priority of any items that had not been adequately addressed. As post-health checkup measures had not been standardized among regions, due to the inadequate standards, we formulated guidelines for the judgement of post-checkup work classifications, as a company-wide standard. These guidelines will be implanted beginning with the results of the 2014 health check-ups.

*KAO Health 2015

Kao's activities to support good health are being rolled out through a PDCA cycle based on our Health Declaration. KAO Health 2015 is a mid-term plan under that program, and sets forth nine numerical targets, three measures (priority issues) and three slogans.

Kao Group in Japan

Promotion of specific health guidance

Specific Health Checkup and Specific Health Guidance, initiated in 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.

Those employees subject to Specific Health Guidance and who fall under the category of needing "active support" receive special guidance through Healthcare Committee, Inc., a Kao Group company. Beginning in 2011, the program also intervenes with those in the so-called pre-metabolic syndrome group (those younger than 40 years and at high risk), and in 2012, the number of those in both the metabolic syndrome group and in the risk group fell for the first time.

Kao Group in Japan

Promotion of mental health measures

As advocated by the Ministry of Health, Labour and Welfare, Kao promotes mental health through four types of care: self-provided care, care provided by one's supervisors ("line care"), care through onsite industrial health care staff, and care through outside resources (facilities and specialists).

In 2013, Kao conducted 14 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, four 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, to share and implement measures to address mental health issues company-wide, Kao held a mental health measures conference that brought together human resource personnel, occupational health nurses, and counselors. The goal is to raise the level of discussion and knowledge, and to establish and implement a basic policy on mental health.

Note that a basic training course for mental health managers has been incorporated in the Human Capital Development Division's Managing Human Performance program.

TOPICS

Kao received the FY2013 Incentive Award from Minister of Health, Labour and Welfare

In July 2013, Kao's Head Office was selected for Incentive Awards from the Minister of Health, Labour and Welfare. This award recognizes offices with excellent health and safety standards that can serve as a model for others. Three areas are eligible for selection—ensuring safety, health maintenance and improvement, and ensuring good health—with 13 offices nationwide selected for this year's award, and Kao being the only recipient of an award for health maintenance and improvement.

In managing employee health, Kao has established the Kao Group Health Declaration and a set of mid-term health targets called KAO Health 2015. Each year, we analyze the results of health checkups and medical interviews and reflect that data in the following fiscal year's health support plans, and we have a system in place which enables employees to establish and practice their own health goals, supported by occupational nurses. We also conduct active stop smoking and dietary improvement awareness campaigns, conduct mental health training and continue offering education for 30-year-olds, said to be an effective way of preventing obesity. All of these ongoing efforts were highly acclaimed, contributing to this award.



Presentation of the Minister of Health, Labour and Welfare Awards

Occupational Safety and Health, Process Safety and Disaster Prevention

【LA6】

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).

The Kao Responsible Care Policy can be found on the following page:

[> p. 51 “Responsible Care Activities”](#)

Kao Group in Japan

2013 targets and results

The Kao Group in Japan has 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 has implemented activities to achieve them.

Specific activities to eradicate occupational accidents focused on equipment and occupational risk assessment, equipment safety measures and awareness and compliance with rules, and improved communication within the workplace and with outside contractors to prevent equipment-related disasters. Activities have also focused on traffic accident prevention, strengthened measures to avoid “falling over and falling down” accidents and heat stroke prevention.

In the area of occupational health, we have prepared information on occupational diseases and promoted 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,* safety assessments of chemical facilities, regular inspections, enhanced patrols, enriched disaster drills, and continuation of business continuity planning (BCP), and they broke down these themes further, incorporating them in action plans, and conducting relevant activities.

* 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 and Health/Disaster Prevention and Security (Kao Group in Japan)

Priority target	Relevant division	Indicator	2013		2012 actual (Reference)
			Target	Actual	
Prevention of occupational accidents	All divisions (including temporary staff)	No. of employees with lost work days	0	19	14
		No. of employees injured by accidents per 1,000 people* ¹	1.9 or less	3.0	3.2
		No. of employees injured by accidents* ²	70 or less	97	107
Prevention of traffic accidents	Sales Logistics	[100% negligence] Accidents causing bodily injury (no. of accidents)	0	20	18
		Accidents other than 0% negligence per 100 vehicles* ³	7.8 or less	7.9	11.0
		Accidents other than 0% negligence (no. of accidents)	344 or less	344	421
Accidents	All divisions	[Fires/explosions/leaks, etc.] (no. of accidents)	0	1	4

*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

Targets for 2014

Beginning in 2014, Kao will be establishing targets for and promoting activities regarding occupational safety and health and disaster prevention that include its overseas production sites.

We will collect accident and disaster data at our overseas group companies and work to prevent their occurrence.

■ Targets for 2014

Priority target	Relevant division	Indicator	2014 target
Prevention of occupational accidents	All domestic divisions (including temporary staff)	(Kao Group) No. of employees with lost work days	0
	Overseas production sites	(Kao Group) Overall accident rate*	2.12 or less
		(Kao Group in Japan) Overall accident rate*	1.08 or less
Prevention of traffic accidents	Sales Logistics	(Kao Group in Japan) 100% negligent accidents causing bodily injury (no. of accidents)	0
		(Kao Group in Japan) Accidents other than 0% negligence, per 100 vehicles	7.2 or less
Accidents	All domestic divisions Overseas production sites	(Kao Group) Fires, explosions, leaks etc. (no. of accidents)	0

*Overall accident rate: No. of deaths/injuries due to industrial accidents per one million actual hours worked.

Global

Status of occupational accident occurrences

In 2013, 138 employees were involved in accidents across the Kao Group in Japan and at our overseas production sites, of whom 32 lost work days as a result.

The number of employees across the Kao Group in Japan (including temporary staff) who suffered occupational accidents in 2013 decreased to 97 from 107 in 2012. Of these, the number of employees suffering injuries resulting in lost work days increased from 14 to 19 (of whom five lost work days from traffic accidents in which they were 0% negligent).

As in 2012, the top causes—representing over half of all incidents—included 33 “falling over/falling down” accidents due to carelessness or failure to check, followed by traffic accidents, with 15 victims, and nine people suffered from overexertion.

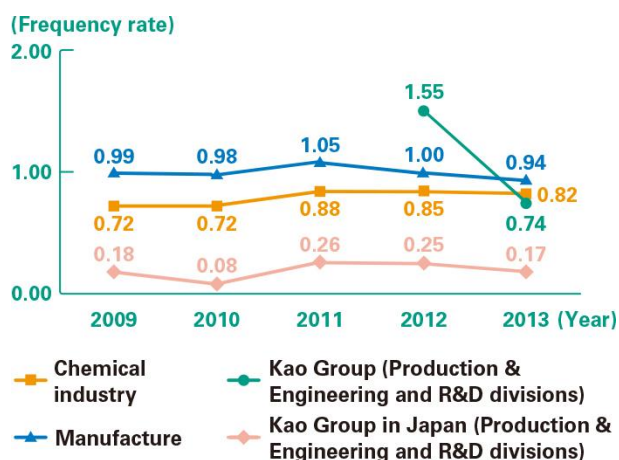
The number of people in our domestic Production and Engineering and R&D divisions involved in operating production equipment and who were victims of accidents fell from 29 in 2012 to 19 (including two who lost work days as a result).

As a result of equipment safety measures implemented by the organization launched in 2011 to strengthen safety measures, conduct risk assessments, and reduce remaining risks, there were no critical accidents involving physical entanglement attributable to machinery. We will continue to identify potential danger points and move to address them.

The number of those injured in accidents in Production and Engineering and R&D divisions in Kao Group companies outside of Japan fell to 41, from 75 in 2012 (of whom 13 lost work days).

The frequency rate for all Kao Group Production and Engineering and R&D divisions, including those outside of Japan, was 0.74; with a severity rate was 0.02.

■ Changes in the frequency rate in the Production & Engineering and the R&D divisions★

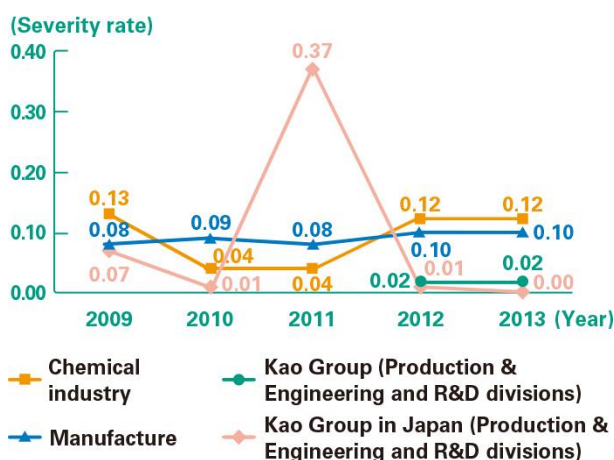


Frequency rate: Number of deaths and injuries due to occupational accidents per million hours worked (“Accident” is defined as an incident resulting in the loss of more than one working day or the loss of a body part or physical function)

*The calculation of the rate is based on the data from January to December of each year.

*Figures for chemical industry and manufacturers are based on data from Ministry of Health, Labour and Welfare “Survey on Industrial Accidents 2013”

■ Changes in the severity rate in the Production & Engineering and the R&D divisions★



Severity rate: Number of working days lost per thousand man-hours actually worked

*The calculation of the rate is based on the data from January to December of each year.

*Figures for chemical industry and manufacturers are based on data from Ministry of Health, Labour and Welfare “Survey on Industrial Accidents 2013”

Kao Group in Japan

Drills to prepare for large-scale disasters

As part of drills to prepare for large-scale disasters, in March and September we held drills requiring all employees in Japan to practice entering data in our web-based system for confirming employee safety. The disaster prevention organization also held two drills for confirming and collating data from this safety confirmation system and for checking the status of damage, using satellite phones and internal electronic bulletin boards to issue warnings.

Awareness of the drill for entering data in the safety confirmation system has grown over the years, and Kao plans to continue conducting this drill.

Because of concerns of an earthquake striking directly beneath Tokyo area or along the Nankai Trough, the disaster prevention committee held two company-wide warning drills based on an assumption of these events occurring. In May, the drill involved establishing a headquarters and office in Tokyo, and in October a second drill was held to establish an office in the Kansai region on the assumption that the Tokyo office had been damaged.

Beginning in 2013, Kao is also incorporating a PC-based web conferencing system, strengthening its options for communications that do not rely on the telephone. We also implemented web conferencing drills using smartphones, enabling people to contact one another in the event of an earthquake on a holiday or after hours.

With an eye on risk management, in August we reorganized the structure of our disaster prevention organization to enable it to also respond to emergency situations arising overseas. The reorganization included adding groups to address issues including BCP, riots and infectious disease, creating the Emergency Reporting Network and Emergency Response Organization. We will continue verifying the functions of these organizations and conducting drills.

Global

Disaster prevention training

As in 2012, teams visited Pilipinas Kao (Philippines) and Fatty Chemical (Malaysia), which handle high-pressure gas equipment, to conduct audits of safety and disaster prevention measures at local plants, and to confirm implementation of general disaster drills and overall disaster prevention work.

As a result, solid progress was seen in enhancing operations, including improvements made with issues brought up the previous year.

In addition, as part of human resource development, we are working to improve disaster prevention levels at all of our chemical plants in Asia by having staff from those plants participate as auditors in safety and disaster prevention audits at other plants.

Global

Occurrence of small-scale accidents (fire, leaks)

One fire occurred in Japan; fortunately, no one was injured.

There was also one leak that occurred overseas.

Regarding the fire, we have strengthened control over equipment brought into our plants. Regarding the leak, we will ensure more thorough safety management through regular inspections of equipment, and by making sure that maintenance, patrols and the implementation of workplace 3Ss continue to be conducted.

●Fire

(In Japan)

·June 2013/Kao Corporation, Toyohashi Plant

A contractor was cutting the grass on the plant grounds using a self-propelled lawn mower brought in by the contractor, which caught fire due to inadequate inspection and maintenance, with the fire spreading to the surrounding green area.

●Leak

(Overseas)

·March 2013/Fatty Chemical (Malaysia)

Insufficient preparation and confirmation prior to maintenance of an intermediary glycerin refining tank caused glycerin to leak from a tank valve.

Kao Group in Japan

Strengthening safety and disaster prevention

The Production and Engineering Division is promoting earthquake response measures as part of strengthening risk management. These include seismic resistance diagnoses and retrofitting, measures to address liquefaction, tsunami measures, and automatic shutdown of equipment in the event of an earthquake.

At the Wakayama, Kawasaki and Kashima plants, progress is being made with measures to address liquefaction, and bunkers for high-pressure gas and other dangerous materials have already been completed. Plans call for an expansion of these measures in 2014.

In addition, with a succession of accidents occurring at competitors' chemical plants, all of Kao's plants are working to identify chemical substances and equipment to be targeted for improvements, and moving to strengthen safety measures with regards to polymerization and exothermic reaction equipment.

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 steady 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's basic policy is to disclose 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

Disclosure Guidelines

http://www.kao.com/jp/en/corp_ir/disclosure.html

> p. 162 "Recognition by Outside Organizations" > "SRI indexes and evaluations"

Global

Shareholder returns

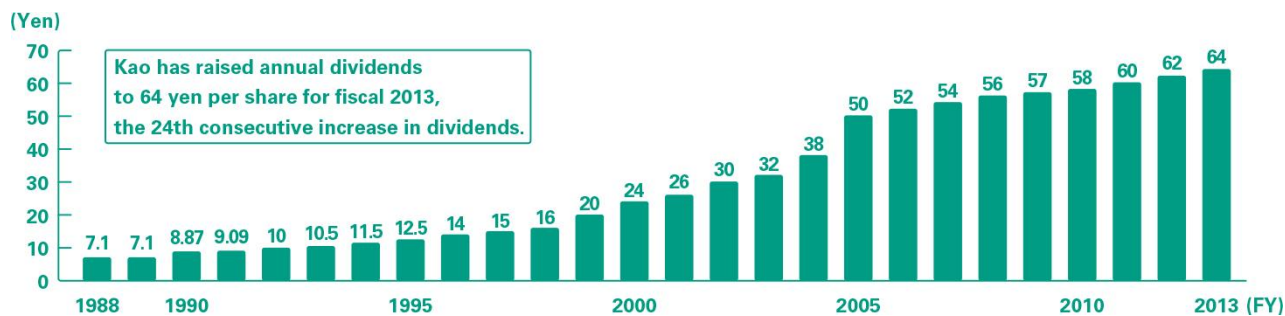
Distribution of profits for fiscal 2013 is as shown at right.

In addition to the dividends below, 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. On June 19, 2013 Kao retired a total of 10.2 million shares, including these repurchased shares. Aggregated to April 5, 2013, Kao had purchased 147.6 million shares at a cost of 393.8 billion yen.

Distribution of profits for fiscal 2013

Net income: 64.8 billion yen
Annual cash dividend 64 yen per share (increased by 2.0 yen from previous year and marked the 24th consecutive fiscal period of increase in cash dividends)
Consolidated dividend payout ratio: 50.8%

■ Cash dividends per share



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, this year Kao posted the convocation notice on its website before the date of dispatching. To increase the number of shareholders who exercise their voting rights, Kao has also introduced an electronic voting system for the AGM.

Fiscal 2013 Annual General Meeting of Shareholders (Held in March 2014)

Total number of shareholders who attended: 1,581

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 posted. 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 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 2013, Kao conducted a total of ten tours of the Kao Museum and the Kawasaki Plant for shareholders over five days during June, with 331 people attending.

We received many favorable comments from participants in the Kao Museum tour, including, "I feel even closer to Kao now that I have a deeper understanding of Kao's history and the intentions behind its product development." Comments from those attended the Kawasaki Plant tour included, "This enabled me to confirm Kao's commitment to environmentally-conscious product development, enhancing my trust in Kao products."

We continue incorporating such feedback as we plan and implement future events to further satisfy the shareholders.

Global

Overview of IR activities

- Financial results briefings (on the same day as half-year and full-year financial results are announced)
- IR road show in North America and Europe
- Small meeting with president: twice a year
- Business briefings and facility tours: twice a year
- One-on-one meetings: approximately 330 interviews in and outside of Japan
- Perception study of institutional investors
- Disclosure of information on corporate website
- Reports to shareholders (half-year and full-year) (Japanese version only)
- Annual Report (English version)
- 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

Global

Becoming a company with a global presence: To enhance corporate value

In February 2013, Kao announced the Kao Group Mid-term Plan 2015 (K15), a three-year plan to begin in fiscal 2013.

In fiscal 2013, Kao posted operating income of ¥124.7 billion and ordinary income of ¥128.1 billion, and achieved the plan's first target, to break previous records for operating income and ordinary income. The ratio of overseas sales,* noted in the second target of the plan, reached 30.9%.

At Kao Group, our mission is to strive for the wholehearted satisfaction and enrichment of the lives of people globally and to contribute to a sustainable society. We continue our efforts to gain the support and trust of our shareholders and other stakeholders, and to increase corporate value based on profitable growth.

*Ratio of net sales to foreign customers to consolidated net sales.

Kao Group Mid-term Plan 2015 (K15)

Target 1: Break previous records for consolidated net sales and profits

Target 2: Achieve numerical management targets for FY2015

- Net sales: ¥1.4 trillion
- Operating income: ¥150 billion
- Overseas sales ratio: 30% or more

Partnering 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.”

Education



Based on the theme of “Creating an Environment and Developing Human Resources to Nurture the Next Generation,” Kao has been focusing on “Education” and we provide programs suitable for various age groups.

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.

Corporate Citizenship Approach 【EC7】

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 Community—upon which to concentrate its activities. To promote social contribution activities across the entire group, we place particular emphasis on 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”
- “FURUSATO” Environment Conservation Project in Northern Thailand

Education

- Kao Earthwatch Teachers' Fellowship
- Supporting science education
- Education in the classroom
- Providing course materials

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

Support of the arts

Tokyo Music Competition, support for opera and art exhibitions

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 that leverage Kao’s resources,” and “employee participation activities.”

In NPOs and NGOs collaborations, in fiscal 2013 we reevaluated the activities of the Heart Pocket Club, and launched a new scheme for collaboration.

In addition, the “Kao Creating Forests for Everyone” program, which began a new direction in fiscal 2011, continues bringing a long-term viewpoint to its partnerships with NPOs and civic organizations.

We will be putting particular emphasis across the group as a whole on “employee participation activities.”

TOPICS

Kao receives 2013 Volunteer Distinguished Service Award from the Minister of Health, Labour and Welfare

Kao received 2013 Volunteer Distinguished Service Award from the Minister of Health, Labour and Welfare, and was presented with a certificate of commendation at the 22nd Japan Volunteer Festival held on November 23, 2013 in Kochi Prefecture.

This award targets those organizations and companies with long years of leadership in, or that provide support to, volunteer activities in social welfare and other fields, and provides a system for recognizing particularly outstanding achievements.

Kao, for example, has collaborated with the Japan Braille Library since 1999 to provide the visually impaired with lifestyle information in text-to-speech format, promoting the concept of barrier-free environment on information. Over a period of 13 years, “Kao Creating Forests for Everyone” program, which began in 2000, has provided support to 374 civic organizations working to preserve and nurture woodlands in communities throughout Japan. Additionally, our organization for employee donations, the Heart Pocket Club, has been involved in a wide range of volunteer activities and support for civic projects. This award is a result of the high acclaim these and other activities have received.



The awards ceremony

Education

Based on the theme of “Creating an Environment and Developing Human Resources to Nurture the Next Generation,” Kao has been focusing on “Education” and we provide programs suitable for various age groups.

Kao Group in Japan

Programs linked with school education such as classroom visits by Kao Group employees

Hoping to help children improve their life skills, Kao offers three educational programs—the Hand Washing Education Program, the House Cleaning Education Program and Environmental Education Program—in the areas of cleanliness, health and the environment, which are closely related to Kao’s business. These are hands-on programs intended to nurture habits and attitudes that can be reflected in the actual lives of the children.

In 2013, the three programs involved a total of about 1,200 Kao Group employees, who visited 236 schools in 44 prefectures and taught about 17,000 children. A total of 41,000 children have participated since the programs’ start in 2009.

Employees from a wide variety of divisions at Kao Group companies participate, and say that the programs are a good opportunity for them to interact with local communities and to learn more about Kao’s social contribution activities.

Kao has developed a new Universal Design educational program to convey its approach to Universal Design, and has also begun offering educational materials about home economics for junior high school, which teachers can use in their own classes.

In 2014 and beyond, Kao plans to continue improving the quality of its educational programs, offering classes nationwide that meet the needs and interests of both teachers and students.

1. Hand Washing Education Program

Kao has been conducting this program for children in the lower grades of elementary school since 2009, to teach the importance of hand washing and, using the *Awa awa tearai no uta* (Kao’s original hand washing song), how to wash hands properly.

In 2013, about 560 employees visited 106 schools in 34 prefectures and gave hand washing lessons to about 7,000 children. Teachers were very pleased with the program, saying that even afterward, children had fun washing their hands as they sang the song, and the program has led to the wider practice of proper hand washing.

In July 2013, this Hand Washing Education Program was also named a winner in the “Design for Future Consumers” category of the 7th Annual Kids Design Awards.

[> p. 28 “Engaging with communities through business”](#)

2. House Cleaning Education Program

This program, started in 2010 and offered in conjunction with “living environment studies” for children in the lower grades of elementary school, 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 children to feel happy at being useful and to feel grateful.

In 2013, about 440 employees offered instruction and practical training in 72 schools in 24 prefectures and gave lessons to about 5,300 children.

Teachers praised the program, noting that after the lesson, children talked about what they did to help out at home, and parents described how their children were more active in offering to help around the house.



House-cleaning lessons

TOPICS

House Cleaning Education Program Wins Career Education Award

At the Symposium for Partnerships for Career Education Promotion held in February 2013, Kao's House Cleaning Education Program was named winner of an Award of Excellence in the Popularization Type Career Education category of the 3rd Annual Career Education Awards. These awards are given out by the Ministry of Economy, Trade and Industry to recognize those corporations working to promote career education, with the goal of teaching children the meaning of work and the relationship between what they learn in school and the real world, and nurturing their social and occupational independence.

Kao's program was highly praised by the judging committee, which noted that Kao provides a systematic program which can easily be introduced into school curriculums, and that the program is meaningful for helping children to recognize that the household, as well as society, can play a role in providing careers.



Career Education Awards ceremony

3. Environmental Education Program

This hands-on program, offered since 2009, uses lectures and experiments to teach children the importance of being respectful of the environment in their daily lives.

Using concentrated liquid laundry detergent with superior rinsability as a teaching material, instructors show students how much water can be saved by doing laundry with just a single rinse cycle, demonstrating how their behavior when using cleaning products can have a significant impact on the environment.

In 2013, the program was offered to about 4,500 elementary, junior high and senior high school students in 58 schools across 29 prefectures. Students attending the program said they learned to be more careful about using water and electricity in their daily lives, and how to do things like washing the dishes without using a lot of water, and the lessons have been useful in stimulating students' awareness and encouraging them to change their behavior.



Elementary school environmental lesson

4. Development and dissemination of teaching materials for junior high school home economics

Kao provides training for elementary, junior and senior high school teachers on subjects including basic knowledge of detergents and environmentally-conscious laundry. The training incorporates experiments in which participants can see for themselves how detergents work, and is designed to be used by teachers in their own classrooms. In 2013, 19 training sessions were held for about 400 participants.

Some teachers who participated in past training sessions noted that while junior high school home economics classes include a unit on laundry, there weren't any materials available easy for students to understand, and they asked if Kao could develop something. Beginning



A teacher training session

in 2011, Kao worked with home economics teachers from Okayama Prefecture to develop teaching materials that teachers could use in their own lessons. In June of 2013, we began providing these teaching materials under the title “A Comfortable, Environmentally-Conscious Life.” The materials are made up of five programs based on the course units of the junior high school home economics curriculum, including “Caring for clothes” and “Thinking about the relationship between consumption and the environment,” and are designed to get students thinking about environmental issues in their daily lives, while giving them a systematic way of learning how to lead more environmentally-conscious lives themselves. Thus far the materials have been provided to over 100 schools, and Kao plans to disseminate them further going forward.

Kao Group in Japan

Support for science education

The Kao Group supports science education for students from elementary to high school age by sending employees out to conduct scientific experiment sessions using familiar products, by co-sponsoring the Japan Science and Engineering Challenge (JSEC), and through other activities.

1. Supporting 2013 Summer Holiday Children's Chemical Experiment Show at Science Museum, Tokyo

Kao supports science fairs and other events at science museums by providing members to conduct scientific experiment sessions. In 2013, Kao set up a booth at the Summer Kids' Chemistry Experiment Show 2013, held at the Tokyo Science Museum. The booth offered a chance for parents and children to make real skin cream while talking with Kao members, and to experience and understand for themselves the familiar, everyday process of emulsification. Through scientific experiments like these using familiar Kao products, surfactants and other materials, Kao works to convey the important role of chemistry in society and in our daily lives, and to support the growth of an interest in science among children.



The Kao booth at the Summer Kids' Chemistry Experiment Show 2013

2. Support for the Japan Science and Engineering Challenge (JSEC)

The JSEC is a contest of independent science and engineering research targeting high school and vocational school students nationwide, with the goal of nurturing world-class scientists. Kao sponsors the JSEC as part of its support for high school science education, and each year presents outstanding projects with the Kao Award and the Kao Special Incentive Award.

Winners of the JSEC 2013 Kao Award and Kao Special Incentive Award

The Kao Award went to Shoko Harano, Arisa Shibata and Nana Suzuki of Ibaraki Prefectural Hitachi First Senior High School, for the research “The Arrangement of Florets in Anthodia Optimizes Production of Germinable Seed in the Sunflower,” while the Kao Special Incentive Award was given to Shunsuke Konno, Yusuke Oizumi and Ryosuke Isoyama of Meikei High School for their work titled

“Searching for the Periodic Phenomenon in Onion Mitosis” The three winners of the Kao Award will be sent to the Intel International Science and Engineering Fair to be held in the U.S. in May, 2014.



The Kao Award was presented at the 2013 JSEC awards ceremony

JSEC 2012 Study Tour Held

In March 2013, Kao held its JSEC 2012 study tour at its Wakayama Complex. The study tour is awarded as an additional prize to the winners of the Kao Special Incentive Award, and offers them a chance to tour a Kao research facility and deepen their exchanges with researchers there. On the day of the tour, winners of the Kao Special Incentive Award from the Shizuoka Institute of Science and Technology Shizuoka Kita High School were joined by the winners of the Kao Award from Hyogo Prefectural Sanda Shouinkan High School. Researchers presented examples of their work, while the high school students presented their own winning research. Students who participated commented that they learned what makes research fun and the kind of mindset it requires, while their teachers were happy that the students had a chance to hear about subjects that will be useful to their futures.



The JSEC2012 study tour

Kao Group in Japan

Support for career education

As one of the companies chosen for the 2013 Diversity Management Selection 100, Kao had an employee present as a guest at the “What Makes a Friendly Workplace for Women Scientists?” event sponsored by Rikejo Kodansha Company Ltd., with the backing of the Ministry of Economy, Trade and Industry, and attended by other winning companies. She spoke about her current job and workplace, her strengths, and why she was glad to have chosen science as a career, and the students who attended listened attentively.



Presentation by a researcher from Kao

Kao Group in Japan

Supporters of Kao Creating Forests for Everyone

This program involves having university students participate as student reporters in the activities of NPOs and civic groups receiving support through Kao Creating Forests for Everyone. The students interview members of these organizations, write reports in support of their activities, and publish them on a website.

By giving the students an opportunity to add experience with fieldwork to their theoretical knowledge, the program provides a chance for them to understand the importance of being in the field, and to increase their awareness of and interest in the environment. It also supports their efforts to acquire the skills needed to convey in their own words what they heard and thought.

Meanwhile, through interaction with the students and the articles that follow, participating organizations can convey to society at large the value of their forest creation activities and expand support for these civic groups. Through cross-generational communication and community building, mutual understanding is also deepened.

In 2013, 10 students visited 10 different organizations and produced articles from their interviews. Since the project's start in 2006 through 2013, 76 students have visited 77 groups and prepared reports.

This project is administered by the Japan NPO Center (JNPOC), with the student reports also appearing in the NPO Hiroba database managed by the JNPOC.



Students interviewed a supported organization



Students conducted fieldwork

Kao Group in Japan

Continuing to implement Kao Earthwatch Teachers' Fellowship

The Kao Earthwatch Teachers' Fellowship allows elementary and junior high school teachers to devote about two weeks of their summer holidays to participate as volunteers in overseas field research for biodiversity protection undertaken by the NGO Earthwatch. The goal of the program is to have teachers bring the experiences and impressions gained on location back to their schools and communities, and to incorporate them into environmental education so that students, fellow teachers and local communities can learn about the importance of protecting the environment and biodiversity.

Number of projects sponsored by Kao Earthwatch Teachers' Fellowship

Fiscal 2013:

5 projects (10 teachers participating)

Total sponsored to date:

55 projects (109 teachers participating)



Field research

Kao Group in Japan

Youth education through plant visits

Each year, more than 10,000 people visit Kao's Kawasaki Plant, and about 70% of them are elementary, junior and senior high school students.

Among these, the plant is particularly proactive in accepting tours of fifth-graders, whose classes include field trips. During these field trips, special focus is placed on demonstrating Kao's commitment to product development and its care for the environment, with the program incorporating elements coordinated with the industrial production unit of the children's social sciences lessons.

Through pre-trip classes at school, experiments with detergents at the plant, and tours of the production facilities, the children discover facts about various product development and ecology measures in terms of product lifecycles, and learn about the efforts being made by manufacturing companies as well as what each of them can do on their own. The program is thus designed not only to let children observe and learn how companies think, but to encourage them to go back to their schools and homes and put what they've learned into actual practice.

In 2013, a new tour was introduced that shows students an integrated production line that takes them from bottle molding to filling and packaging, and gives them a look at a shipping berth from one of the plant's landscaped areas. Along with the existing tour, the new route has proven extremely popular, with over eight times as many elementary school children visiting as in 2010, when the program was first introduced.

Other plants also offer their own tours. At the Toyohashi Plant, for example, they offer a tour coordinated with fifth-grade social science lessons that also includes a chance for children to make their own hand cream. At the Wakayama Plant, the tour is coordinated with both third- and fifth-grade social science lessons, and the program includes a visit to the Kao Eco-Lab Museum.



Touring a molding facility



Visiting a shipping berth

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 Concerts 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 2013, concerts were held in Wakayama City, Wakayama Prefecture, in Sakata City, Yamagata Prefecture, in the town of Mashiko in Tochigi Prefecture, and in Saijo City, Ehime Prefecture. A total of more than 3,500 guests attended the concerts.



Kao Family Concert in Wakayama
Held to commemorate the 70th anniversary of the Wakayama Plant
Violinist Mariko Senju was invited to perform



Kao Family Concert in Sakata
Guest performers were violinist Chiharu Taki and pianist Miyuji Kaneko



Kao Family Concert in Tochigi
Guest performers were pianist Ayako Uehara and announcer Megumi Yoshimoto



Kao Family Concert in Saijo
Pianist Yuko Nakamichi was invited to perform

Kao Group in Japan

Volunteering to help maintain the Kumano Kodo, a World Heritage site in Wakayama Prefecture

On November 2, 2013, a group of 63 volunteers from Kao's Wakayama Complex volunteered in an activity to help maintain the Kumano Kodo, an ancient pilgrimage route spanning Wakayama, Nara, and Mie prefectures and 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, and is unusual among World Heritage site in that the path itself is the main attraction. The Kii Mountains through which the Kumano Kodo runs receive high annual rainfall, and are frequently struck by typhoons and other natural disasters; as a result, there are many places where the path is in a poor state of repair. To remedy this situation, the 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 maintain the Kumano Kodo. Employees from Kao's Wakayama Complex took part for the second year in a row.



Participants carried soil to the repair sites

The work involved carrying bags of soil to the repair sites—three tons of soil, or one ton more than last year. One participant commented, "They should bring more soil in—we can handle it!"

The year 2014 will mark the 10th year since the Kumano Kodo was granted World Heritage status, and Kao intends to do even more to volunteer in the maintenance of the Kumano Kodo.

Kao Group in Japan

Plant tours held

Kao conducts tours at all nine of its domestic group plants. In 2013, approximately 55,000 people visited our plants. Through the tours, Kao works to proactively engage in exchanges with members of the local community, and deepen their understanding of Kao's activities. At five of our plants, tours targeting elementary school children have been developed in coordination with their curriculum at school, and the tours give us an opportunity to provide youth education.

[> p. 153 "Education" > "Youth education through plant visits"](#)

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 2010 in cooperation with Entrepreneurial Training for Innovative Communities (ETIC.), and supported five groups of 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 businesses, as well as Innovation Division to support entrepreneurs with previous success with their new efforts. To date, the program has provided support to a total of 20 groups of entrepreneurs, and in 2013, we also held a networking event between the entrepreneurs and our own employees.

● Startup Division

- Chance for Children (Representative: Yusuke Imai)
Provides vouchers for extracurricular schooling and other educational support.
- a.school (Representative: Takuma Iwata)
Provides creative ability learning programs for teenagers under the concept of "Going from Zero to One, Creating Something New"
- CAN net (Representative: Junko Sugiyama)
Provides a wide range of cancer-related counseling services to encourage those with cancer to live life according to their own values.

● Innovation Division

- Sourire Co., Ltd. (Representative: Atsuko Horie)
Provides "Work & Life Internship" programs for learning about work and child-rearing at home.
- NPO ArrowArrow (Representative: Yukari Horie)
Provides support to small and medium businesses for employees taking childbirth and child-care leave.

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. Outside Japan, Kao (China), Kao (Hong Kong) and Kao (Taiwan) have all been implementing the Pink Ribbon Campaign.

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 (a specified nonprofit corporation), offering donations through its products. In November 2013, the "Pink Ribbon Plaza in Iwate" was opened Morioka City, Iwate Prefecture, as an activity aimed at helping to spread and deepen awareness of breast cancer.



Distributing enlightening leaflets to customers

Global

For a sustainable society

The companies of the Kao Group not only donate products and funds to social welfare facilities and NPOs, but also engage in ongoing exchanges with local communities by offering education in the classroom and other programs that contribute to childhood education, holding tree-planting events, and through other efforts. Many employees participate in this kind of exchange, which in 2013 included a visit to an orphanage for an exchange event, and a demonstration of the Japanese craft of *origami* which further deepened interaction with local residents.



An exchange event held at an orphanage (Fatty Chemical (Malaysia))



Employees introduced *origami* (Kao Specialties Americas)

Global

Disaster relief in fiscal 2013

Disaster	Period	Company	Support Provided
Great Sichuan Earthquake, China	April 2013	Kao Corporation Kao (China)	Kao Corporation and employee volunteers donated ¥5.2 million to the Shanghai Charity Foundation. Kao (China) donated products worth approximately ¥2.6 million as emergency supplies to Family Planning Association in Ya'an City, Hanyuan County.
Midwest tornadoes, the U.S.	May-June 2013	Kao Corporation Kao USA	Kao Corporation and employee volunteers donated ¥400,000 to the Japanese Red Cross Society. Kao USA donated the equivalent of \$4,600 to the American Red Cross and provided the cooperation of employee volunteers.
Flooding in Luzon, the Philippines	August 2013	Kao Corporation	Kao Corporation and employee volunteers donated ¥400,000 to Japan Platform.
Flooding in Colorado, the U.S.	September 2013	Kao Specialties Americas	Kao Specialties Americas donated emergency supplies equivalent to \$4,150 to the American Red Cross and provided the cooperation of employee volunteers.
Hurricane Ingrid and Tropical Storm Manuel in Mexico	September 2013	Quimi-Kao	Quimi-Kao donated the equivalent of ¥240,000 to the Red Cross and provided the cooperation of employee volunteers.
Typhoon 18, Japan	October 2013	Kao Corporation	Kao Corporation and employee volunteers donated ¥400,000 to the Central Community Chest of Japan.
Bohol Earthquake, the Philippines	October 2013	Pilipinas Kao	Pilipinas Kao provided the equivalent of ¥360,000 in food and beverages to Xavier University and area residents.
Typhoon Haiyan, the Philippines	November 2013	Kao Corporation Pilipinas Kao Kao USA Kao Specialties Americas	Kao Corporation and employee volunteers donated ¥7.5 million to the Philippine Red Cross and provided supplies (420 cases of napkins) Pilipinas Kao donated ¥1.44 million to the Philippines Red Cross. Kao USA donated the equivalent of \$4,600 to the American Red Cross and provided the cooperation of employee volunteers. Kao Specialties Americas donated \$750 to the American Red Cross.

Response to the Great East Japan Earthquake

Policies/structures

Since immediately following the earthquake, Kao has worked through Disaster Countermeasures Headquarters in the affected areas and with NPOs and NGOs to provide a wide range of daily necessities which are our main business.

Today, three years after the earthquake, support has moved into a different stage, and Kao has gone from providing support in the form of supplies, to programs that encourage residents of the disaster-stricken regions to regain their independence, and support that emphasizes emotional care. Kao will continue to provide support in line with local needs.

Kao Group in Japan

Collaborating with Fellow “Michinoku Revival Partners”

Kao supports disaster-stricken area reconstruction along with fellow “Michinoku Revival Partners”* by offering a platform to local leaders and entrepreneurs. Established by ETIC. (Entrepreneurial Training for Innovative Communities), 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.

* The “Partners” include Kao and six other companies (as of April 2014)

Kao Group in Japan

KPS holds hygiene control workshop in Minamisanriku Town

In February 2013, Kao Professional Service Co., Ltd. (KPS) held a hygiene control workshop in Minamisanriku Town, Miyagi Prefecture, affected by tsunami, for local leaders and for other front-line workers who are engaged in recovery efforts through foods. KPS routinely specializes in proposing solutions for hygiene control and infection measures as well as for food poisoning prevention and other issues. The workshop was held as part of the Michinoku Revival Partners initiative in which Kao participates.

At the workshop, participants were introduced to a range of skills, including proper hand washing prior to cooking; the risks of food poisoning from bacteria already in foods; methods for maintaining a hygienic food preparation environment; differences in risks between food prepared at home and food prepared for sale; and legally required labeling of allergens when selling food products.



A workshop held in a food preparation facility

Kao Group in Japan

Kao holds Reconstruction Assistance Fair

In March 2013, which marked two years since the earthquake, Kao held “Reconstruction Assistance Fair” at the Kayabacho Complex, with a theme of “Don’t Forget the Disaster.” The goal of the event was to get people to purchase goods from the disaster-stricken region, providing support for reconstruction from distant places, all as part of reconstructing industries in the affected regions.

A sake brewer from Kesennuma, in Miyagi Prefecture, was also invited to present a video and talk about what happened during the disaster and efforts to recover in the time since. It was a good opportunity for each of our employees to look back at the disaster, remember the events, and think once again about the disaster. Approximately 270 employees participated in the event.

Kao Group in Japan

Smile Tohoku Project—Bringing smiles to disaster-stricken areas

The Kao Group lends its support to the Smile Tohoku Projects, promoted by three Tohoku newspapers—Iwate Nippo, Kahoku Shimpō and Fukushima Minpo.

1. Creating Smile flower gardens with local residents

In 2013, as in 2012, a total of more than 300 Kao Group employees participated in 28 events in Iwate, Miyagi, and Fukushima, including planting of flowers and other events.

The sunflower seeds that they planted together with local residents and children put out enormous blossoms. Sunflowers just as impressive as those in Tohoku bloomed at Kao offices nationwide, in a show of solidarity with the residents of Tohoku.

2. Delivering messages to Tohoku from throughout Japan

Hearing the word of people of the disaster-stricken regions, “It is sad that our plight might be forgotten,” employees from Kao offices around the country and other ordinary citizens gathered 14,872 messages inscribed with their words of support for Tohoku. These were turned into a work of mosaic art representing the reconstruction of the Tohoku region which was displayed in the three prefectures.

The messages were also edited into a daily calendar for 2014, which was delivered to residents of temporary housing and elsewhere in the region.



An event to create a flower garden held in Natori City, Miyagi Prefecture



A mosaic created from the messages received

Kao Group in Japan

Pink Ribbon Campaign in the disaster-stricken region

On November 4, 2013, the Kao Group lent special corporate support to the Pink Ribbon Plaza in Iwate, sponsored by the Japan Society of Breast Health, and held at Aiina Center located in Morioka City, Iwate Prefecture. The Kao Group has participated in the Pink Ribbon Campaign, which promotes early breast cancer detection, since 2007. The event, held as part of the “Weaving Ties with Pink Ribbons Project,” which supports breast cancer screening for victims of the Great East Japan Earthquake, was initially held in Miyagi Prefecture in 2011, and subsequently in Fukushima Prefecture in 2012.

The event focused on supporting women’s health and beauty, and featured doctor-led breast cancer seminars, a special presentation by Kuniko Yamada—a well-known personality and breast cancer survivor—and also offered booths for health consultations, hand massage, and exercise advice. The Kao Group also provided seminars on skin health, hand washing workshops, and skin care and makeup advice. A charter bus was provided on the day of the event so that even those living along the coast could easily participate, and the event welcomed more than 400 visitors.

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

Recognition by Outside Organizations

Global

SRI indexes and evaluations

■ SRI indexes

Kao has been repeatedly selected for major SRI indexes, including the FTSE4Good Global Index, a leading socially responsible investment index that was developed by the UK-based FTSE Group.



FTSE4Good



FTSE4Good Index Series: 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>

■ Evaluation

Switzerland-based RobecoSAM, a leading global SRI assessment company, selected Kao for its Silver Class sustainability rating.



ROBECOSAM
Sustainability Award
Silver Class 2014

Global

Recognition by outside organizations in fiscal 2013

Major external corporate recognition and commendations in fiscal 2013 are listed below.

■ Recognition by outside organizations from January through December 2013

Date of award	Awarded division	Award name and description	Organization
2013/1	Kao Customer Marketing Co., Ltd. (CMK) Chugoku/Shikoku region	CMK received an award for its cleanup activities conducted since July 2009, participating in the Hiroshima City "Clean Volunteer Support Project"	Hiroshima City
2013/2	Kao Corporation	Kao received the Award of Excellence in the 3rd Career Education Awards for its House Cleaning Lessons Program	Ministry of Economy, Trade and Industry(Japan)
2013/2	Wakayama Plant	Wakayama Plant received a letter of commendation from the Japan Social Employment Council (SELP) for its support of the Wasa Welfare Factory	Japan Social Employment Council (SELP), Japan National Council of Social Welfare
2013/2	Kao Corporation	Kao was selected for the Nadeshiko Brand as a company supporting women's empowerment, including creating workplaces conducive to women's continued employment, and achieving management efficiencies including return on equity (ROE) above the industry average	Tokyo Stock Exchange
2013/3	Kao Corporation	Kao was included in the Diversity Management Selection 100 in recognition of the Kao Way corporate philosophy and spirit of equal partnership	Ministry of Economy, Trade and Industry(Japan)
2013/3	Kao Corporation	Kao was selected as one of the World's Most Ethical Companies in March 2013	Ethisphere Institute
2013/5	Kao Corporation	Kao received the WorldStar Award for <i>RESESH Design Collection</i> in the WorldStar Competition sponsored by the World Packaging Organisation in recognition of the packaging's functionality, ease of use and environmental considerations	World Packaging Organisation
2013/5	Kao Corporation	Kao received the Environment Technology Prize in the 45th Annual JCIA Technology Awards from the Japan Chemical Industrial Association for development of the ultra-concentrated liquid laundry detergent <i>Attack Neo</i>	Japan Chemical Industrial Association
2013/5	Kao Corporation	Kao received the 37th Kinoshita Award in the Packaging Technology category sponsored by the Japan Packaging Institute for refillable skin toner packaging technology that is environmentally conscious and adopts universal design principles	Japan Packaging Institute
2013/6	Kao Corporation	Kao received the Minister of Economy, Trade and Industry Award for the 12th Green and Sustainable Chemical Awards (GCS Award) for <i>Attack Neo</i> , recognized as prompting major industry innovation through "eco together" activities in which consumers and manufacturers work together to reduce environmental impacts	Ministry of Economy, Trade and Industry(Japan)
2013/6	Kao Corporation	Kao received the Technology Award by the Japanese Society of Toxicology for the developing of the in vitro eye irritation testing as having high social significance as well as toxicological significance	The Japanese Society of Toxicology
2013/7	Kao Corporation	Kao received the FY2013 Incentive Award from Minister of Health Labour and Welfare for its comprehensive efforts to promote health among its employees	Ministry of Health, Labour and Welfare(Japan)
2013/7	Kao Corporation	Kao received the 7th Kids Design Award for its Hand Washing Lessons Program, which was highly evaluated as "an activity that is a new idea, innovation or technique helping children grow into self-reliant consumers of the future"	Kids Design Association
2013/9	Kao Corporation	Kao received the Japan Society of Health Science Mind and Body Encouragement Award for its contributions to research on and increased awareness of mind and body science through its research on the effects of the feel of wearing a sanitary napkin on sleep progression	The Japan Society of Health Sciences of Mind and Body

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2013/10	Kao Corporation	Kao received the inaugural Grand Prize in the Ikumen Company Awards for its support of male employees taking childcare leave and work-life balance, which have achieved results and continuity	Ministry of Health, Labour and Welfare(Japan)
2013/11	Kao Health and Nutrition LLC	Kao Health and Nutrition LLC received the 2013 Poster Award for Excellence during the Obesity Society's Annual Scientific Meeting (Georgia, USA) for research combining the U.S.-based Qupio® Program and <i>Healthya</i> ® beverages, which serves as a model contributing to resolution of the global obesity problem	The Obesity Society
2013/11	Kao Corporation	Kao received the 2013 Outstanding Volunteer Award from the Minister of Health, Labour and Welfare in recognition of Kao's activities focused on partnership with NPOs and NGOs and support and activities from a long-term perspective	Ministry of Health, Labour and Welfare(Japan)
2013/12	Kao Corporation	Kao received the 3rd Prize in a contest for visitors to select the best booth design at the Kyoto Environment Festival 2013 for its entertaining and interesting learning activities about the environment	<i>Kyo to Chikyu no Kyosei Fumin Kaigi</i> (Kyoto Prefectural People's Association for the Coexistence with the Earth*)

*Unofficial translation

Independent Assurance Report



Independent Assurance Report

To the President and CEO of Kao Corporation

We were engaged by KAO Corporation (the "Company") to undertake a limited assurance engagement of the environmental and social performance indicators marked with ★ for the period from January 1, 2013 to December 31, 2013 (the "Indicators") included in its Sustainability Report 2014 found under <http://www.kao.co.jp/corp/sustainability-reports/en/> (the "Report") for the fiscal year ended December 31, 2013.

The Company's Responsibility

The Company is responsible for the preparation of the Indicators in accordance with its own reporting criteria (the "Company's reporting criteria"), as described in the Report, which are derived, among others, from the Sustainability Reporting Guidelines version 4.0 of the Global Reporting Initiative and Environmental Reporting Guidelines of Japan's Ministry of the Environment.

Our Responsibility

Our responsibility is to express a limited assurance conclusion on the Indicators based on the procedures we have 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', 'ISAE 3410, Assurance Engagements on Greenhouse Gas Statements', 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. The limited assurance engagement consisted of making inquiries, primarily of persons responsible for the preparation of information presented in the Report, and applying analytical and other procedures, and the procedures performed vary in nature from, and are less in extent than for, a reasonable assurance engagement. The level of assurance provided is thus not as high as that provided by a reasonable assurance engagement. Our assurance procedures included:

- Interviewing with the Company's responsible personnel to obtain an understanding of its policy for the preparation of the Report and reviewing the Company's reporting criteria.
- Inquiring about the design of the systems and methods used to collect and process the Indicators.
- Performing 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 recalculating the Indicators.
- Visiting to the Company's Tochigi Plant and the Plant of Pilipinas Kao Incorporated 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.

Our Independence and Quality Control

We have complied with the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants, which includes independence and other requirements founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior. In accordance with International Standard on Quality Control 1, we maintain a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

KPMG AZSA Sustainability Co., Ltd.

KPMG AZSA Sustainability Co., Ltd.

Tokyo, Japan

July 30, 2014

Third-Party Opinion



Eiichiro Adachi
Counselor
The Japan Research Institute, Limited

After graduating from Hitotsubashi University in Japan in 1986 with a Bachelor's degree in Economics, Mr. Adachi joined The Japan Research Institute, Limited (JRI) in 1990. Currently Counselor at JRI, he previously served in the Management Consulting Department and Technology Research Department. He is conducting industrial surveys and corporate evaluations from the perspective of corporate social responsibility. He was one of the experts in the Japanese delegation to the ISO/Social Responsibility Standards (ISO26000) Working Group (March 2005–May 2009). (Co-) author of *CSR Management and SRI* (Kinzai, 2004), *Businesses That Grow with Global Warming* (Toyo Keizai Inc., 2007) and *Introduction to Environmental Management* (Nikkei Publishing Inc., 2009).

In this report, I focused on the initial message from the CEO, which clearly states, "As a public corporation, we share in the responsibility to address these global issues and build a better world." The Kao Group strives to achieve the twin goals of continued profitable growth by advancing *Yoki-Monozukuri* from the consumer/customer's perspective with a priority on research and development and creating high-value-added products as well as contributions to a sustainable society by conducting social contribution activities and solving social issues through its business activities. The Kao Group has also in the past put forth a policy of aiming to be a company with a global presence. Its performance in the consolidated financial term for the period ending December 31, 2013, is persuasive evidence of progress toward this consistently stated corporate message.

The newly developed Kao Sustainability Statement establishes the three key areas of Conservation, Community and Culture. This statement is also of significant help in understanding the Kao Group's corporate stance.

Additionally, looking at the activities and report content based on the Kao Sustainability Statement, I was somewhat concerned by the relatively less focus placed on "negative impacts of business activities," in the areas of Community and Culture (for example, the impact of raw materials procurement on local communities, consideration for employees' human rights, etc.) while "Reducing environmental impacts of our business activities" is clearly included in the area of "Conservation." The Kao Group aims to expand its business globally. Generally, people are very interested in the considerations given to the negative impacts of business activities, as much or even more than companies' proactive efforts to conduct social contribution activities and to solve social issues through business activities. I look forward to seeing the Kao Group further advance its efforts to mitigate the negative impacts of business activities in the areas of Conservation,

Community and Culture both in terms of its measures and information disclosure.

From the standpoint of solving social issues through business activities, the Kao Group has a past record of product development, including detergents able to rinse laundry using less water and Food for Specified Health Uses products that promote body fat utilization. In April 2014, Kao announced that it had started a health-support service focusing on visceral fat for the purpose of maintaining and improving health through lifestyle improvements. In the future as well, I hope that Kao leads business designed to solve many more social issues.

Related to this, interest in attempts to achieve business reforms and develop employees' capacities through fostering and supporting social entrepreneurs has been growing in recent years. The Kao Group has already launched Kao Social Entrepreneurship Schools that support social entrepreneurs with the aim of solving social issues using business strategies. I would like to propose that in the future these schools not just be positioned as a social contribution activity, but be linked to business development aiming to solve social problems. And I hope it is expanded all over the world, especially to developing countries.

Lastly, regarding the recall of the products containing Rhododendol by Kanebo Cosmetics, I intend to continue following efforts to track the symptoms, support the recovery of affected customers and prevent a similar situation from happening again. I expect to see appropriate information disclosure on this matter in the future as well.

I have provided a third-party opinion on the Kao Group's activities contributing to the sustainability of the world described in this report and on the way in which the Group disclosed relevant information from the perspective of a provider of corporate information to financial institutions to serve their decision-making regarding socially responsible investments. This opinion does not express a view on whether this report presents, in all material respects, matters measured, calculated, and prepared in accordance with environmental reporting guidelines generally accepted.

GRI/ISO 26000 Content Index

GRI G4 Guidelines Content Index

This report contains Standard Disclosures from the GRI Sustainability Reporting Guidelines

GENERAL STANDARD DISCLOSURES

STRATEGY AND ANALYSIS

Indicator	Description	Relevant Sections in Reports	
		Website	PDF
1	Statement from the most senior decision-maker of the organization (such as CEO, chair, or equivalent senior position) about the relevance of sustainability to the organization and the organization's strategy for addressing sustainability	CEO Message	5
2	Description of key impacts, risks, and opportunities	CEO Message Kao Sustainability Statement Risk Management	5 13 48

ORGANIZATIONAL PROFILE

Indicator	Description	Relevant Sections in Reports	
		Website	PDF
3	Name of the organization	Kao Group Overview (external link)	—
4	Primary brands, products, and services	Kao Group Fields of Business (external link)	—
5	Location of the organization's headquarters	Kao Group Overview (external link)	—
6	Number of countries where the organization operates, and names of countries where either the organization has significant operations or that are specifically relevant to the sustainability topics covered in the report	Global Activities (external link)	—
7	Nature of ownership and legal form	Kao Group Overview (external link)	—
8	Markets served (including geographic breakdown, sectors served, and types of customers and beneficiaries)	Global Gateway (external link)	—
9	Scale of the organization, including: a. Total number of employees b. Total number of operations c. Net sales (for private sector organizations) or net revenues (for public sector organizations) d. Total capitalization broken down in terms of debt and equity (for private sector organizations) e. Quantity of products or services provided	Kao Group Overview (external link)	—
10	Composition of the workforce, including: a. Total number of employees by employment contract and gender b. Total number of permanent employees by employment type and gender c. Total workforce by employees and supervised workers and by gender d. Total workforce by region and gender e. Report whether a substantial portion of the organization's work is performed by workers who are legally recognized as self-employed, or by individuals other than employees or supervised workers, including employees and supervised employees of contractors f. Report any significant variations in employment numbers (such as seasonal variations in employment in the tourism or agricultural industries)	Promoting Diversity & Inclusion and Respecting Human Rights	124
11	Percentage of total employees covered by collective bargaining agreements	—	—
12	Organization's supply chain	—	—
13	Report any significant changes during the reporting period regarding the organization's size, structure, ownership, or its supply chain	—	—
Commitment to External Initiatives			
14	Report whether and how the precautionary approach or principle is addressed by the organization	Kao Sustainability Statement Risk Management Responsible Care Activities	13 48 51

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15	List of externally developed economic, environmental and social charters, principles, or other initiatives to which the organization subscribes or which it endorses	—	—
16	List of memberships of associations (such as industry associations) and national or international advocacy organizations in which the organization is participating in	—	—

IDENTIFIED MATERIAL ASPECTS AND BOUNDARIES

Indicator	Description	Relevant Sections in Reports	
		Website	PDF
17	a. List of all entities included in the organization's consolidated financial statements or equivalent documents b. Report whether any entity included in the organization's consolidated financial statements or equivalent documents is not covered by the report	Global Gateway (external link)	—
18	a. Process for defining the report content and the Aspect Boundaries b. How the organization has implemented the Reporting Principles for Defining Report Content	Editorial Policy Materiality for Kao	3 13
19	List of all the material Aspects identified in the process for defining report content	Three Key Areas and Target Fields	20
20	For each material Aspect, report the Aspect Boundary within the organization	Editorial Policy	3
21	For each material Aspect, report the Aspect Boundary outside the organization	—	—
22	Effect of any restatements of information provided in previous reports, and the reasons for such restatements	—	—
23	Significant changes from previous reporting periods in the Scope and Aspect Boundaries	Not applicable	Not applicable

STAKEHOLDER ENGAGEMENT

Indicator	Description	Relevant Sections in Reports	
		Website	PDF
24	List of stakeholder groups engaged by the organization	Kao Sustainability Statement	13
25	Report the basis for identification and selection of stakeholders with whom to engage	Kao Sustainability Statement	13
26	Organization's approach to stakeholder engagement, including frequency of engagement by type and by stakeholder group, and an indication of whether any of the engagement was undertaken specifically as part of the report preparation process	Kao Sustainability Statement Third-Party Opinion	13 166
27	Key topics and concerns that have been raised through stakeholder engagement, and how the organization has responded to those key topics and concerns, including through its reporting. Report the stakeholder groups that raised each of the key topics and concerns	Kao Sustainability Statement	13

REPORT PROFILE

Indicator	Description	Relevant Sections in Reports	
		Website	PDF
28	Reporting period (such as fiscal or calendar year) for information provided	Editorial Policy	3
29	Date of most recent previous report (if any)	Editorial Policy	3
30	Reporting cycle (such as annual, biennial)	Editorial Policy	3
31	Contact point for questions regarding the report or its contents	Editorial Policy	3
GRI Content Index			
32	a. The 'in accordance' option the organization has chosen b. GRI Content Index for the chosen option c. Reference to the External Assurance Report, if the report has been externally assured	Editorial Policy GRI G4 Guidelines Content Index	3 167
Assurance			
33	a. Organization's policy and current practice with regard to seeking external assurance for the report b. If not included in the assurance report accompanying the sustainability report, report the scope and basis of any external assurance provided c. Relationship between the organization and the assurance providers d. Report whether the highest governance body or senior executives are involved in seeking assurance for the organization's sustainability report	Editorial Policy Independent Assurance Report	3 165

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GOVERNANCE

Indicator	Description	Relevant Sections in Reports	
		Website	PDF
Governance Structure and Composition			
34	a. Governance structure of the organization, including committees of the highest governance body b. Identify any committees responsible for decision-making on economic, environmental and social impacts	Corporate Governance	39
35	Process for delegating authority for economic, environmental and social topics from the highest governance body to senior executives and other employees	Kao Sustainability Statement	13
36	Report whether the organization has appointed an executive-level position or positions with responsibility for economic, environmental and social topics, and whether post holders report directly to the highest governance body	Kao Sustainability Statement	13
37	Processes for consultation between stakeholders and the highest governance body on economic, environmental and social topics. If consultation is delegated, describe to whom and any feedback processes to the highest governance body	—	
38	Composition of the highest governance body and its committees	Corporate Governance	39
39	Report whether the Chair of the highest governance body is also an executive officer (and, if so, his or her function within the organization's management and the reasons for this arrangement)	Corporate Governance	39
40	Nomination and selection processes for the highest governance body and its committees, and the criteria used for nominating and selecting highest governance body members	Corporate Governance	39
41	a. Processes for the highest governance body to ensure conflicts of interest are avoided and managed b. Report whether conflicts of interest are disclosed to stakeholders, including, as a minimum: <ul style="list-style-type: none">• Cross-board membership• Cross-shareholding with suppliers and other stakeholders• Existence of controlling shareholder• Related party disclosures	Corporate Governance	39
Role of Highest Governance Body in Setting the Purpose, Value and Strategies			
42	Highest governance body's and senior executives' roles in the development, approval, and updating of the organization's purpose, value or mission statements, strategies, policies, and goals related to economic, environmental and social impacts	Kao Sustainability Statement Corporate Governance	13 39
Ability of the Highest Governance Body and Evaluation of its Performance			
43	Measures taken to develop and enhance the highest governance body's collective knowledge of economic, environmental and social topics	—	—
44	a. Processes for evaluation of the highest governance body's performance with respect to governance of economic, environmental and social topics. Report whether such evaluation is independent or not, and its frequency. Report whether such evaluation is a self-assessment b. Actions taken in response to evaluation of the highest governance body's performance with respect to governance of economic, environmental and social topics	—	—
Role of the Highest Governance Body in Risk Management			
45	a. Highest governance body's role in the identification and management of economic, environmental and social impacts, risks, and opportunities. Include the highest governance body's role in the implementation of due diligence processes b. Report whether stakeholder consultation is used to support the highest governance body's identification and management of economic, environmental and social impacts, risks, and opportunities	Corporate Governance Risk Management	39 48
46	Highest governance body's role in reviewing the effectiveness of the organization's risk management processes for economic, environmental and social topics	Risk Management	48
47	Frequency of the highest governance body's review of economic, environmental and social impacts, risks, and opportunities	—	—
Role of the Highest Governance Body in the Sustainability Report			
48	Highest committee or position that formally reviews and approves the organization's sustainability report and ensures that all material Aspects are covered	Kao Sustainability Statement	13
Role of the Highest Governance Body in the Evaluation of Social, Environmental and Social Performance			

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49	Process for communicating critical concerns to the highest governance body	Risk Management	48
50	Nature and total number of critical concerns that were communicated to the highest governance body and the mechanism(s) used to address and resolve them	—	—
Remuneration and Incentives			
51	Remuneration policies for the highest governance body and senior executives	Corporate Governance	39
52	Process for determining remuneration	Corporate Governance	39
53	How stakeholders' views are sought and taken into account regarding remuneration	Corporate Governance	39
54	Ratio of the annual total compensation for the organization's highest-paid individual in each country of significant operations to the median annual total compensation for all employees (excluding the highest-paid individual) in the same country	—	—
55	Ratio of percentage increase in annual total compensation for the organization's highest-paid individual in each country of significant operations to the median percentage increase in annual total compensation for all employees (excluding the highest-paid individual) in the same country	—	—

ETHICS AND INTEGRITY

Indicator	Description	Relevant Sections in Reports	
		Website	PDF
56	Organization's values, principles, standards and norms of behavior such as codes of conduct and codes of ethics	Kao Sustainability Statement Integrity	13 34
57	Internal and external mechanisms for seeking advice on ethical and lawful behavior, and matters related to organizational integrity, such as helplines or advice lines	Compliance	43
58	Internal and external mechanisms for reporting concerns about unethical or unlawful behavior, and matters related to organizational integrity, such as escalation through line management, whistleblowing mechanisms or hotlines	Compliance	43

SPECIFIC STANDARD DISCLOSURES

Indicator	Description	Relevant Sections in Reports	
		Website	PDF
DMA	(DMA: Disclosures on Management Approach)		
	a. Report why the Aspect is material. Report the impacts that make this Aspect material	Kao Sustainability Statement	13
	b. Report how the organization manages the material Aspect or its impacts	Conservation	21
	c. Report the evaluation of the management approach, including	Community	27
	• The mechanisms for evaluating the effectiveness of the management approach	Culture	33
	• The results of the evaluation of the management approach	Responsible Care Activities	51
	• Any related adjustments to the management approach	Compliance	43
		Partnering with Our Suppliers	108
		Human Capital Development	120
	Include all DMAs for General Aspects and Specific Aspects		

ECONOMIC

Indicator	Description	Relevant Sections in Reports	
		Website	PDF
ASPECT: ECONOMIC PERFORMANCE			
EC1	Direct economic value generated and distributed	Investor Relations on the Kao website (external link)	—
EC2	Financial implications and other risks and opportunities for the organization's activities due to climate change	Reducing environmental impacts of our business activities	22
		Environmentally-conscious Containers and Packaging	57
		CO ₂	60
EC3	Coverage of the organization's defined benefit plan obligations	Investor Relations on the Kao website (external link)	—
EC4	Financial assistance received from government	—	—

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ASPECT: MARKET PRESENCE			
EC5	Ratios of standard entry level wage by gender compared to local minimum wage at significant locations of operation	—	—
EC6	Proportion of senior management hired from the local community at significant locations of operation	—	—
ASPECT: INDIRECT ECONOMIC IMPACTS			
EC7	Development and impact of infrastructure investments and services supported	Environmental activities in partnership with stakeholders Corporate Citizenship Approach	25 146
EC8	Significant indirect economic impacts, including the extent of impacts	—	—
ASPECT: PROCUREMENT PRACTICES			
EC9	Proportion of spending on local suppliers at significant locations of operation	—	—

ENVIRONMENTAL

Indicator	Description	Relevant Sections in Reports	
		Website	PDF
ASPECT: MATERIALS			
EN1	Materials used by weight or volume	Environmentally-conscious Containers and Packaging	57
		Product Lifecycle and Environmental Impact	81
EN2	Percentage of materials used that are recycled input materials	Product Lifecycle and Environmental Impact	81
ASPECT: ENERGY			
EN3	Energy consumption within the organization	CO ₂ Product Lifecycle and Environmental Impact	60 81
EN4	Energy consumption outside of the organization	—	—
EN5	Energy intensity	CO ₂	60
EN6	Reduction of energy consumption	CO ₂	60
EN7	Reductions in energy requirements of products and services	Reducing environmental impacts of our business activities	22
		CO ₂	60
ASPECT: WATER			
EN8	Total water withdrawal by source	—	—
EN9	Water sources significantly affected by withdrawal of water	—	—
EN10	Percentage and total volume of water recycled and reused	—	—
ASPECT: BIODIVERSITY			
EN11	Operational sites owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas	Not applicable	Not applicable
EN12	Description of significant impacts of activities, products, and services on biodiversity in protected areas and areas of high biodiversity value outside protected areas	Measures for Biodiversity Conservation	70
EN13	Habitats protected or restored	Not applicable	Not applicable
EN14	Total number of IUCN Red List species and national conservation list species with habitats in areas affected by operations, by level of extinction risk	—	—
ASPECT: EMISSIONS			
EN15	Direct greenhouse gas (GHG) emissions (Scope 1)	CO ₂	60
EN16	Energy indirect greenhouse gas (GHG) emissions (Scope 2)	CO ₂	60
EN17	Other indirect greenhouse gas (GHG) emissions (Scope 3)	Product Lifecycle and Environmental Impact	81
EN18	Greenhouse gas (GHG) emissions intensity	CO ₂	60
EN19	Reduction of greenhouse gas (GHG) emissions	CO ₂	60
EN20	Emissions of ozone-depleting substances (ODS)	—	—
EN21	NOX, SOX, and other significant air emissions	Other Environmental Impacts	74
ASPECT: EFFLUENTS AND WASTE			
EN22	Total water discharge by quality and destination	Other Environmental Impacts	74
EN23	Total weight of waste by type and disposal method	Other Environmental Impacts	74
EN24	Total number and volume of significant spills	Not applicable	Not applicable

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EN25	Weight of transported, imported, exported, or treated waste deemed hazardous under the terms of the Basel Convention Annex I, II, III, and VIII, and percentage of transported waste shipped internationally	—	—
EN26	Identity, size, protected status, and biodiversity value of water bodies and related habitats significantly affected by the organization's discharges of water and runoff	—	—
ASPECT: PRODUCTS AND SERVICES			
EN27	Extent of impact mitigation of environmental impacts of products and services	Environmentally-conscious Containers and Packaging Reducing environmental impacts of our business activities	57 22
EN28	Percentage of products sold and their packaging materials that are reclaimed by category	—	—
ASPECT: COMPLIANCE			
EN29	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with environmental laws and regulations	Not applicable	Not applicable
ASPECT: TRANSPORT			
EN30	Significant environmental impacts of transporting products and other goods and materials for the organization's operations, and transporting members of the workforce	CO ₂ Product Lifecycle and Environmental Impact	60 81
ASPECT: OVERALL			
EN31	Total environmental protection expenditures and investments by type	Environmental Accounting	83
ASPECT: SUPPLIER ENVIRONMENTAL ASSESSMENT			
EN32	Percentage of new suppliers that were screened using environmental criteria	—	—
EN33	Significant actual and potential negative environmental impacts in the supply chain and actions taken	—	—
ASPECT: ENVIRONMENTAL GRIEVANCE MECHANISMS			
EN34	Number of grievances about environmental impacts filed, addressed, and resolved through formal grievance mechanisms	Not applicable	Not applicable

SOCIAL

LABOR PRACTICES AND DECENT WORK

Indicator	Description	Relevant Sections in Reports	
		Website	PDF
ASPECT: EMPLOYMENT			
LA1	Total number and rates of new employee hires and employee turnover by age group, gender and region	Promoting Diversity & Inclusion and Respecting Human Rights	124
LA2	Benefits provided to full-time employees that are not provided to temporary or part-time employees, by significant locations of operation	—	—
LA3	Return to work and retention rates after parental leave, by gender	Work-Life Balance	130
ASPECT: LABOR/MANAGEMENT RELATIONS			
LA4	Minimum notice periods regarding operational changes, including whether these are specified in collective agreements	—	—
ASPECT: OCCUPATIONAL HEALTH AND SAFETY			
LA5	Percentage of total workforce represented in formal joint management-worker health and safety committees that help monitor and advise on occupational health and safety programs	—	—
LA6	Type of injury and rates of injury, occupational diseases, lost days, and absenteeism, and total number of work-related fatalities, by region and by gender	Occupational Safety and Health, Process Safety and Disaster Prevention	137
LA7	Workers with high incidence or high risk of diseases related to their occupation	—	—
LA8	Health and safety topics covered in formal agreements with trade unions	—	—
ASPECT: TRAINING AND EDUCATION			
LA9	Average hours of training per year per employee by gender, and by employee category	—	—
LA10	Programs for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings	Human Capital Development	120
LA11	Percentage of employees receiving regular performance and career development reviews, by gender and by employee category	—	—

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ASPECT: DIVERSITY AND EQUAL OPPORTUNITY			
LA12	Composition of governance bodies and breakdown of employees per employee category according to gender, age group, minority group membership, and other indicators of diversity	Promoting Diversity & Inclusion and Respecting Human Rights	124
ASPECT: EQUAL REMUNERATION FOR WOMEN AND MEN			
LA13	Ratio of basic salary and remuneration of women to men by employee category, by significant locations of operation	—	—
ASPECT: SUPPLIER ASSESSMENT FOR LABOR PRACTICES			
LA14	Percentage of new suppliers that were screened using labor practices criteria	—	—
LA15	Significant actual and potential negative impacts for labor practices in the supply chain and actions taken	—	—
ASPECT: LABOR PRACTICES GRIEVANCE MECHANISMS			
LA16	Number of grievances about labor practices filed, addressed, and resolved through formal grievance mechanisms	Not applicable	Not applicable

HUMAN RIGHTS

Indicator	Description	Relevant Sections in Reports	
		Website	PDF
ASPECT: INVESTMENT			
HR1	Total number and percentage of significant investment agreements and contracts that include human rights clauses or that underwent human rights screening	—	—
HR2	Total hours of employee training on human rights policies or procedures concerning aspects of human rights that are relevant to operations, including the percentage of employees trained	—	—
ASPECT: NON-DISCRIMINATION			
HR3	Total number of incidents of discrimination and corrective actions taken	—	—
ASPECT: FREEDOM OF ASSOCIATION AND COLLECTIVE BARGAINING			
HR4	Operations and suppliers identified in which the right to exercise freedom of association and collective bargaining may be violated or at significant risk, and measures taken to support these rights	—	—
ASPECT: CHILD LABOR			
HR5	Operations and suppliers identified as having significant risk for incidents of child labor, and measures taken to contribute to the effective abolition of child labor	—	—
ASPECT: FORCED OR COMPULSORY LABOR			
HR6	Operations and suppliers identified as having significant risk for incidents of forced or compulsory labor, and measures to contribute to the elimination of all forms of forced or compulsory labor	—	—
ASPECT: SECURITY PRACTICES			
HR7	Percentage of security personnel trained in the organization's human rights policies or procedures that are relevant to operations	—	—
ASPECT: INDIGENOUS RIGHTS			
HR8	Total number of incidents of violations involving rights of indigenous peoples and actions taken	Not applicable	Not applicable
ASPECT: ASSESSMENT			
HR9	Total number and percentage of operations that have been subject to human rights reviews or impact assessments	—	—
ASPECT: SUPPLIER HUMAN RIGHTS ASSESSMENT			
HR10	Percentage of new suppliers that were screened using human rights criteria	—	—
HR11	Significant actual and potential negative human rights impacts in the supply chain and actions taken	—	—
ASPECT: HUMAN RIGHTS GRIEVANCE MECHANISMS			
HR12	Number of grievances about human rights impacts filed, addressed, and resolved through formal grievance mechanisms	Not applicable	Not applicable

SOCIETY

Indicator	Description	Relevant Sections in Reports	
		Website	PDF
ASPECT: LOCAL COMMUNITIES			

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SO1	Percentage of operations with implemented local community engagement, impact assessments, and development programs	—	—
SO2	Operations with significant actual and potential negative impacts on local communities	Not applicable	Not applicable
ASPECT: ANTI-CORRUPTION			
SO3	Total number and percentage of operations assessed for risks related to corruption and the significant risks identified	—	—
SO4	Communication and training on anti-corruption policies and procedures	Integrity	34
SO5	Confirmed incidents of corruption and actions taken	Not applicable	Not applicable
ASPECT: PUBLIC POLICY			
SO6	Total value of political contributions by country and recipient/beneficiary	Not applicable	Not applicable
ASPECT: ANTI-COMPETITIVE BEHAVIOR			
SO7	Total number of legal actions for anti-competitive behavior, anti-trust, and monopoly practices and their outcomes a. Report the total number of legal actions pending or completed during the reporting period regarding anti-competitive behavior and violations of anti-trust and monopoly legislation in which the organization has been identified as a participant b. Report the main outcomes of completed legal actions, including any decisions or judgments	Not applicable	Not applicable
ASPECT: COMPLIANCE			
SO8	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with laws and regulations	Not applicable	Not applicable
ASPECT: SUPPLIER ASSESSMENT FOR IMPACTS ON SOCIETY			
SO9	Percentage of new suppliers that were screened using criteria for impacts on society	Not applicable	Not applicable
SO10	Significant actual and potential negative impacts on society in the supply chain and actions taken	Not applicable	Not applicable
ASPECT: GRIEVANCE MECHANISMS FOR IMPACTS ON SOCIETY			
SO11	Number of grievances about impacts on society filed, addressed, and resolved through formal grievance mechanisms	Not applicable	Not applicable

PRODUCT RESPONSIBILITY

Indicator	Description	Relevant Sections in Reports	
		Website	PDF
ASPECT: CUSTOMER HEALTH AND SAFETY			
PR1	Percentage of significant product and service categories for which health and safety impacts are assessed for improvement	Product Quality Management	102
PR2	Total number of incidents of non-compliance with regulations and voluntary codes concerning the health and safety impacts of products and services during their life cycle, by type of outcomes	—	—
ASPECT: PRODUCT AND SERVICE LABELING			
PR3	Type of product and service information required by the organization's procedures for product and service information and labeling, and percentage of significant product and service categories subject to such information requirements	Communication with Consumers	86
PR4	Total number of incidents of non-compliance with regulations and voluntary codes concerning product and service information and labeling, by type of outcomes	Not applicable	Not applicable
PR5	Results of surveys measuring customer satisfaction	—	—
ASPECT: MARKETING COMMUNICATIONS			
PR6	Sale of banned or disputed products	Not applicable	Not applicable
PR7	Total number of incidents of non-compliance with regulations and voluntary codes concerning marketing communications, including advertising, promotion, and sponsorship, by type of outcomes	Not applicable	Not applicable
ASPECT: CUSTOMER PRIVACY			
PR8	Total number of substantiated complaints regarding breaches of customer privacy and losses of customer data	Not applicable	Not applicable
ASPECT: COMPLIANCE			
PR9	Monetary value of significant fines for non-compliance with laws and regulations concerning the provision and use of products and services	Not applicable	Not applicable

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Enriching lives, in harmony with nature.

Kao Corporation

14-10, Nihonbashi Kayabacho 1-chome
Chuo-ku, Tokyo 103-8210, Japan

<http://www.kao.com>