



Kao Sustainability Report 2015

Enriching lives,
in harmony with nature.

Kao

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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 (HTML and PDF versions) introduces the Kao Group's various activities along with detailed performance data in each of the three key areas of Conservation, Community and Culture that represent material issues for the Kao Group.
- 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.
- The Kao Sustainability Report 2015 Highlights is also published as a booklet that summarizes representative efforts excerpted from this report.



Scope of reporting

In general, we report the activities of the Kao Group (Kao Corporation, its subsidiaries and affiliates). Environmental and social performance data covers Kao Corporation and its subsidiaries. Some data pertaining to employees, such as occupational health and safety data, covers Kao Corporation, its subsidiaries and Nivea-Kao Company Limited.

Exceptions to this have been clearly stated in the text.

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 2014 (January 1, 2014 – December 31, 2014).

Kao's fiscal year end was changed in fiscal 2012; therefore, the environmental and social performance data covers the period from April 1 to March 31 until fiscal 2011, and from fiscal 2012 covers 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 a data period other than the above are noted as such.

Some qualitative information includes those of the activities performed in fiscal 2015.

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 2014. Indicators on which assurance is provided are marked with a star (★).

Issuing period

Previous report issued in August 2014

Next report scheduled for issue in August 2016

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



Michitaka Sawada

President and Chief Executive Officer

Aiming for both “profitable growth” and “contributing to the sustainability of the world” through resolving social issues.

Kao Group’s business and *Yoki-Monozukuri*

Since our founding, we at Kao have conducted business with the mission of contributing to satisfying and enriching the lives of people from the consumer’s and customer’s perspective. We have earned the trust of large numbers of consumers and customers in Japan as well as elsewhere in Asia, the Americas and Europe in wide-ranging fields encompassing development and marketing of consumer products that offer value in day-to-day life in the three key areas of cleanliness, beauty and health as well as chemical products contributing to the development of industry.

The Kao Group’s business is expanding with the goal of contributing to the lives of more people around the world, but our business foundation of *Yoki-Monozukuri* will not change. This foundation involves offering products and services tailored to the needs of consumers by carefully studying the diverse range of people’s lifestyles and responding to the changes of the times. I believe that by practicing *Yoki-Monozukuri* from a global perspective, we will be able to fulfill our mission, defined in the Kao Way, of “striving for the wholehearted satisfaction and enrichment of the lives of people globally and to contribute to the sustainability of the world.”

Helping resolve social issues through *Yoki-Monozukuri*

Significant changes are occurring around the world in a number of fields. Social and economic conditions are undergoing drastic change, and global-scale social issues including environmental problems are becoming more complex and severe. For companies to survive, the sustainability of the society upon which they rely is of foremost necessity. As a member of the global society, we must fulfill our responsibility to achieve a sustainable society. Therefore, the Kao Group offers value in addressing social issues in areas such as the environment, health, the aging society, and hygiene that involve our business fields, and we intend to contribute to resolving these social issues through *Yoki-Monozukuri*.

The Kao Sustainability Statement released in July 2013 describes how we the Kao Group will fulfill our social responsibility and how we can contribute to a sustainable society. The Statement defines the three key areas of Conservation, Community and Culture.

CEO Message

Efforts toward a sustainable society

Here are some of our major efforts in the three key areas of the Kao Sustainability Statement.

In the area of Community, we aim to contribute to resolving global-scale community issues through business and corporate social activities.

Going beyond just products, we also engage in activities with an informational component to help resolve social issues. In the area of health, we sell functional health beverages under the brand *Healthya*, which promote body fat utilization, as well as promote healthy lifestyle habits. For the rapidly aging society, we not only market *Relief* adult diapers, but also *Attack Deodorant Strong* laundry detergent and *Resesh Antibacterial EX Deodorant Strong* deodorizer to neutralize urine odors and offer greater comfort in caregiving. To make shopping easier for customers, we are proposing sales displays that integrate these with caregiving products.

In the area of hygiene, we offer *Laurier* sanitary products and informational materials and provide an educational program on beginning menstruation in partnership with elementary and junior high schools in Japan and Asia to help girls have a proper understanding of and greater comfort during menstruation.

In the Chemical Business, we are contributing to a sustainable society together with partner companies that are our customers by offering high-value-added products including those with reduced environmental impacts.

In our corporate social activities, Kao Group companies inside and outside Japan are conducting a range of initiatives to contribute to resolving issues in the communities in which we

are located and deepening their community engagement.

Employees' volunteer participation in these activities both contributes to society and facilitates the personal growth of the employees, and therefore offers value for the Kao Group as well.

In addition to employee activities, for example, the Kao Social Entrepreneurship Schools support development of young social entrepreneurs attempting to solve social issues using business approaches. This program facilitates the acceleration of their business projects. Furthermore, we create points of contact such as exchanges where employees and entrepreneurs receiving our support can interact.

In the area of Conservation, we are working to reduce environmental impacts throughout all of our business activities and conducting environmental activities in partnership with many diverse stakeholders.

Aiming to reduce CO₂ emissions across the product lifecycle and water use during product use, we have reinforced the *Neo* series, ultra-concentrated liquid laundry detergent, with products including water-saving *Ultra Attack Neo*, and have marketed a new and improved line of *CuCute* dishwashing detergents that offers both lasting bubbles and swift rinsing capability to save water during rinsing.

In the research and development field, our research on algae has succeeded in finding an enzyme that can produce a large amount of medium-chain fatty acids, a main component of natural fats and oils that are a raw material for surfactants used in detergents, shampoos and other products. This world-leading finding has high potential to secure a source of fats and oils with minimal dependence on natural resources and that does not compete with the food supply. We are continuing to deepen our research on algae, aiming to realize industrial production of oil from algae.

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

FY2015 numerical management targets

Net sales: **1.4** trillion yen

Operating income: **150** billion yen

Overseas sales ratio*: **30** % or more

*Ratio of net sales to customers with an address outside Japan to consolidated net sales

Growth Strategies to Achieve K15

1. Expand the Consumer Products Business globally

- Growth markets:
Expand the business significantly by proposing products in the domain of "cleanliness" including laundry detergents, baby diapers and sanitary napkins that target the growing middle-class consumer segments
- Mature markets:
Accelerate growth with high-value-added products

2. Further reinforce the Fabric and Home Care Business, and accelerate profitable growth in the Beauty Care and Human Health Care Businesses

Fabric and Home Care Business

- Maintain or capture the top share in each product category

Beauty Care and Human Health Care Businesses

- Move the cosmetics business to a phase of profitable growth
- Propose products and services through new approaches focused on health and aging society

3. Reinforce the Chemical Business

- Promote higher added value
- Strengthen synergy with the Consumer Products Business

CEO Message

In the area of Culture, recognizing that employees are the ones who support our activities in the areas of Community and Conservation, the Kao Group as a whole is conducting workshops and educational activities to promote sound business activities based on our corporate culture of Integrity that has been passed down since our founding.

To effectively utilize our human capital and promote diversity, we have held opinion exchanges directly with employees and discussed conditions and systems that allow employees to work with enthusiasm and a sense of reward. We intend to connect these activities to future human capital strategy and career development measures, aiming to increase employees' lifestyle options as well as options at various career stages.

Regarding the voluntary recall of Kanebo Cosmetics products containing Rhododenol announced on July 4, 2013, we are supporting the recovery of people who have experienced vitiligo-like symptoms and providing compensation. The Kao Group is making concerted efforts to prevent a recurrence.

Steady progress in Kao Group Mid-term Plan 2015 (K15)

We have been making steady progress toward achieving targets of K15, announced in 2013. The targets are 1) breaking previous records for consolidated net sales and profits and 2) achieving numerical management targets for fiscal 2015, specifically net sales of 1.4 trillion yen, operating income of 150 billion yen, and an overseas sales ratio of 30% or more. In fiscal 2014, we achieved the fifth consecutive term of increased net sales and profits and exceeded the projections of K15.

Net sales and net income for the fiscal 2014 broke previous records, and both operating income and ordinary income recorded new highs for the second year in a row following fiscal 2013. Overseas sales ratio is 33.1%, higher than K15 projections, owing to growth in the Consumer Products in Asia and Chemical Businesses.

As the middle year, fiscal 2014 was positioned as a key year in achieving the K15 targets. We have been establishing a post-deflation growth model of profitable growth through proactive investment, based on maximizing use of the Kao Group assets. Along with this, we have been executing the following three strategies to achieve K15.

- 1) Expand the Consumer Products Business globally
- 2) Further reinforce the Fabric and Home Care Business, and accelerate profitable growth in the Beauty Care and Human Health Care Businesses
- 3) Reinforce the Chemical Business

Globally, we continue offering high-value-added products. At the same time, we expand the global development in the Consumer Products Business by offering products in the domain of cleanliness targeting the growing middle-class in Asian growth markets. We accelerate growth with high-value-added products that contribute to help to resolve social issues in such areas as the environment, health, the aging society, and hygiene, in Japan. We also reinforce the Chemical Business by such initiatives as promotion of higher added value that reduces environmental impacts.



Earning the trust of the global society

To achieve the goals of K15 and our future growth, the Kao Group proactively offers future-oriented ideas contributing to resolving social issues in the three key areas of cleanliness, beauty and health. We will work to achieve both profitable growth and contributing to the sustainability of the world.

In 2005, we declared our support for the United Nations Global Compact, which establishes 10 principles governing the four areas of human rights, labor, the environment and anti-corruption. As our business expands globally, we will continue to engage in fair business practices conforming to globally accepted principles and standards.

To incorporate an independent, objective perspective, after the March 2014 Annual General Meeting of Shareholders, we made the number of Internal and Outside Directors on our Board the same and made the chairman of the Board of Directors an Independent Outside Director. We will continue striving to enhance our corporate governance going forward as well.

As a member of global society, the Kao Group will continue to communicate closely with our many diverse stakeholders to meet their demands and expectations. To become a company trusted by society, we will engage in business practices in line with global standards while at the same time demonstrating our unique approaches.

Michitaka Sawada

President and Chief Executive Officer

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 is continuing its 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.

Web

Kanebo Cosmetics: Problems Relating to Kanebo Cosmetics Products Containing Quasi-Drug Ingredient "Rhododenol"
<http://www.kanebo-cosmetics.jp/information/> (Japanese)

Overview

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 in 2008 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.

Kanebo Cosmetics began the voluntary recall on July 4, 2013, and has collected 700,888 products as of April 30, 2015.

Kanebo Cosmetics employees are personally visiting customers who have experienced vitiligo-like symptoms to

offer their sympathies and provide information on treatment and other matters. During the initial visits, the number of people confirmed to have vitiligo-like symptoms was 19,482 in total. Of these people, 10,957 have made a complete or almost complete recovery (based on medical examinations or self-reports). Settlements have been reached with 9,802 people (as of April 30, 2015).

Outside Japan, product recalls are being conducted in the countries and regions following the policy of the respective pharmaceutical authorities. As in Japan, Kanebo Cosmetics is providing care for customers who have experienced vitiligo-like symptoms until they have recovered.

*Rhododenol
 Rhododenol is the name Kanebo Cosmetics gave to the chemical compound 4-(4-hydroxyphenyl)-2-butanol. Rhododenol is a quasi-drug ingredient approved by the Ministry of Health, Labour and Welfare that works by binding with and inhibiting the activity of the enzyme tyrosinase involved in melanin synthesis.

Response to customers experiencing symptoms in Japan

Basic policy

Kanebo Cosmetics is providing care for customers who have experienced vitiligo-like symptoms after use of products containing Rhododenol until they have completely recovered

Action policy

1. Efforts to investigate the cause and establish treatment methods
2. Support in daily life for affected customers
3. Fair compensation

1. Efforts to investigate the cause and establish treatment methods

A project team comprising Kao Group researchers is conducting research that is relevant for investigating the cause and establishing treatment methods, and shares such information to groups including the Japanese Dermatological Association and the Ministry of Health, Labour and Welfare. Kanebo Cosmetics plans to provide grant funding totaling 60 million yen to the Fund for Research into Vitiligo-like Symptoms Experienced by Some Users of Products Containing Rhododenol over its approximately two years of operation from January 23, 2014 to March 31, 2016.

2. Support in daily life for affected customers

Customer Care Centers have been set up at the Head Office and branches of Kanebo Cosmetics throughout Japan to offer ongoing care for customers who have experienced symptoms and customers continuing to receive treatment. A dedicated team of approximately 400 staff assigned to each region of Japan is visiting customers and providing information on treatment and skin condition checks. The team also provides special coverage make-up and make-up advice for customers who request it.

Special coverage make-up

We have developed special coverage make-up products that bring the affected areas closer in appearance to the skin's natural color.

Special foundation and powder types are available, including both liquid and concealer-type foundation, depending on the location and size of the area to cover.

In response to customer requests, a coral shade of color powder as well as a powder foundation and BB cream were added to the special coverage make-up products in March 2015.



3. Fair compensation

① Basic approach

Appropriate compensation will be offered to customers who have experienced vitiligo-like symptoms after 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 and travel costs incurred 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 use of public transportation to receive treatment.

● Compensation for emotional distress

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

● 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.

● Compensation similar to damages payable for aftereffects

Kanebo Cosmetics will pay compensation similar to damages payable for aftereffects, as a compensation for customers who have not recovered from vitiligo-like symptoms after using Rhododenol-formulated products at a certain point in time.* The amount of this compensation to the customers who desire to receive this, will be determined based on the standards used by Japanese courts and standards applied to accidents in the workplace by considering the affected area of the body, the size of the affected area, contrast between the affected area and the surrounding areas, presence or absence of a recovery trend and other factors. Kanebo Cosmetics will in principle determine whether a customer has recovered or not based on the diagnosis by a medical doctor. Customers who received compensation similar to damages payable for aftereffects will not receive any further compensation of any kind, although Kanebo Cosmetics will continue to inform such customers when a new effective treatment method has been established in the future.

*"Certain point in time" refers to the time when said information is provided by Kanebo Cosmetics as described in paragraph ③ "Compensation similar to damages payable for aftereffects."

③ Dates of payment

● Medical and travel costs

Medical and travel expenses are paid on an as-needed basis.

● Compensation for emotional distress and for time taken off work

Compensation for emotional distress and for time taken off work is paid at the time a settlement is reached.

● Compensation similar to damages payable for aftereffects

Kanebo Cosmetics started by contacting customers whose vitiligo-like symptoms continue to exist over a large area of the face from December 2014, and will contact all other customers who have not recovered from July 2015. Compensation will be paid to customers who request it and who meet the conditions for compensation similar to damages payable for aftereffects at the time a settlement is reached together with compensation for emotional distress and for time taken off work.

Steps to ensure a similar situation does not happen

1. Product manufacturing based on Kao Group safety standards

In April 2014, the Kao Group introduced more rigorous and broader cosmetics safety standards to verify safety. Kanebo Cosmetics also conducts product manufacturing based on these new standards.

2. Promotion of "Listening to the Voices of Customers" Activities

To improve our ability to hear directly from customers, we placed postcards at stores in late May 2014 to obtain customers' opinions and requests. We also opened the Kanebo Cosmetics Skin Consulting Center in July 2014, where customers can receive advice about make-up at their convenience.

3. Internal mindset reforms (to continue our quality assurance organization with the participation of all employees)

We have created a system to collect feedback related to products from employees in real time. All information received from customers, medical institutions, employees, and other stakeholders is verified by the Quality Improvement Study Meeting with involvement by the Kanebo Cosmetics management team and corrective actions examined.

Kanebo Cosmetics' 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

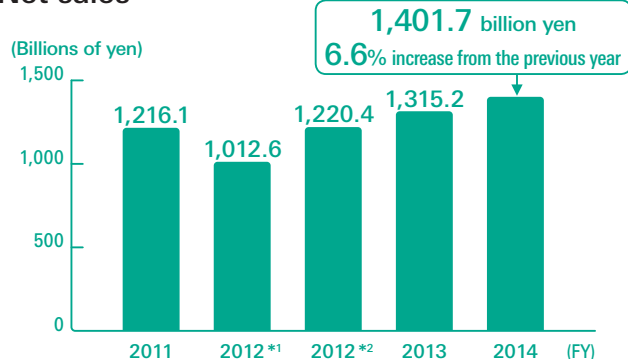
While verifying individual customers skin problems and skin conditions, we offer advice on recommended products, how to use them, and how to care for skin. For customers with concerns about the use of cosmetics, we also provide a "skin and cosmetics compatibility check" that customers can do on their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

⑤ Continual safety inspections after market launch

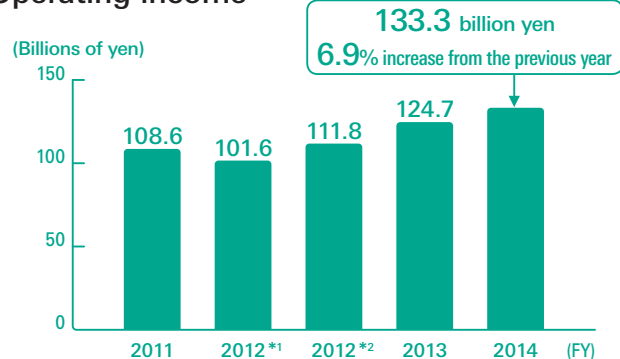
The details of every report received from customers and medical institutions are verified individually and used in safety inspections. At stores we listen intently to our customers. Opinions and requests from customers are used in improvement activities.

Financial highlights (consolidated)

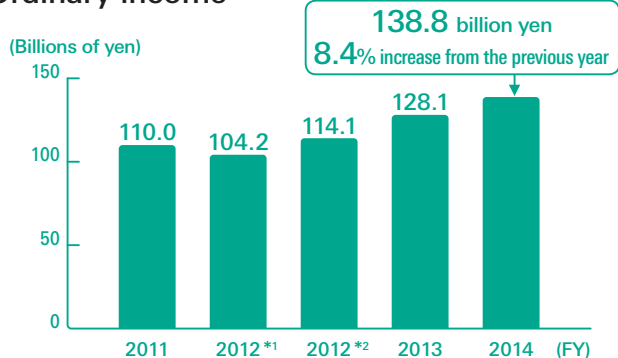
Net sales



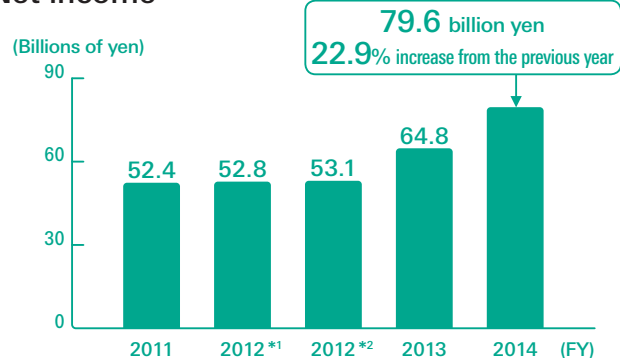
Operating income



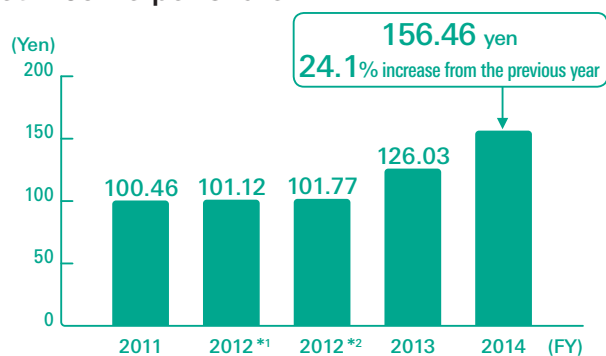
Ordinary income



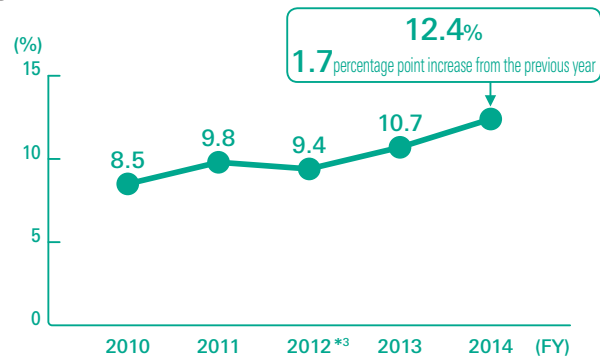
Net income



Net income per share



ROE



Notes: 1. Listed amounts have been rounded to the nearest 100 million yen.

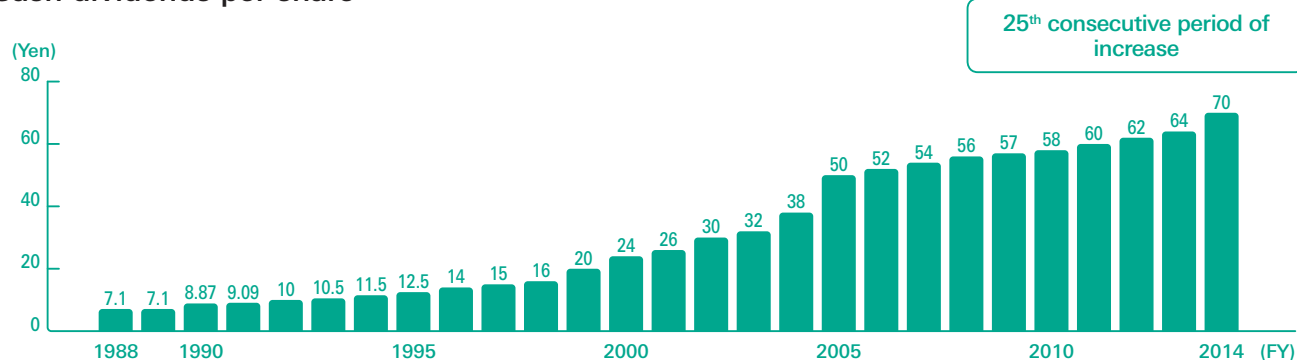
2. The Kao Group's fiscal year end changed from March 31 to December 31 from the year ended December 31, 2012.

^{*1} Due to a change in the fiscal year end, the term of consolidation for the fiscal period ended December 31, 2012 consisted of the nine months from April to December for Kao Corporation and its subsidiaries whose fiscal year end was previously March 31 and the 12 months from January to December for subsidiaries whose fiscal year end was December 31.

^{*2} Figures for the year from January 1 to December 31, 2012 for Kao Group companies whose fiscal year end was previously March 31.

^{*3} FY2012 is for the transitional period associated with the change in fiscal year end.

Cash dividends per share



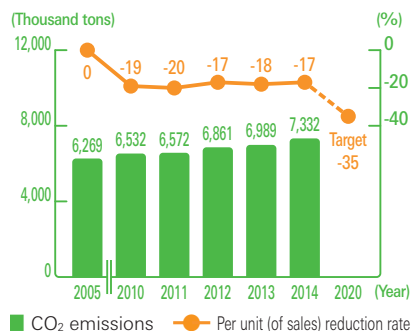
*Impacts of share splits are retroactively reflected.

Non-financial highlights

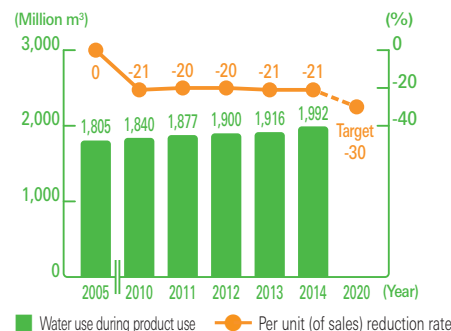
Kao is conducting a range of activities in the three key areas based on the Kao Sustainability Statement. Following are results for some of Kao's representative activities. For details of activities, please see the Kao Sustainability Report available on the Kao website (http://www.kao.com/jp/en/corp_csr/reports.html).

Conservation Reducing environmental impacts across the product lifecycle

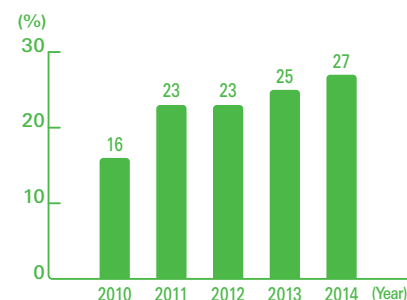
CO₂ emissions across the product lifecycle★ (Kao Group in Japan)*¹



Water use during product use★ (Kao Group in Japan)*²

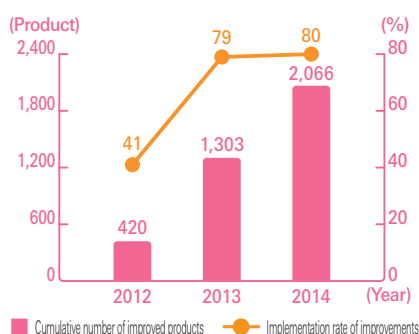


Percentage of sales from products displaying the "eco together" logo (consumer products in Japan)*³

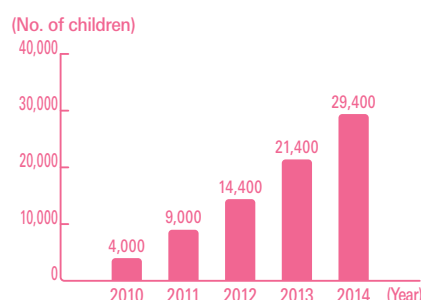


Community Offering products and communication to contribute to resolving social issues with consideration for the diversity of consumers

Cumulative number of products improved with UD considerations and implementation rate (consumer products in Japan)*⁴

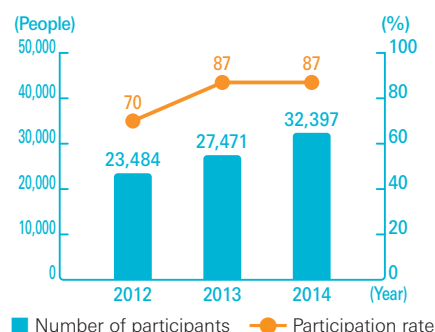


Cumulative number of children who have taken hand washing lessons (Kao Group in Japan)

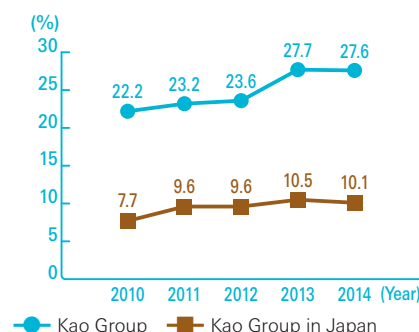


Culture Promoting Integrity including communicating the Business Conduct Guidelines to all Group employees and Diversity and Inclusion

Number of Kao Business Conduct Guidelines annual test participants and participation rate (Kao Group)



Percentage of female managers (Kao Group)



*1 CO₂ emissions across the product lifecycle is 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, mainly 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.

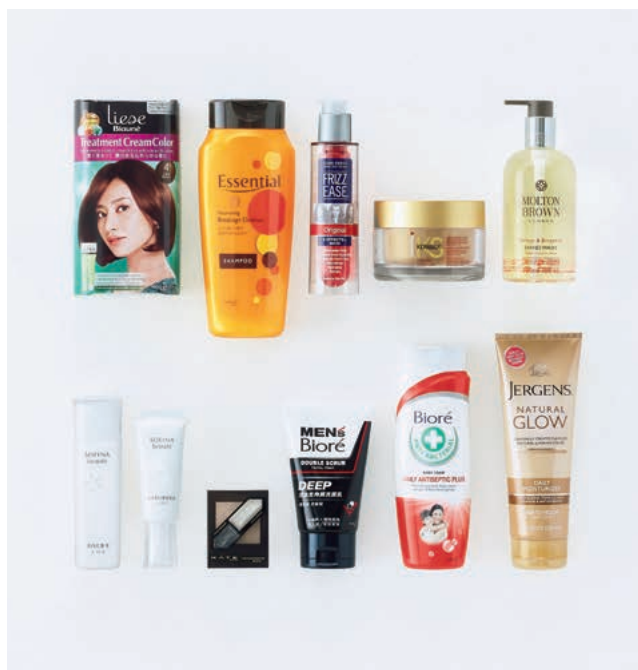
*2 Water use during product use is defined as the amount of water during product use stage mainly of individual consumer products in Japan, multiplied by their annual sales quantity. Some data entries through 2005 have been retroactively modified.

*3 Kao displays the "eco together" logo on products that reduce their environmental impacts and meet Kao's original strict certification standards. Details about "eco together" logo display standards: http://www.kao.com/jp/en/corp_csr/eco_activities_01_07.html

*4 Products improved with UD considerations represent products improved from considerations including accessibility, safety, and usability. The implementation rate of improvements is the percentage of products improved with UD considerations among all new and improved product items.

Kao's businesses

Consumer Products Business

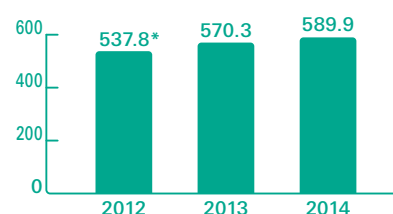


Beauty Care Business

In order to allow every consumer to achieve their own unique beauty with leading technologies, Beauty Care offers products including cosmetics, skin care such as facial and body cleansers, and hair care such as shampoos and conditioners.

Leading Beauty Care brands include *Kanebo*, *Sofina* and *Molton Brown* in cosmetics; *Bioré*, *Curél* and *Jergens* in skin care; *John Frieda*, *Essential* and *Liese* in hair care, and *Goldwell* for professional hair salons. Kao products offer distinctive features and functional values clearly evident to the user. Beauty Care products are available to consumers in Japan, Asia, Oceania, North America and Europe.

Segment Sales
(Billions of yen)



Consumer Products Business

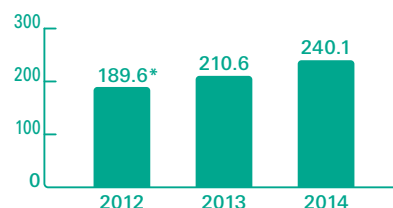


Human Health Care Business

Human Health Care offers products that help consumers to live healthy and comfortable lives. These include sanitary products with unique proprietary technologies, functional health beverages with innovative benefits, and other products such as toothpaste and bath additives.

Leading Human Health Care brands include *Laurier* sanitary napkins, *Merries* baby diapers, *Healthya* functional health beverages, *Clearclean* toothpaste and *Bub* bath additives. In particular, Kao's sanitary napkins and baby diapers offer high added value, including high absorbency and gentleness on the skin, making them very popular among consumers in Japan and other major Asian markets.

Segment Sales
(Billions of yen)



* To facilitate comparison, net sales for the period ended December 2012 have been converted to a year covering January through December.

Kao's businesses

Consumer Products Business

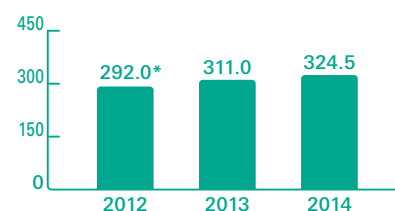


Fabric and Home Care Business

Fabric and Home Care offers fabric care products such as laundry detergents and fabric softener, as well as home care products such as dishwashing detergents and kitchen cleaners. These products are designed for quality, functionality and ease of use, allowing consumers to enjoy a clean and comfortable lifestyle.

Leading Fabric and Home Care brands include *Attack* laundry detergent, *Haitei* laundry bleach and *Magiclean* household cleaner, all widely used in Japan, Asia and Oceania. As environmental awareness has grown in recent years, and social changes see more women working outside the home, Kao has continued to offer new laundry choices, including liquid detergent with powerful cleaning properties, and single-rinse options that reduce the time needed to do laundry.

Segment Sales
(Billions of yen)



Chemical Business



Chemical Business

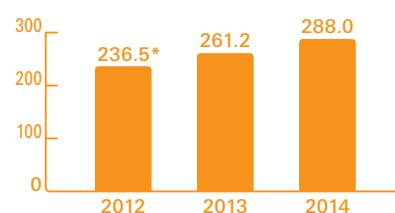
Our Chemical Business offers a broad variety of chemical products to the world, including oleo chemicals manufactured from natural fats and oils, surfactants, toners and toner binders, and fragrances and aroma chemicals.

Products such as *Kalcol* fatty alcohol, *Emal* surfactant, and *Mighty* high performance superplasticizer (for concrete) enrich people's lives across a broad range of industries globally, including information technology, electronics, pulp and paper, food, pharmaceuticals, civil engineering and construction.

Our Chemical Business supplies products to business customers around the world—both outside the Group, and internally to the Consumer Products Business. Kao's Chemical Business is contributing to the creation of new value.

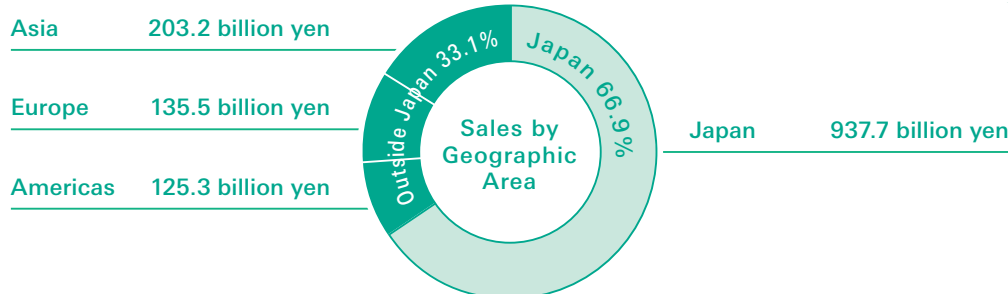
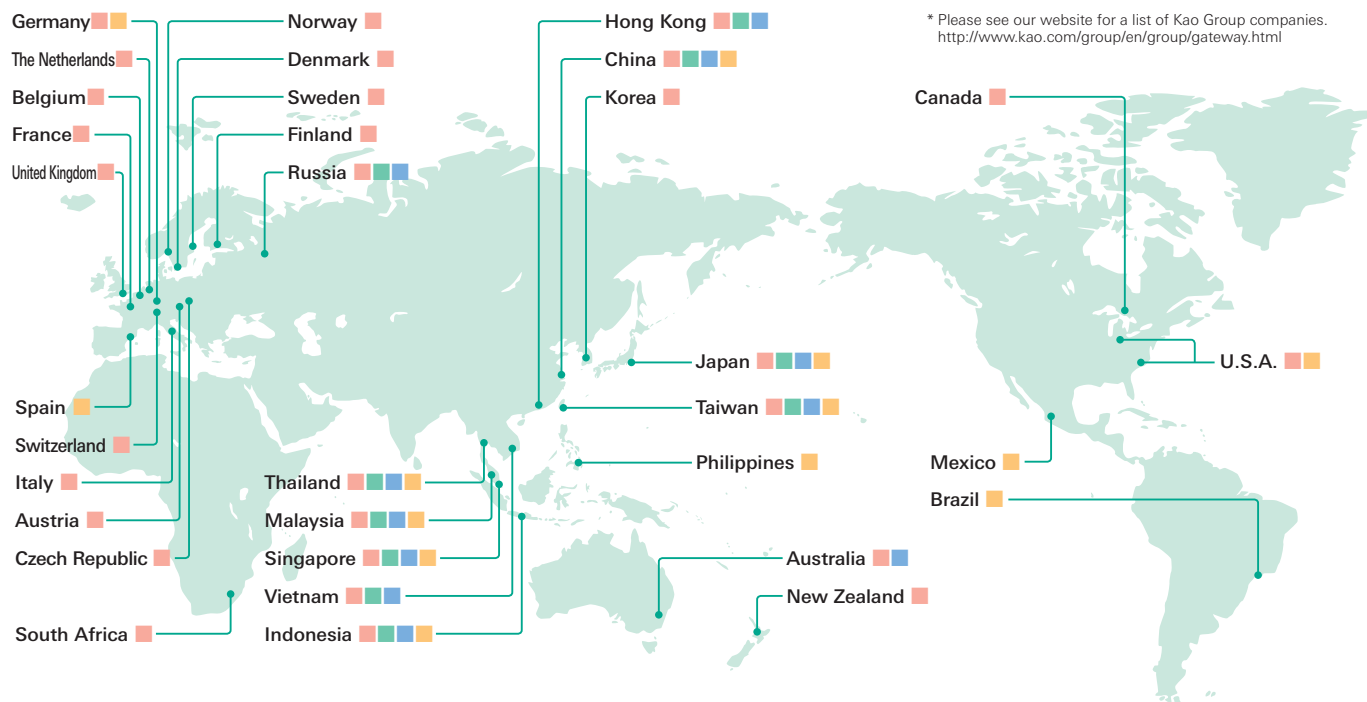
Segment Sales
(Billions of yen)

Note: Includes internal sales between businesses.



Principal locations and business development

Beauty Care Business Human Health Care Business Fabric and Home Care Business Chemical Business



* Sales are classified based on the location of customers.

Global Commitments



The United Nations Global Compact

Participation in the United Nations Global Compact represents commitments by corporations from around the world to support and act in accordance with ten key principles on human rights, labor, the environment and the prevention of corruption. These principles were initially defined at the 1999 Davos World Economic Forum. Kao has participated in the Global Compact since 2005.



RSPO

The Roundtable on Sustainable Palm Oil (RSPO) is an international non-profit organization working to address issues associated with palm oil production such as ecosystem destruction due to the felling of tropical forests and harsh labor conditions on palm oil plantations. Kao has been a member of the Roundtable since 2007.

External Recognition



Dow Jones Sustainability World Index

The Dow Jones Sustainability World Index is among the world's most renowned socially responsible investment (SRI) indices. It is administered by S&P Dow Jones Indices LLC in the United States and RobecoSAM AG in Switzerland, who conduct evaluations of a company's sustainability using economic, environmental and social criteria. Kao was included in the DJSI World Index for fiscal year 2014.



FTSE4Good Global Index

Developed by the British FTSE Group, the FTSE4Good Global Index is one of the world's leading SRI indices. It is made up of companies meeting high standards on environmental, social and corporate governance criteria. Kao has been included in this index for each of the past seven years.

Kao Sustainability Statement

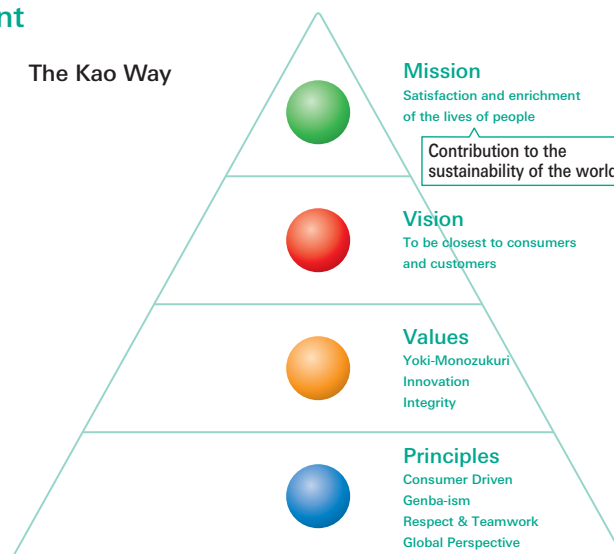
The Kao Group developed the “Kao Sustainability Statement” to represent its approach to sustainability and announced it both inside and outside the group in July 2013. The Statement defines the ways in which Kao aims to contribute to a sustainable society through business activities, including the three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

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

New initiatives

After reviewing the increasing expectations of society and priority in the Kao Group, we began promoting new initiatives on human rights in 2014.

Through the Human Rights Policy Development Project, we adopted the Kao Human Rights Policy and prepared to implement human rights due diligence. We have also committed to zero deforestation for our major raw materials of palm oil, paper and pulp, and have revised our Guidelines for Sustainable Procurement of Raw Materials.

Process to identify material issues

1. Assessing the current situation

The 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 experts and reviewed the opinions of our stakeholders including consumers and employees. We conducted a review of international standards related to corporate social responsibility and surveys by global evaluation organizations to identify the expectations of the Kao Group.

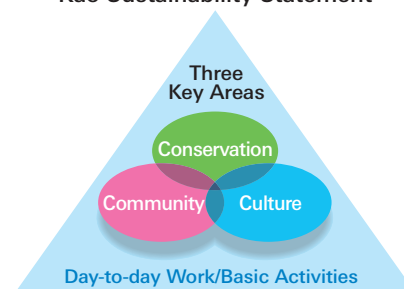
3. Reviewing priority from the perspective of business strategy

We then discussed the priority of the issues in terms of the Kao Group’s business from the five perspectives on the left.

4. Determining the material issues

We selected and finalized two target issues as where to focus our efforts for each of the three key areas.

Kao Sustainability Statement



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.

Kao Sustainability Statement

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. We have been conducting a wide range of educational activities for employees since July 2013 when we first announced the Kao Sustainability Statement.

Briefing sessions for all divisions and Group companies

We conduct briefing sessions for managers in all divisions of Kao Corporation and Group companies inside and outside Japan. The sessions cover the background to developing the Kao Sustainability Statement and include specific examples of activities in each key area and time for questions and answers. In 2014, we held 36 briefing sessions at Kao Corporation divisions and various conferences. Sessions were also held at three Group companies outside Japan. We will continue to conduct these sessions in 2015.

Web-based communications

Since the July 2013 announcement, we have utilized the company Intranet to facilitate understanding of the Kao Sustainability Statement among Kao Group employees in Japan.

Each month, we release a Sustainability Essay written by an employee from a division involved in key activities related to the Kao Sustainability Statement as well as Sustainability Three-Minute Watching, which introduces sustainability themes in an easy-to-understand Q&A format.

Some of the materials are also shared on the Kao Group Intranet outside Japan, and we will continue to expand these efforts.

Internal publications

Our internal magazine for all Kao Group members, *KAO FAMILY*, is published four times a year in both English and Japanese. It has 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 developing the Statement as well as details of its content, and an article published in 2014 introduced examples of specific activities at key areas. The magazine will continue to feature articles on Kao's sustainability activities in 2015.



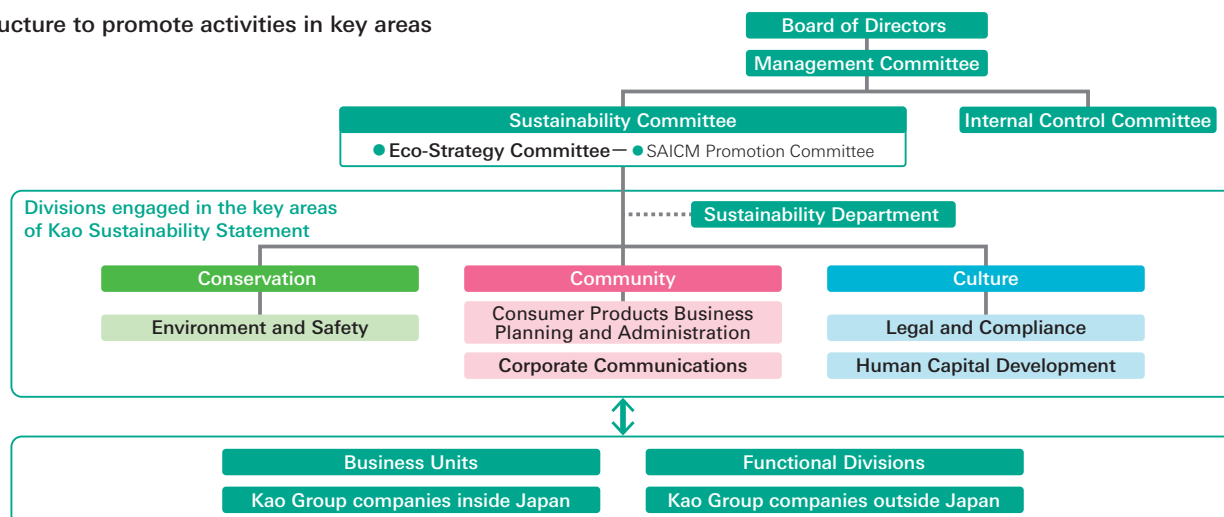
Articles in our in-house magazine *KAO FAMILY*

Sustainability Promotion Structure

Under the Sustainability Committee, chaired by the President, divisions engaged in each of the three key areas take

responsibility to set targets, implement the PDCA cycle and manage Group-wide activities.

Structure to promote activities in key areas



Kao Sustainability Statement

2014 Results & 2015 Targets

Conservation

Material issue: ● Reducing environmental impacts of business activities

| Target issues | Activities | 2014 targets | 2014 results | 2015 targets |
|---|---|--|--|--|
| Medium-term Objectives of the Kao Environmental Statement | Develop environmentally conscious products ● Expand water-saving products ● Promote product downsizing, concentrated formulas and 4R's*1 for packaging | ● Expand and improve water-saving products ● Expand and improve refill products ● Expand introduction of bioplastics in packaging | ● Launched improved <i>CuCute</i> ● Launched refill pack for <i>Attack Highly Penetrate Reset Power</i> ● Launched <i>CuCute Premium Clear</i> for dishwashers | ● Expand water-saving products ● Expand refill products ● Expand introduction of bioplastics in packaging |
| | <CO ₂ > 35% CO ₂ reduction in consumer products by 2020 (across the product lifecycle, per unit of sales in Japan, relative to 2005) | Promote energy-saving activities at production sites, offices and in distribution <Production> ● Increase use of highly energy-efficient facilities (high-efficiency cogeneration, heat recovery) <Distribution> ● Increase use of shared delivery with other companies and direct shipments from plants <All> ● Increase use of LED lighting at plants and logistics centers | 17% reduction ● 18% reduction in emissions from Kao Group (in Japan, relative to 1990) <Production> ● High-efficiency energy use through introduction of cogeneration (Kashima) ● Further efficiency improvement through heat recovery of gas cogeneration exhaust gas (Wakayama) ● Energy savings through optimization of chilled water pump (switch to inverter drive, unit control) (all plants in Japan) <Distribution> ● Opened new routes with modal shift ● Shared delivery with other companies and direct shipments from plants <All> ● Switch from fluorescent to LED lights | <Production> ● Reduce steam loss through steam traps (all plants) ● Improve efficiency of heat-source equipment including chillers <Distribution> ● Introduce energy-saving air conditioning systems ● Open new routes with modal shift ● Shared delivery with other companies and direct shipments from plants <All> ● Switch from fluorescent to LED lights |
| | <Water> 30% reduction in water use during product use by 2020 (per unit of sales in Japan, relative to 2005) | Expand water-saving products | ● Expand water-saving products | ● Expand water-saving products |
| | <Chemical Substances> | Appropriately manage chemical substances throughout their lifecycles in accordance with SAICM*2 ● Conduct risk assessment and preparation of risk assessment reports on chemicals for priority risk assessment*3 according to the medium-term plan ● Begin development of chemical substances lifecycle management system ● Determine chemical substances to be managed in production and conduct risk assessments at sites that handle them ● Study on disclosure methods to our stakeholders for SAICM activity results and ways to communicate with local communities | ● Conducted risk assessment and prepared risk assessment reports on chemicals for priority risk assessment*3 in 2014 according to the medium-term plan ● Established working group for the development of chemical substances lifecycle management system ● Selected chemical substances to be managed in production, conducted risk assessment at sites that handle chemical substances, mainly for PRTS substances, VOC substances and poisonous & deleterious substances, and studied countermeasures to reduce their risks ● Finalized disclosure details and methods for SAICM deliverables (risk assessment reports, etc.) ● Disclosed GPS Safety Summaries*4 (substances registered under REACH) at Kao group websites (35 summaries (77 cumulative*5) disclosed in 2014) | ● Conduct risk assessment and prepare risk assessment reports on chemicals for priority risk assessment*3 according to the medium-term plan ● Establish fundamental base for chemical substances lifecycle management system ● Propose and implement risk mitigation measures at worksites that handle chemical substances, based on risk assessment results ● Study the Globally Harmonized System of Classification and Labeling of Chemicals (GHS) at production sites ● Disclose SAICM resultant outcomes (risk assessment reports, etc.) ● Study mutual communication ways with our stakeholders |
| <Biodiversity> | Expand use of certified raw materials | ● Promote switch from Book and Claim system*6 to Mass Balance system*7 for certified palm oil ● Expand RSPO SCCS certified factories outside Japan | ● Percentage of certified palm oil purchases using the Mass Balance system 2013: 32% 2014: 88% ● Certified oil purchasing 2013: 5,952 t of palm oil, 14,455 t of palm kernel oil 2014: 5,180 t of palm oil, 17,875 t of palm kernel oil ● Certified plants 2013: 2 plants 2014: 9 companies, 12 plants (of them, 9 outside Japan) | ● Certified oil purchasing Total of palm oil, palm kernel oil and derivatives: 40,000 t ● Certified plants 2015: 15 companies, 18 plants |
| | Promote biodiversity conservation activities at business sites | ● Promote activities at Wakayama, Sumida, etc. ● Conduct evaluations on biodiversity conservation at other plants in Japan | ● Completed a nature trail in the pine grove that serves as a protection against storm surge in Wakayama, opened it to employees ● Employees conducted wild bird habitat survey in Sumida ● Conducted assessment of current situation, started biodiversity surveys in Kashima (4 times/year) ● Conducted educational activities at plants outside Japan | ● Promote activities at Wakayama and other plants in Japan ● Survey current situation at plants outside Japan |

*1 4R's: Reduce, Renewable, Reuse, Recycle *2 SAICM: Strategic Approach to International Chemicals Management *3 Chemicals for priority risk assessment: Chemicals defined by Kao in 2013 as chemical substances that should receive priority risk assessment at Kao due to their production volumes, applications, etc. In addition, the Substance List is regularly revised according to trends in global chemical substances management and internal and external circumstances.
*4 GPS Safety Summaries: Documents providing a summary of safety information for chemical substance highlighting on chemicals risk for the reference of general public, in line with the Global Product Strategy advocated by the ICCA (International Council of Chemical Associations). *5 Progression rate of 51% for target disclosure summaries of 150 by 2020 *6 Book and Claim system: Credit trading system for the environmental value of RSPO-certified palm oil
*7 Mass Balance system: Certification system allows for mixing of RSPO-certified and non-certified palm oil

Kao Sustainability Statement

Conservation

Material issue: ● Environmental activities in partnership with stakeholders

| Target issues | Activities | 2014 targets | 2014 results | 2015 targets |
|---|---|---|---|---|
| Environmental communication and conservation activities | Promote communication at diverse points of contact and cooperate with government bodies, NGOs, etc. | Promote communication at diverse contact points including schools, plant tours and stores, and partner with government bodies, NGOs, etc. | <ul style="list-style-type: none"> ● Distributed "eco together" diaries to 500 schools ● Conducted guest lectures on the environment at 53 schools ● 71 schools visited the Eco-Lab Museum ● Provided subsidies to 55 groups in the Kao Creating Forests for Everyone program ● Provided 10 teacher fellowships in the Kao Earthwatch Teachers' Fellowship ● 197 incidents of communication at business partners and local government events ● Received 8,753 entries in the Kao International Environment Painting Contest for Children ● Approximately 150,000 participants in China Nationwide Cleanliness and Water-saving Initiatives (in partnership with the Chinese government) | Promote communication at diverse contact points including schools, plant tours and stores, and partner with government bodies, NGOs, etc. |

Community

Material issue: ● Engaging with communities through business

| Target issues | Activities | 2014 targets | 2014 results | 2015 targets |
|--|---|---|---|---|
| Provide solutions to social issues including health, the aging society and hygiene | Develop products and information in consideration of diversity (Universal Design, TV commercials with captions, etc.) | <ul style="list-style-type: none"> ● Increase the percentage of improved products with UD considerations ● Continue educational activities (lectures, etc.) ● Activities to promote full-scale broadcasting of TV commercials with captions (Aim for joint trial broadcasts with other companies) | <ul style="list-style-type: none"> ● Implementation rate of products with UD considerations: 80% ● Conducted educational activities for employees (1 lecture and 16 workshops emphasizing with elderly people) ● External activities promoting Kao's UD efforts (5 lectures) ● UD lessons for elementary school students (9 schools) ● Ongoing activities to prepare for full-scale broadcasting of TV commercials with captions (Ongoing simultaneous trial broadcasts with 3 TV stations, information-sharing with other companies and related groups) | <ul style="list-style-type: none"> ● Ongoing product improvements with UD considerations ● Continue educational activities (lectures, etc.) ● Activities for the next step toward full-scale broadcasting of TV commercials with captions (Aim for trial broadcasts in programs sponsored by multiple companies) |
| | Help prevent and treat obesity and Lifestyle-related Diseases | <ul style="list-style-type: none"> ● Continue to attract new <i>Healthya</i> Club members ● Sponsor walking events (Target participation in Japan: 100,000 people) ● Target number of companies participating in QUPiO in Japan: 60 | <ul style="list-style-type: none"> ● Continued to attract new <i>Healthya</i> Club members ● Sponsored walking events with 104,000 participants in Japan ● Provided QUPiO lifestyle improvement program to 57 companies in Japan | <ul style="list-style-type: none"> ● Sponsor walking events (Target participation in Japan: 100,000 people) ● Target number of companies participating in QUPiO in Japan: 60 |
| | Promote baby health in consideration of local living environments and habits | <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> for newborns & size S (Japan: 1.11 million samples) | <ul style="list-style-type: none"> ● Expanded sales and local production of baby diapers and add countries to business development ● Conducted educational activities and provided product samples at childbirth and parenting classes (Japan: 680,000 people) ● Distributed samples of <i>Merries Tape Diaper</i> for newborns & size S (Japan: 1.12 million samples) | <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> for newborns & size S (Japan: 1.21 million samples) |
| | Improve hygiene through hand washing education | <ul style="list-style-type: none"> ● Educational activities by visiting preschools and elementary schools to give lessons (160 preschools, 100 elementary schools in Japan) ● Distribute samples for hand washing education (Japan: 490,000 samples for preschool and elementary school students, etc.; Taiwan, Thailand, Indonesia: 93,000 elementary school children) | <ul style="list-style-type: none"> ● Educational activities by visiting preschools and elementary schools to give lessons (185 preschools, 109 elementary schools in Japan) ● Distributed samples for hand washing education (Japan: 500,000 samples for preschool and elementary school students, etc.; Taiwan, Thailand, Indonesia: 76,000 elementary school children) | <ul style="list-style-type: none"> ● Educational activities by visiting preschools and elementary schools to give lessons (160 preschools, 100 elementary schools in Japan) ● Distribute samples for hand washing education (Japan: 540,000 samples for preschool and elementary school students, etc.; Taiwan, Thailand, Indonesia: 78,000 elementary school children) |
| | Expand well-rounded education on beginning menstruation to realize greater comfort in daily life | <ul style="list-style-type: none"> ● Provide educational materials and educational activities on beginning menstruation (Japan: 6,400 schools, 520,000 kits; Taiwan, Thailand, Indonesia: 587,000 students) | <ul style="list-style-type: none"> ● Provided educational materials and educational activities on beginning menstruation (Japan: 6,300 schools, 510,000 kits; Taiwan, Thailand, Indonesia, Malaysia, Hong Kong: 564,000 students) | <ul style="list-style-type: none"> ● Provide educational materials and educational activities on beginning menstruation (Japan: 6,000 schools, 480,000 kits; Taiwan, Thailand, Indonesia: 482,000 students) |

Kao Sustainability Statement

Community

Material issue: ● Engaging with local communities through partnerships

| Target issues | Activities | 2014 targets | 2014 results | 2015 targets |
|---|--|---|--|--|
| Invigorate corporate citizenship activities | Encourage employees to volunteer in corporate citizenship activities in each global region | <ul style="list-style-type: none"> ● Create KPI standards ● Create systems for information-gathering and information-sharing ● Plan and propose activities and lectures of interest to employees | <ul style="list-style-type: none"> ● Revised survey design of activity results to devise KPI and conducted survey for new design ● Confirmed employee awareness toward volunteering ● Information on volunteering provided 25 times ● 19,434 employees participated in volunteer activities ● Publicized information internally and externally 91 times | <ul style="list-style-type: none"> ● Propose activities that nurture the spirit of volunteering |

Culture

Material issue: ● Integrity

| Target issues | Activities | 2014 targets | 2014 results | 2015 targets |
|--|--|--|---|---|
| Promote implementation of the principle of Integrity | Continually enhance educational activities on the Kao Business Conduct Guidelines (BCG) Appropriately operate compliance hotlines | <ul style="list-style-type: none"> ● Introduce Anti-Bribery Guidelines ● Discuss introducing Global Guidelines for Avoiding Conflicts of Interest ● Plan and hold regular compliance trainings for the all Kao Group <ol 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 since 2013 3) Hold Integrity Workshops for Group company employees outside Japan: 75% target cumulative participation rate since 2009 ● Study BCG revisions for 2015 <ul style="list-style-type: none"> -Publish BCG Casebook -Revise BCG | <ul style="list-style-type: none"> ● Introduced Anti-Bribery Guidelines ● Introduced Global Guidelines for Avoiding Conflicts of Interest ● Planned and held regular compliance trainings for the all Kao Group <ol style="list-style-type: none"> 1) Conducted the BCG test held every year for all Kao Group employees: 87% participation rate 2) Held compliance trainings for Kao Group managers in Japan: 98% participation rate since 2013 3) Held Integrity Workshops for Group company employees outside Japan: 71% cumulative participation rate since 2009 ● Studied BCG revisions for 2015 (Published BCG Casebook on Kao's website, continued to study BCG revisions) | <ul style="list-style-type: none"> ● Implement compliance-related guidelines (Anti-Bribery Guidelines, Guidelines for Avoiding Conflicts of Interest) ● Plan and hold regular compliance trainings for the all Kao Group <ol style="list-style-type: none"> 1) Conduct the BCG test held every year for all Kao Group employees: 95% target participation rate 2) Hold compliance trainings for Kao Group managers in Japan: start 2nd round of trainings in 2015, 70% target participation rate 3) Hold Integrity Workshops for Group company employees outside Japan: 85% target cumulative participation rate since 2009 ● Continue to study BCG revisions ● Verify validity and appropriateness of current compliance activities |
| Promote sustainable procurement | Give more consideration to the environment and human rights in procurement | <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 | <ul style="list-style-type: none"> ● Revised and implemented Guidelines for Supplier's Assessment based on commitment for zero deforestation ● Implemented procurement based on Guidelines for Supplier's Assessment ● Conducted education for 100% of employees transferring into Procurement Division | <ul style="list-style-type: none"> ● Achieve 2015 targets in Guidelines for Sustainable Procurement of Raw Materials (traceability back to mills) ● Implement procurement based on Guidelines for Supplier's Assessment ● Conduct education for 100% of employees transferring into Procurement Division |

Culture

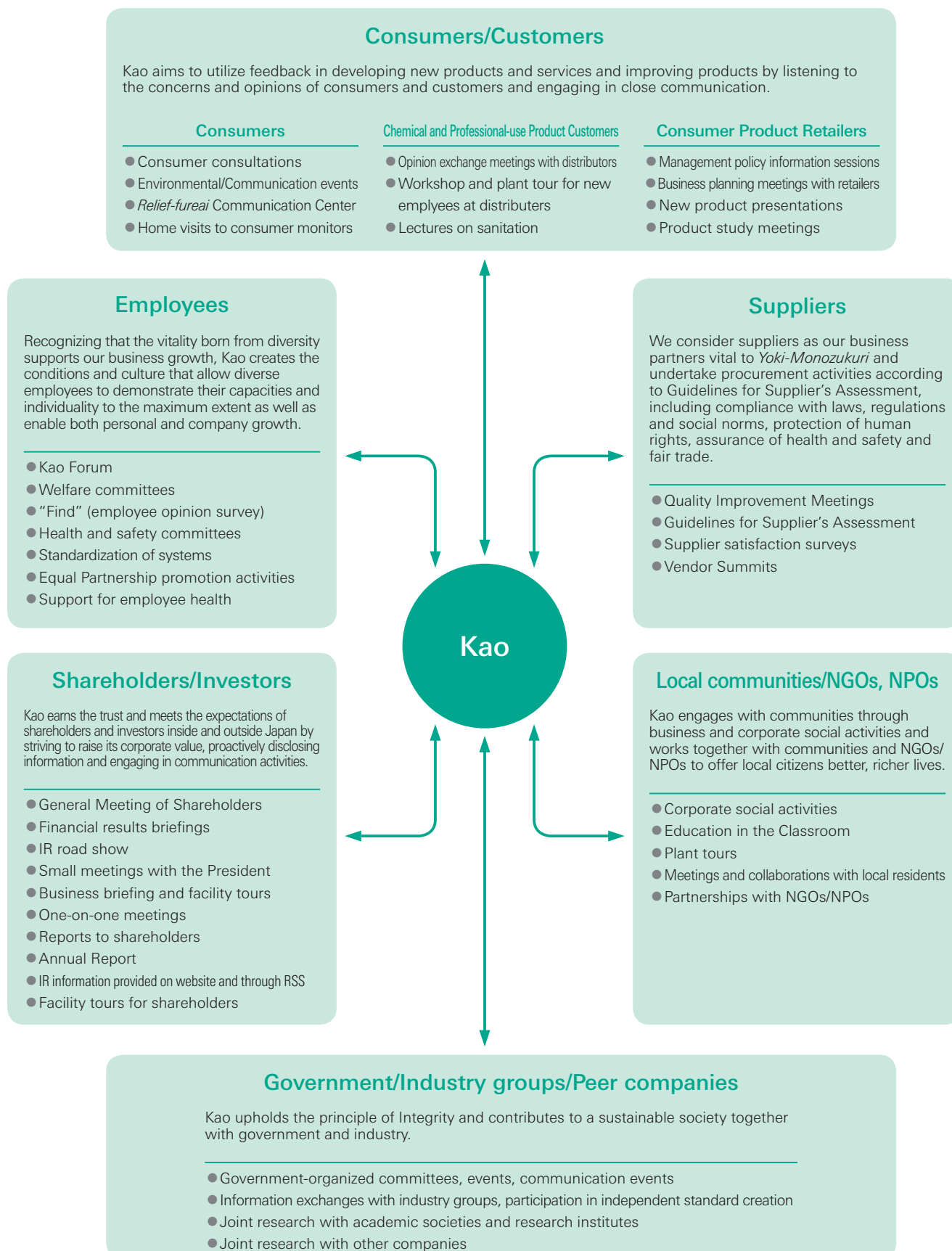
Material issue: ● Diversity and Inclusion

| Target issues | Activities | 2014 targets | 2014 results | 2015 targets |
|---------------------------------|---|---|---|---|
| Promote Diversity and Inclusion | Strengthen management training of diverse employees | <ul style="list-style-type: none"> ● Conduct survey, investigate issues to accelerate progress ● Expand initiatives | <ul style="list-style-type: none"> ● Investigated issues to accelerate progress of women's and seniors' participation in the Kao Group in Japan in the Activating Talent Project ● Conducted D&I survey, identified issues to accelerate progress and studied measures (Kao) ● Identified issues for women in sales positions and proposed action plan (Kao CMK) ● Percentage of women managers from 27.7% to 27.6% (Group-wide) and from 10.5% to 10.1% (Kao Group in Japan) | <ul style="list-style-type: none"> ● Propose and implement action plan |

Kao Sustainability Statement

Stakeholder communication

Kao takes in expectations of society through dialogue with stakeholders and incorporates these expectations into its activities and targets.



Highlights of Three Key Areas

Conservation

Community

Culture

Reducing environmental impacts of business activities



Reducing CO₂ emissions across the product lifecycle

To achieve the long-term international target of preventing a rise in temperature of more than 2°C compared with pre-industrial levels, Kao is actively promoting CO₂ reductions across the product lifecycle, cooperation with policymakers and other parties, and initiatives aimed at realizing zero deforestation, among other measures.

CO₂ reductions across the product lifecycle

Kao Group in Japan

Kao is conducting activities aimed at reducing CO₂ emissions in the product lifecycle by 35% by 2020 (consumer products in Japan per unit of sales, relative to 2005). In 2014, Kao reduced its CO₂ emissions by 17%.

Kao is conducting a range of initiatives across the product lifecycle, including energy-saving activities at plants, marketing water-saving laundry and dish detergents, marketing refill products for powder laundry detergent, and shortening product transportation distances by optimizing the

location of production sites and logistics territories.

Continuing from the previous year, in 2014 Kao updated a portion of CO₂ data for raw materials with the cooperation of suppliers. These efforts to compile more accurate data will continue.

►P9 Non-financial highlights>CO₂ emissions across the product lifecycle (Kao Group in Japan)

Initiatives at plants and offices

Global

To reduce greenhouse gas (GHG) emissions, Kao is improving energy consumption efficiency and using energy sources with lower environmental impacts.

In terms of improving energy consumption efficiency, Kao is promoting energy-saving activities at the grassroots level in daily work as well as introducing Best Practicable Technology (BPT).

In 2014, Kao started using a unit control system for air compressors at the Cikarang Plant of PT Kao Indonesia. This system is already actively being adopted by other plants. Kao Sanitary Products Ehime has introduced a heat pump system.* In addition, many plants including Fatty Chemical (Malaysia) are making effective use of generated steam.

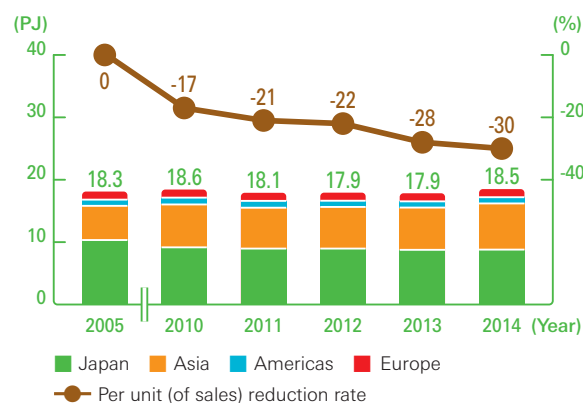
In 2014 as a whole, there were 151 instances of such energy conservation activities at plants and offices in Japan that also led to cost reductions. They have resulted in an annual reduction in CO₂ emissions of approximately 6,300 tons, and about 170 million yen in yearly cost reductions.

Kao Paper Manufacturing Fuji is participating in the Carbon Dioxide Reduction Potential Diagnosis Project conducted by the Ministry of the Environment in Japan. In the project, various technologies with the potential to reduce energy consumption are being introduced based on proposals by experts.

In terms of using energy sources with lower environmental impacts, Kao Manufacturing Germany has switched all of its purchased electricity to renewable energy sources. This has the potential to reduce annual CO₂ emissions by 5,590 tons.

As a result of these initiatives, in 2014 the reduction rate of total energy consumption improved two percentage points to 30%, while the reduction rate of GHG emissions one percentage point to 28%. These figures meet the respective target reduction rates of 29% and 28% (per unit of sales, relative to 2005).

Energy consumption★



* Boundary: All Kao Group production sites, as well as non-production sites within Japan (including commercial vehicles)

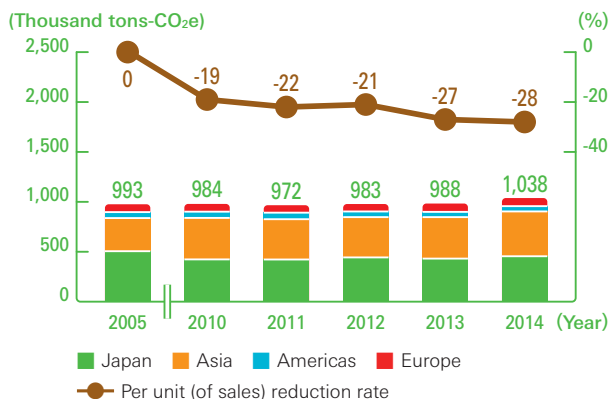
* Assurance has been provided for energy consumption figure

*Heat pump system

Technology that, through the compression and expansion of refrigerant, collects heat from the air or other source using a small amount of energy and converts it to a larger amount of energy for use

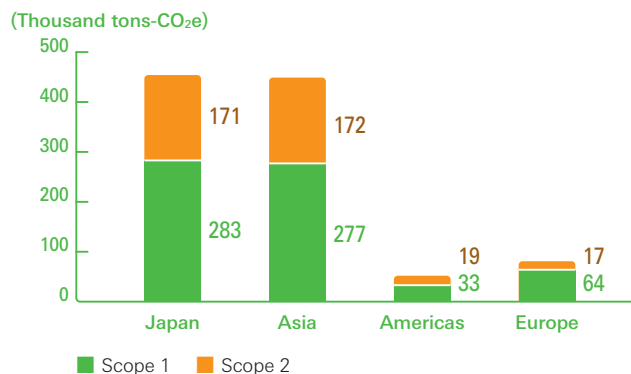
Highlights of Three Key Areas **Conservation**

GHG emissions★



* Boundary: All Kao Group production sites, as well as non-production sites within Japan (including commercial vehicles)
 * Assurance has been provided for GHG emissions figure

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 GHGs 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 GHG Protocol Initiative.

Scope 1: GHGs emitted by the enterprise or organization itself

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

Initiatives at the distribution stage

Global

To reduce environmental impacts 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 the location of production sites and delivery areas have resulted in further progress in reducing energy consumption used in distribution as well as GHG emissions. Kao is also partnering with other companies in addition to

promoting its own efforts. A typical example is shared operation with AEON GLOBAL SCM Co., LTD. of 31-foot rail containers as well as dedicated freight cars during peak times when transportation volumes rise.

Outside of Japan, for example in Vietnam, Kao is promoting efforts to reduce GHG emissions including shifting from truck to ship transport.

Kao will continue working to further lower its environmental impacts.

Topics Joint development of high-performance tire rubber with Bridgestone

In 2014, Kao developed a high-performance tire rubber material with Bridgestone Corporation. This high-performance tire rubber material combines Kao's surfactant control technology*¹ and Bridgestone's NanoPro-Tech*² polymer technology.

The material has ability to disperse silica in tire rubber homogeneously, which improves fuel-efficiency performance leading to lower CO₂ emissions as well as displays excellent gripping performance on wet roads.

As the material developed by new technology for improving silica dispersion is 100% plant originated, Kao is also contributing to sustainability in tire materials. Going forward, the two companies will apply this material to a wider range of tire types than just passenger vehicles and make them globally available.

*¹ Surfactant control technology

Technology to understand and accurately control phenomena occurring on a substance's surface/interface at the nano level.

*² NanoPro-Tech

The collective name for Bridgestone Corporation's polymer technology that draws out the characteristics required to control the microstructure of materials through molecular design, etc. It is one of Bridgestone Corporation's base technologies.



Highlights of Three Key Areas **Conservation**

Measures for water resources conservation

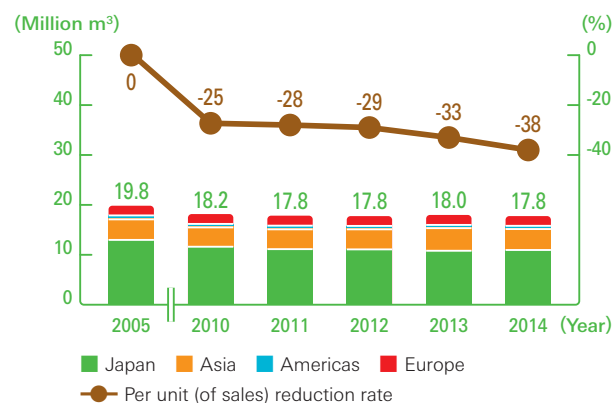
Kao's business activities are closely associated with water. Therefore, Kao is working to use water effectively through "3R" efforts (Reduce, Reuse, Recycle) to minimize the environmental impacts of wastewater and create a system to assess these impacts.

Initiatives at plants and offices

Kao uses water as a product ingredient, as well as to clean and cool equipment in our plants. In the area of reducing water use, Pilipinas Kao has made efforts to reduce its water use after conducting a detailed study of its water use. Efforts to reuse water include collecting rainwater and using it to water green spaces at the Sumida Office in Japan and Fatty Chemical (Malaysia). Kao is also promoting recycling efforts to clean and reuse water used in production processes.

As a result of these activities, water use improved five percentage points compared with the previous year to reach a 38% reduction, achieving the 35% reduction target (per unit of sales, relative to 2005).

Water use★



*Boundary: All Kao Group production sites, as well as non-production sites within Japan
 *Assurance has been provided for water use figure

Initiatives at the product use stage

Kao has set the target of reducing water use during product use by 30% by 2020 (consumer products in Japan per unit of sales, relative to 2005). In 2014, a 21% reduction had been achieved.

In the home, laundry detergent is responsible for a large amount of water use. In 2009, Kao launched the concentrated liquid laundry detergent *Attack Neo* as a product that not only saves water but also electricity and time by employing ultra-concentration technology that requires only one laundry rinse cycle. The series continues to expand, and water-saving detergents have also been launched in China and Australia.

Similar to laundry detergent, dish detergent is also

responsible for a large amount of water use in the home. A new and improved *CuCute* was launched in August 2014 featuring improved cleaning power as well as faster rinsing capability.

Since 2010, *Merit Shampoo* has adopted a component allowing swift rinsing away of lather. The shampoo cuts rinse water by approximately 20% compared to the original version. Kao is also educating consumers about the eco-shampoo skill to shampoo hair while using less water.

►P9 Non-financial highlights>Water use during product use (Kao Group in Japan)

Environmental impact of wastewater after product use

Kao uses and develops raw materials that are easily biodegraded by microorganisms and have minimal impacts on aquatic organisms. Specifically, Kao is conducting safety tests using activated sludge at wastewater treatment plants and river water to investigate the biodegradability of raw materials that will be discharged into the environment and their impacts on aquatic organisms.

In addition, in order to understand the current situation of what is happening after product use, Kao conducts a unique field survey such as environmental monitoring of river surface water. Kao is also using and developing mathematical models to predict the concentration of chemical substances in rivers.

These activities are also being conducted in countries other than Japan, and Kao is aiming to conduct business with consideration for the local environments through efforts such as joint research with local universities.

In addition, Kao is a member of the Japan Soap and Detergent Association (JSDA). JSDA has been conducting environmental monitoring of four typical surfactants in urban river systems (4 rivers 7 sites, 4 measurements/year) for the past 16 years as well as environmental risk assessments on aquatic ecosystems. In the surveys conducted so far, these surfactants have consistently been shown to have low risk to aquatic organisms.

Targets and results

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

Policies/structures

Kao is promoting “eco together” activities in partnership with many diverse stakeholders including consumers, business partners and communities across the product lifecycle from materials procurement, manufacture, distribution, sales, usage and waste disposal.

We have made our mission “to strive for the wholehearted satisfaction and enrichment of the lives of people globally.” As humankind faces the global-scale issues of global warming and resource depletion, we are promoting manufacturing based on reducing our environmental impact as a medium- to

long-term business strategy. While fulfilling our responsibilities as a user of chemicals, we are promoting environmental management in harmony with nature.

Based on this thinking, Kao recognizes the four areas of CO₂, water, chemical substances and biodiversity as key environmental areas.

Details of these activities can be found here:

➡P16 Kao Sustainability Statement>2014 Results & 2015 Targets (Conservation)

2014 results and future targets

Global

In 2014, we did not achieve our GHG emission reduction targets for the Kao Group in Japan (all production and non-production sites and product transport) and waste generation

by the Kao Group. We will promote further efforts in 2015 aiming to achieve our targets.

1. Production and other business activities-related

Kao Group

| Category | Index ^{*1} | Relevant division | 2014 targets | 2014 results | 2015 targets | 2020 targets |
|----------------|---------------------|-------------------|---------------|---------------|---------------|---------------|
| Energy/ GHG | Energy consumption | All sites | 29% reduction | 30% reduction | 30% reduction | 35% reduction |
| | GHG emissions | | 28% reduction | 28% reduction | 29% reduction | 35% reduction |
| Water | Water use | | 35% reduction | 38% reduction | 36% reduction | 40% reduction |
| Waste | Waste generation | | 30% reduction | 27% reduction | 30% reduction | 33% reduction |

Kao Group in Japan

| Category | Index | Relevant division | 2014 targets | 2014 results | 2015 targets | 2020 targets |
|-----------------|---------------------------------------|------------------------------------|---------------|---------------|---------------|--------------------|
| GHG | Emissions ^{*2} (vs. 1990) | All sites + product transportation | 21% reduction | 18% reduction | 22% reduction | 25% reduction |
| Waste | Final disposal ratio ^{*3} | All sites | 0.1% or lower | 0.1% | 0.1% or lower | 0.1% or lower |
| CSR procurement | Green procurement ratio ^{*4} | All supplier plants | 98% | 99% | 99% | 100% ^{*5} |

2. Product-related

Kao Group in Japan

| Category | Index ^{*1} | Relevant division ^{*6} | 2014 results | 2020 targets |
|-----------------|---------------------------|---------------------------------|---------------|---------------|
| CO ₂ | CO ₂ emissions | Entire product lifecycle | 17% reduction | 35% reduction |
| Water | Water use | During product use | 21% reduction | 30% reduction |

*1 Per unit of sales, relative to 2005.

*2 Emissions of the six GHGs covered by the Kyoto Protocol, expressed in CO₂ equivalent.

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

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

*5 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.

*6 Mainly for consumer products sold in Japan.

Sound management of chemicals

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

Policies/structures

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 "SAICM Promotion Policy"
http://www.kao.com/jp/en/corp_csr/eco_activities_03_05.html

SAICM is global-scale landmark initiative to protect human health and environment. 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."

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 an SAICM perspective, therefore, there are issues that Kao needs to address. With this in mind, in order to speed up specific activities for the achievement of the SAICM goals, the Group-wide SAICM Promotion Committee was established in 2012, with the Chemical Business Unit, R&D, Production & Engineering and Product Quality Management Division playing leading roles.

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, and (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 is promoting strengthened chemical substance management and communicating the obtained results to stakeholders to further enhance the degree of trust that customers and consumers place in Kao.

SAICM Promotion Committee activities

In 2014, Kao conducted activities for the following three priority issues in the promotion of SAICM.

- ① Risk assessments and creation of risk assessment reports for priority substances in line with the medium-term plan through 2020; start of development of a lifecycle management system for chemical substances
- ② Decision on substances to be managed in production and risk assessments at production sites that handle chemical substances
- ③ Study of ways to release the results of SAICM activities to the general public and communicate with communities

The results of these activities are as follows:

- ① The risk assessment of priority substances in 2014 was finished according to the medium-term plan, and the results were compiled in a risk assessment report. A development working group was established within the SAICM Project for the purpose of building a more advanced lifecycle management system for chemical substances based on Kao's Comprehensive Management System for Chemical Substances.
- ② Regarding risk assessments at production sites that handle chemical substances, a combination of risk assessment methods were employed, namely a qualitative risk assessment of worksites using the control banding method*1 in the Japanese Industrial Safety and Health Act, and the more detailed ECETOC TRA*2 adopted for risk assessments in the EU's REACH regulation. Kao conducted these risk assessments at production sites that handle PRTR, VOC and toxic substances. In 2015, Kao plans to study hazardous labeling (GHS) at production sites and draft and implement risk reduction countermeasures at worksites based on the risk assessments for chemical substances.
- ③ The SAICM Promotion Committee and the committee that oversees it have decided to publish Kao's basic approach to and activities for promoting SAICM, as well as SAICM deliverables including risk assessment reports, on the Kao website in 2015. In addition, Kao released 35 GPS safety summaries of substances registered in the EU's REACH regulation on the Kao Group website in 2014 (total of 77 GPS safety summaries to date).

➡ Activities for safer use of chemicals (SAICM promotion activities)
http://www.kao.com/jp/en/corp_csr/eco_activities_06.html



The sixth meeting of the SAICM Promotion Committee

*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 the health of workers in small and medium-sized companies 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.

Sound management of chemicals

Management system

In 2001, Kao created a chemical substances database, which gives a common Group-wide master code (Master Index) to individual products, materials and the chemical substances contained in them. Kao has developed and operates the Comprehensive Management System for Chemical Substances, which enables information including the composition of products and materials, safety, conformity, and the safety data sheet (SDS) to be confirmed in a centralized manner using the master code as the key.

This system facilitates product design with a focus on safety and environmental consciousness and serves as the backbone of Kao's *Yoki-Monozukuri*, ensuring traceability from raw materials procurement to manufacturing and shipment by closely coordinating among core manufacturing infrastructure.

Kao has been preparing the system environment to be able to compile and visualize the volumes of chemical

substances manufactured and used by Kao to meet needs to manage substance volumes in the EU's REACH regulation enacted in 2007 as well as report substance volumes for each application, which became mandatory in 2011 with the Japanese Chemical Substances Control Law.

Kao manufactures a wide variety of different products, and 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 proper management of chemical substances.

Kao continues to proactively promote the development of systems to manage chemical substances in accordance with SAICM, for effective collaboration between research and production, and for further strengthened compliance.

Comprehensive Management System for Chemicals



Complying with the EU's REACH*¹ chemicals regulation

Global

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) and Phase 2 substances (produced within or imported into the EU in annual quantities of 100 tons or more) was completed within the deadline 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.

Regarding the next step, REACH Phase 3 substances (produced within or imported into the EU in annual quantities of 1 tons or more), from 2014 Kao has been systematically selecting substances each year to be given priority registration and is working on the registration process, taking into account the status of Kao's business for each substance in the European market, future volume expansion, etc. Kao plans to complete registration of all required substances by the final

registration deadline of May 31, 2018.

At the same time, in order to ensure compliance with the REACH regulation, it is also required to share importer and registration information obtained through the supply chain between the Only Representative (OR) and the EU importer. To ensure this two-way communication of information, Kao continued measures to implement effective communication of information between suppliers using the OR²IS*² system in 2014, 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 regulation 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).

Sound management of chemicals

Reinforcement of information management of chemicals

Global

1. GHS^{*1}-compliant SDS^{*2} and product labeling

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

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

In 2014, Kao implemented GHS labeling for products marketed in countries and regions which have introduced GHS (Japan, Taiwan, South Korea, China, EU, Singapore, Thailand and Indonesia [mainly single products]). Kao is creating and issuing SDS for Vietnam and Malaysia and has made progress on system compatibility and other preparations in advance of labeling for the countries. Kao is also preparing for GHS compliance for the OSHA Hazard Communication Standard in the United States and the EU's CLP Regulation for chemical substances and mixtures, which goes into force in June 2015.

2. Providing and obtaining information regarding chemicals in products

With regards to the provision and acquisition of information regarding chemicals in products, as a founding member of the JAMP^{*3} consortium, Kao is actively promoting the provision and acquisition of information regarding chemicals through the use of the common MSDSplus^{*4} data sheet.

Revised versions were issued in January (Substances List Ver. 4.010) and July (Substances List Ver. 4.020) of 2014, and have been distributed to customers via sales distributors as well as released on the corporate website. Kao has produced an English-language version of MSDSplus for products of Asian subsidiaries and released it on those subsidiaries' websites as well. In addition to the English version, Kao has also produced and released a Simplified Chinese-language version of MSDSplus for products of subsidiaries in China.

Kao has also continuously obtained the latest version of the MSDSplus for raw materials from suppliers in 2014.

In order to further the efficient transmission of MSDSplus information, which increases every year, Kao has registered MSDSplus information on Chemical products on JAMP-IT^{*5} and is releasing and providing this information to customers. In 2014, Kao began providing and obtaining information via JAMP-IT to some sales distributors as well and has used JAMP-IT to communicate MSDSplus information on materials purchased via distributors.

3. Risk communication on chemical substances

Kao has been participating actively in the Japan Initiative of Product Stewardship (JIPS),^{*6} 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^{*7} disclosure with respect to the EU, and has made available on the Kao Chemicals website. For the GPS safety summaries^{*8} that outline, in an easy-to-understand manner, hazard information, exposure information on humans and environment, and risk management measures have been disclosing on the Kao Chemicals website and ICCA GPS chemicals portal. Kao considers the risk communication on chemical substances with stakeholders conducted by means of the publication of GPS safety summaries to constitute one of the important elements of Kao's SAICM activities.

In 2014, Kao proactively produced and released GPS safety summaries both inside and outside Japan. In Japan, Kao has published a total 58 safety summaries in English and Japanese since 2012. Outside Japan, for products of subsidiaries in Thailand, Indonesia and the Philippines in Asia, Kao has published GPS safety summaries in English or the local language, which are the first such safety summaries in the chemical industry of the countries. The Kao Group has published a total of 77 safety summaries globally and has contributed to GPS activities advocated by ICCA. In 2015, Kao will continue to publish GPS safety summaries, with a focus on products with REACH registration, and implement proactive risk communication with customers and with society as a whole on a global basis.

^{*1} GHS

Globally Harmonized System of Classification and Labeling Chemicals
SDS (Safety Data Sheet)

^{*2} 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.

^{*3} JAMP

Joint Article Management Promotion-consortium

^{*4} MSDSplus

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

^{*5} AMP-IT

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

^{*6} 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.

^{*7} eSDS

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

^{*8} GPS safety summary

This is a document providing a summary of chemical substance safety information for reference for the 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.

Sound management of chemicals

Activities relating to compliance with laws and regulations in Japan

Kao Group in Japan

1. Compliance with the amended Chemical Substances Control Law

The amended Chemical Substances Control Law, which came into effect in April 2011, established a new category of Priority Assessment Chemical Substances to assess the phased appraisal of the impact on human health and on the environment, and substances are added to this category each year. In response to the new Priority Assessment Chemical Substances that were added in 2014, Kao has revised the SDS for the subject chemical products, and provided customers and sales distributors with information regarding chemical substance content.

In addition, the amended Chemical Substances Control Law requires reporting of volumes for each use. Therefore,

Kao regularly surveys and updates use information for chemical products and manages the most up-to-date information.

2. Revisions to SDS and 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 Act), revisions were required to the SDS and product labels of almost all chemical products. Kao began revising the SDS in January 2013 and completed revisions for the applicable products in August 2014. As for product label, Kao continued rolling out revisions progressively building on the revisions conducted in 2013.

Monitoring and control of releases of chemical substances subject to the PRTR Act

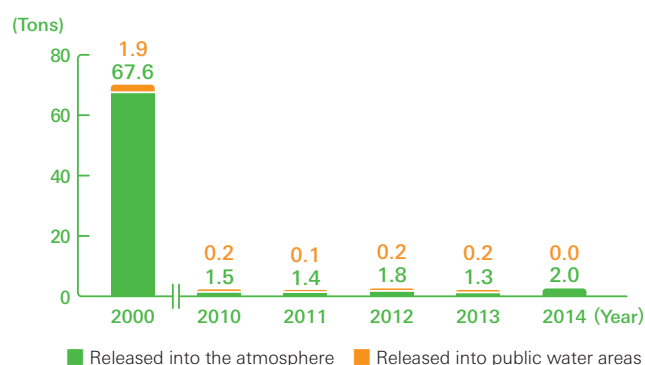
Kao Group in Japan

The number of chemical substances subject to the PRTR Act which Kao handled during 2014 was 74, and the total discharge of such substances into the atmosphere and public water areas was 2.0 tons.

In addition, we are voluntarily monitoring and controlling releases 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 "List of Emissions of Substances Subject to PRTR Act"
http://www.kao.com/jp/en/corp_csr/eco_activities_02_07.html

Releases of chemical substances subject to the PRTR Act



Management of VOC emissions

Kao Group in Japan

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 33 chemical substances that were handled by Kao in 2014; the total discharge into the atmosphere was 6.6 tons (★).

Proper storage and disposal of PCBs

Kao Group in Japan

Waste containing polychlorinated biphenyl (PCB) in insulating oil, including transformers and fluorescent light ballasts, is carefully stored at Kao's Wakayama Plant, Tokyo Plant, Kawasaki Plant, Kashima Plant, Sakata Plant, Odawara Office and Kao Paper Manufacturing Fuji in accordance with the requirements of the Waste Management and Public Cleansing Act and the Law Concerning Special Measures Against PCB Waste.

High-concentration PCB waste is registered with the Japan Environmental Storage and Safety Corporation (JESCO). There was no high-concentration PCB waste treatment in 2014.

Kao is taking proactive steps to manage low-concentration PCB waste by authorized or certified waste treatment providers. Nine pieces of equipment were treated as waste in 2014.

Measures for biodiversity conservation 【EN12】

At Kao, we realize 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.

Initiatives toward sustainable procurement of raw materials

Global

In light of degradation of biodiversity as well as global warming and other environmental problems, resource constraints, and human rights issues, Kao has formulated and implements the Guidelines for Sustainable Procurement of Raw Materials for the purpose of realizing procurement of sustainable raw materials.

Sustainable Palm Oil Procurement Guidelines

In the procurement of palm oil, one of the basic raw materials we handle, we have committed to consideration for biodiversity conservation and zero deforestation, and have set the new goal of purchasing only sustainably sourced palm oil that is traceable to the plantation for use in Kao Group consumer products by 2020.

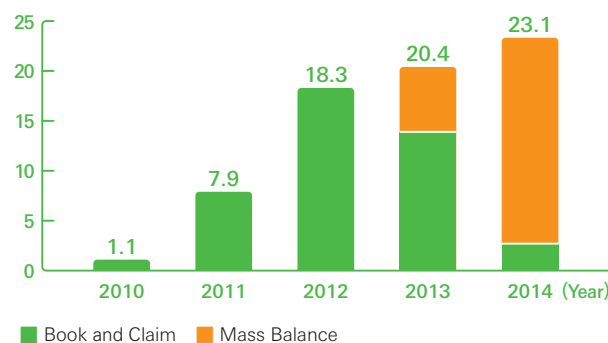
To achieve this goal, Kao is taking steps with the goal of purchasing only sustainable palm oil and palm kernel oil traceable to the mill that gives consideration to sustainability for use in Kao Group consumer products by the end of 2015. Kao is working to sufficiently confirm zero deforestation at the source by 2020 through cooperation with plantations, suppliers and third-party organizations. In addition, Kao has stated that it will not take part in developing high conservation value (HCV)*¹ forests, high carbon stock (HCS)*² forests or peaty swamp forests.

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 human rights abuses at plantations and factories. In September 2010, we began purchasing certified palm oil under the Book and Claim system,*³ one of the systems approved by the RSPO, and now mainly purchase certified palm and palm kernel oil under the Mass Balance system.*⁴ In March 2012, Kao's Kashima Plant successfully passed an RSPO audit and received SCCS certification,*⁵ followed by the Wakayama Plant in March 2013. In 2014, nine plants outside Japan also received SCCS certification. These are some of the

steps we are taking to build a Kao Group supply chain capable of traceability by 2020.

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)

*1 HCV: High Conservation Value

*2 HCS: High Carbon Stock

*3 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.

*4 Mass Balance system

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

*5 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.

Measures for biodiversity conservation [EN12]

Sustainable Paper and Pulp Procurement Guidelines

Kao has also committed to consideration of biodiversity conservation and zero deforestation in the procurement of paper and pulp. Kao has set the goal of purchasing only recycled paper or paper produced with consideration for sustainability for the paper and pulp used in Kao products, packaging materials and office paper by 2020. An action policy for this goal has also been formulated.

We give priority to using waste pulp (recycled paper) as the main raw material without wasting paper or pulp. When using pulp (virgin pulp) other than waste pulp, by 2020 we will purchase only pulp that is traceable to the original source, and will confirm zero deforestation at producers of wood materials

➡P79 Culture>Partnering with our suppliers

through cooperation with suppliers and third-party organizations.

To also ensure quality, we are also confirming that environmental considerations including the following are being taken.

- No chlorine gas bleaching
- No extreme levels of whiteness
- Minimal use of coating for coated products
- No use of processes that hinder recycling

Promoting collaboration with other companies

Kao Group in Japan

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 Creating Forests for Everyone program

Kao Group in Japan

To leave an abundance of greenery for future generations, Kao has continued the Kao Creating Forests for Everyone program since 2000. This program is administered in partnership with Kao and the Organization for Landscape and Urban Green Infrastructure, and supports citizens' organizations engaged in the protection and expansion of green environments. Aid is provided in two main areas: forestation and environmental communication. Both provide continuous support for a period

of three years, enabling citizens' organizations to conduct stable activities from a longer-term perspective. Kao has so far supported 391 organizations.

In 2014, 128 organizations responded to our August through October call for applications (80 in the forestation category and 48 in the category of environmental communication). Selections were finalized in March 2015, with 20 organizations now the new recipients of support.



Association to restore the Hinaga plum grove and Mt. Tojo



Hirata Satoyama no Kai (NPO)

Measures for biodiversity conservation [EN12]

“Furusato” Environment Conservation Project in Northern Thailand

Global

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 2014, the project’s third year, 8,000 trees were newly planted on land covering seven hectares, and the project also provided environmental education to local children to develop

future protectors of the forests. In August, local citizens, students from local schools and Kao employees participated in tree planting activities and deepened their exchange. The total area of land where these activities have been conducted reaches 21 hectares. Local residents also continue daily maintenance of the forested lands by cutting underbrush, applying fertilizer and other activities, and the approximately 25,000 trees that have been planted so far are growing steadily.



Commemorative photo of August tree planting



Educational activities on the environment for children

Employees participate in Post Tsunami Monitoring Project

Kao Group in Japan

Kao creates opportunities for employees to volunteer with the Post Tsunami Monitoring Project, sponsored by the NPO Earthwatch Japan. This project has volunteers provide field support to researchers conducting field work of rice fields and tidal lands that sustained damage in the tsunami after the Great East Japan Earthquake.

In 2014, 13 employees went to local areas to support the field work. The data obtained in the field works are being used in restoration plans that take biodiversity into consideration and for conservation of species.



Field work

Measures for biodiversity conservation [EN12]

Biodiversity initiatives at the Wakayama Plant

Kao Group in Japan

Wakayama Plant receives 2nd Urban Green Award

The Wakayama Plant has received the 2nd Urban Green Award, sponsored by the Organization for Landscape and Urban Green Infrastructure. With understanding of the historical and cultural value of the mainly black pine trees that traverse the Wakayama Plant grounds as well as their natural value of serving as a protection against salt wind, employees have erected a signboard to tell future generations about the grove and manage the grove in consideration of the wild birds and other animals found in the habitat. The Kao Eco-Lab Museum has also been established on the Plant grounds for the purpose of communicating information on the environment and Kao's eco technologies. These proactive efforts to conserve valuable green resources combined with efforts to increase awareness of environmental conservation were among those recognized in being named for the award. Building on this award and with the mantra of becoming a "model plant for biodiversity," the Wakayama Plant will continue to make steady efforts to conserve the green areas within the Plant grounds including the protective pine grove while partnering with the Kao Eco-Lab Museum.

Enterprise Forest Project

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 2014, 153 Kao employees and family members participated in weeding and clearing of undergrowth.



Plaque recognizing the Wakayama Plant's green space



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.

Promoting initiatives to reduce waste

Global

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

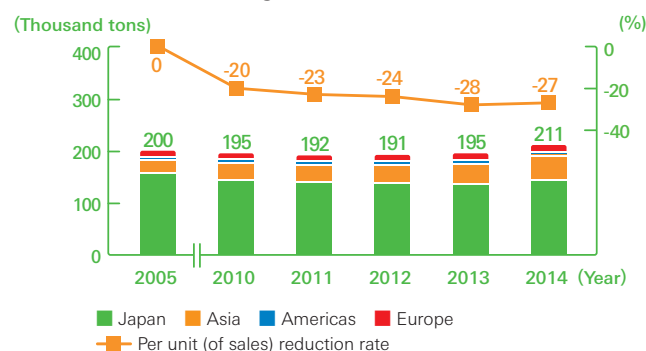
As part of efforts to reduce the amount of waste generated, Kao has continuously implemented measures at its production sites, including making alterations to production methods so as to reduce the amount of defective product and offcuts produced, and adjusting the procedures used for washing equipment in order to reduce liquid waste. Kao has been recycling distribution materials at distribution centers, and at offices, Kao has been managing the quantity of paper used.

Although Kao has implemented these measures, the amount of waste generated by the Kao Group in 2014 increased by 16,000 tons year on year due to the effects of establishing a new plant and expanding production lines. The amount of waste generated per unit of sales deteriorated 1-point to a 27% reduction relative to 2005 levels. This falls below the target of 30% for all Kao Group production and non-production worksites, relative to 2005 levels, per unit of sales. Kao will further strengthen its efforts to promote waste reduction activities in 2015.

Additionally, the capacity, in terms of useful years remaining, of landfills in Japan is growing tight, and Kao is thus working to reduce and recycle 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; these are ways in which Kao is proactively reducing the amount of waste that ends up in landfills. As a result of these efforts, Kao maintained its target of 0.1% or lower final disposal ratio in 2014. Kao has achieved its target of zero emissions for the 10th consecutive year since the target was set (All Kao Group production and non-production worksites in Japan, final disposal ratio of waste generated).

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

Strengthening waste- and recycling-related governance

Global

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 2014, Kao carried out on-site inspections of 159 facilities belonging to 144 firms with which Kao collaborates.

In Japan, Kao has developed the Waste Recycling Governance System for coordinated management 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 within the Kao Group in line with efforts to expand the use of electronic manifests being promoted by the government.

Other environmental impacts [EN21,EN22,EN23]

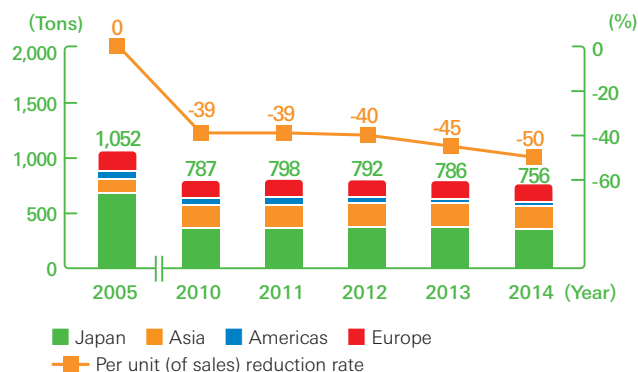
Initiatives to prevent air pollution

Global

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 30 tons year on year, a 5-point improvement on a per unit of sales reduction rate basis.

Kao monitors pollutant levels in exhaust gases in accordance with the law and with local government agreements. There were no incidents of pollutant levels exceeding legal levels in 2014.

NOx emissions★



* Boundary: All Kao Group production sites
 * Assurance provided for NOx emission figures

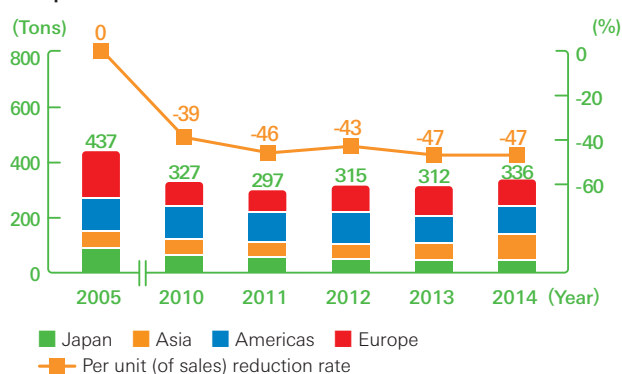
Initiatives to prevent water pollution

Global

In order to prevent water pollution, Kao works to maintain its equipment and facilities. COD pollution loads from its plants increased by 24 tons year on year due to the effects of establishing a new plant and increasing production capacity, but there was no deterioration on a per unit of sales reduction rate basis.

Kao monitors discharge water pollution levels in accordance with the law and with local government agreements. In 2014, there were two instances at Kao Specialties Americas in which those standards were exceeded, both of which were reported to the authorities and one resulting in paying a fine. There was one instance at Molton Brown in which those standards were exceeded, and this was also reported to the authorities. We have completed steps to address these incidents in terms of equipment and facilities as well as operations.

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

Surveys of groundwater and soil contamination

Kao Group in Japan

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 2014, voluntary investigations were conducted at the Wakayama Plant, Sakata Plant, Tochigi Plant and Odawara Office, and it was confirmed that levels of all substances were

below their regulatory limit values across all test items.

Additionally, at our Wakayama 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.

Environmentally-conscious containers and packaging [EC2,EN1,EN27]

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. As part of our “eco together” activities, we are promoting environmentally conscious containers and packaging.

Policies/structures

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 4R's: 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.

These efforts are led by our Package Development Research and promoted in cooperation with related divisions, external suppliers and other partners.

Reducing container and packaging materials

Kao Group in Japan

Reducing container and packaging materials not only reduces environmental impact, but also leads to cost reductions. In an example from 2014, we reduced CO₂ emissions by approximately 208 tons by reducing the amount of cardboard used in refill containers for products including *Attack* laundry detergent. In all of 2014, there were 63 such instances in which reductions in container and packaging materials

resulted in a reduction in environmental impact, leading in turn to an approximately 1,800 ton reduction in CO₂ emissions per year and an annual drop in costs of about 200 million yen.

The amount of container and packaging materials used in 2014 increased from 2013 in conjunction with increased sales volume.

Volume of container and packaging materials used

(Unit: tons)

| | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 |
|-----------|---------|---------|---------|---------|---------|---------|
| Plastic | 56,500 | 53,600 | 53,100 | 54,300 | 54,600 | 56,500 |
| Paper | 21,300 | 19,300 | 17,900 | 17,400 | 16,000 | 14,700 |
| Cardboard | 70,600 | 70,500 | 69,300 | 69,700 | 69,600 | 73,800 |
| Others | 2,300 | 2,000 | 2,000 | 1,900 | 4,300 | 3,900 |
| Total | 150,700 | 145,400 | 142,300 | 143,300 | 144,500 | 148,900 |

*Boundary: Kao Corporation



Use of lighter containers

Fragrance New Beads Gel

In January 2014, we successfully reduced the weight of the container for *Fragrance New Beads Gel* laundry detergent. The amount of resin used per bottle was reduced by approximately 11%, resulting in about an 8% reduction in CO₂ produced across the lifecycle. A “palm fit” ergonomic bottle design was also adopted to improve ease of use.



Environmentally-conscious containers and packaging [EC2,EN1,EN27]

Promoting refill and replacement products

Kao Group in Japan

Since Kao introduced its first refill product in 1991, their number has continued to grow, and as of December 2014 had reached 226 products. Kao has also continued to make improvements in these refill products according to bottle size, the viscosity of the contents and so on to make refilling containers easier for the consumer.

Since 1997, the ratio of refill products to unit sales has

rapidly increased, and is currently at more than 80% (based on number of units). For example, the refill ratio for *Flair Fragrance* fabric softener now stands at 93%. All of the refill and replacement products sold in 2014 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).

Topics 38th Kinoshita Prize from the Japan Packaging Institute

Kao was awarded the 38th Kinoshita Prize in the field Research & Development by the Japan Packaging Institute for its development of an environmentally conscious refill container for powder detergent.

This package is a completely new product that allows the whole pack to be placed in the product box before being opened. This makes it easier to refill the powder laundry detergent and eliminates the worry of powder spilling or flying out. This refill system was realized using special processing and converting technology for the pack, which enables the pack to be easily opened by hand using a hand-tear tab. The tab enhances ease of use by enabling the pack to be opened straight across at the top without stress. The pack is also designed to adhere to the sides of the box, making it easy to scoop out the powder detergent until the pack is empty. Environmental considerations also include reuse of the product box and measuring spoon. Using the refill pack thus allows packaging waste to be reduced by approximately 90%.

This system was recognized for its environmental consciousness as well as Universal Design perspective, which had not been a focus of past refill packaging design, and led to the award.



Attack Highly Active Bio EX refill pack, which goes directly into the box (left), and the pack opened inside the product box (right)

Participating in a campaign to reduce waste in nine cities and prefectures

Kao Group in Japan

From October 1 to 31, 2014, Kao participated in a campaign to reduce waste in nine cities and prefectures. The campaign to promote waste reduction was sponsored by the nine local governments of Saitama, Chiba, Tokyo and Kanagawa prefectures and Yokohama, Kawasaki, Chiba, Saitama and Sagami-hara cities, which are supporting 43 companies working to reduce the volume of their containers and packaging.

Kao has participated in this campaign and declared a "container and packaging diet" every year since 2010. The campaign introduces company initiatives and products to consumers through PR activities in retail stores as well as posters and leaflets created by local governments featuring recommended products from the participating companies. Continuing from 2013, Kao introduced the environmentally conscious *Attack Highly Active Bio EX* refill pack in 2014.



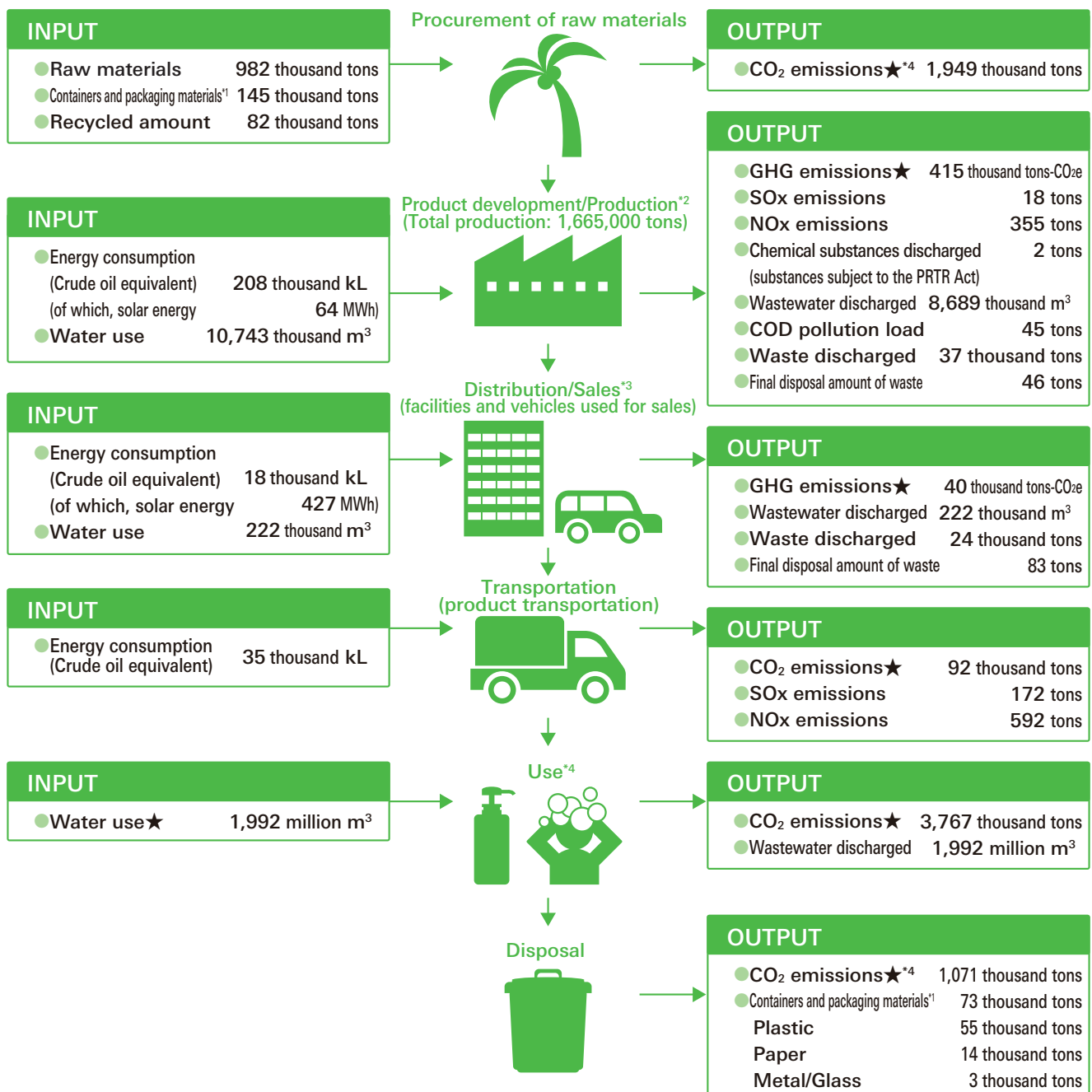
Attack Highly Active Bio EX refill pack

Product lifecycle and environmental impact [EN1,EN2,EN3,EN30]

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

2014 business operations and environmental impact

Kao Group in Japan



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 mainly for consumer products in Japan.

Product lifecycle and environmental impact [EN1,EN2,EN3,EN30]

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 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 use

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

OUTPUT

● GHG emissions

Amount of emissions of the six GHGs 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 Act 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 mainly 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.

2014 environmental accounting report

Kao Group in Japan

- 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.

Environmental conservation costs (categories corresponding to business activities)

(Unit: millions of yen)

| Categories | | Key activities | Investment | Cost ^{*1} |
|-------------------------------------|------------------------------------|--|------------|--------------------|
| (1) Business area costs | | | 1,101 | 4,005 |
| Breakdown | ①Pollution prevention | Air pollution prevention, water contamination prevention | 306 | 1,601 |
| | ②Global environmental conservation | Energy conservation | 548 | 454 |
| | ③Resource circulation | Resource conservation, waste processing and disposal | 247 | 1,950 |
| (2) Upstream/downstream costs | | Plant and equipment for eco-conscious products, containers and packaging recycling | 734 | 2,793 |
| (3) Administration costs | | Acquisition and maintenance of ISO certification, environmental publicity, tree planting within work sites | 7 | 1,049 |
| (4) R&D costs | | Eco-conscious R&D | 1,248 | 4,517 |
| (5) Social activity costs | | Natural environmental conservation and tree planting activities outside work sites, donations | 0 | 136 |
| (6) Environmental remediation costs | | | 0 | 0 |
| Total | | | 3,090 | 12,500 |

*1 Cost includes depreciation costs.

Environmental conservation benefits (physical quantity benefits)

| Categories | Environmental performance indicators (units) | 2013 | 2014 | Change |
|---|---|------|------|--------|
| Related to resource input into business activities | Energy consumption (crude oil equivalent, thousand kL) | 228 | 226 | -2 |
| | Water use (million m ³) | 10.8 | 11.0 | 0.2 |
| Related to waste or environmental impact originating from business activities | GHG emissions (thousand tons-CO _{2e})* ² | 434 | 455 | 21 |
| | SOx emissions (tons) | 15 | 18 | 3 |
| | NOx emissions (tons) | 370 | 355 | -15 |
| | Wastewater amount (million m ³) | 8.7 | 8.9 | 0.2 |
| | COD pollution load (tons) | 46 | 45 | -1 |
| | Waste discharged (thousand tons) | 57 | 61 | 4 |
| | Final landfill disposal amount of waste (thousand tons) | 0.2 | 0.1 | -0.1 |
| | Emissions of chemical substances subject to PRTR Act to the atmosphere (tons) | 1 | 2 | 1 |

*2 GHG emissions (CO₂ equivalent) are calculated based on the Calculation and Reporting Manual on GHG Emissions (Ver. 3.5) of June 2014 published by the Ministry of the Environment and the Ministry of Economy, Trade and Industry.

Environmental accounting [EN31]

Economic benefits associated with environmental conservation activities^{*3}

(Unit: millions of yen)

| Details of benefits | | Amount ^{*4} |
|------------------------------|--|----------------------|
| Revenue | Sales value of valuable resources and fixed assets | 302 |
| Cost reduction ^{*4} | Reduction in costs through energy conservation | 299 |
| | Reductions in cost through resource saving | 1,436 |
| | Reduction in operation costs (maintenance costs, etc., of eco-conscious equipment) | 144 |
| Total | | 2,181 |

^{*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: millions of yen)

| Categories | Key activities | Investment | Cost |
|---|---|------------|--------|
| ①Cost related to global warming measures | Energy conservation | 548 | 454 |
| ②Cost related to ozone layer protection measures | Switch to alternatives to CFCs | 0 | 0 |
| ③Cost related to air quality conservation measures | Prevention of air pollution, prevention of dust pollution, malodor prevention | 34 | 442 |
| ④Cost related to noise and vibration measures | Noise prevention | 2 | 3 |
| ⑤Cost related to environmental conservation measures for the aquatic, ground, and geologic environments | Prevention of water pollution | 270 | 1,156 |
| ⑥Waste and recycling measures | Resource savings, industrial waste volume reduction, recycling | 981 | 4,743 |
| ⑦Cost related to measures to reduce chemical risk and emissions | R&D on products and production | 1,248 | 4,517 |
| ⑧Cost related to natural environmental conservation | Natural environmental conservation and tree planting activities outside plants, donations | 0 | 135 |
| ⑨Other costs | Acquisition and maintenance of ISO certification, environmental publicity, tree planting activities within plant premises | 7 | 1,050 |
| Total | | 3,090 | 12,500 |

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

| | 2012 | 2013 | 2014 |
|---|--------|--------|--------|
| ①Environmental conservation cost | | | |
| Investment (millions of yen) | 3,627 | 3,708 | 3,090 |
| Cost (millions of yen) | 12,458 | 11,294 | 12,500 |
| ②Environmental performance indicators concerning environmental conservation benefit | | | |
| Energy consumption (crude oil equivalent, thousand kL) | 231 | 228 | 226 |
| Water use (million m ³) | 11.1 | 10.8 | 11.0 |
| GHG emissions (thousand tons-CO _{2e}) | 446 | 434 | 455 |
| SOx emissions (tons) | 23 | 15 | 18 |
| NOx emissions (tons) | 371 | 370 | 355 |
| Wastewater amount (million m ³) | 8.9 | 8.7 | 8.9 |
| COD pollution load (tons) | 50 | 46 | 45 |
| Waste discharged (thousand tons) | 56 | 57 | 61 |
| Final landfill disposal amount of waste (thousand tons) | 0.1 | 0.2 | 0.1 |
| Emissions of chemical substances subject to PRTR Act to the air (tons) | 2 | 1 | 2 |
| ③Economic benefit associated with environmental conservation activities | | | |
| Actual benefit (millions of yen) | 1,988 | 1,943 | 2,181 |

Highlights of Three Key Areas

Conservation

Community

Culture

Environmental activities in partnership with stakeholders



Environmental activities in partnership with governments

In China, where water shortages give rise to serious problems, Kao (China) has conducted the Nationwide Cleanliness and Water-saving Initiatives jointly with China's Ministry of Environmental Protection since 2012, which call on people to "Save 10,000 liters of water annually per household."

Water-saving campaign in partnership with the Chinese government

Kao Group Overseas

In recent years, the shortage of water resources has become a serious problem in China. Kao (China) has conducted the Nationwide Cleanliness and Water-saving Initiatives jointly with China's Center for Environmental Education and Communications of the Ministry of Environmental Protection. Held since 2012 and marking their third year in 2014, these initiatives encourage people to "Save 10,000 liters of water annually per household" in China.

Events to introduce water-saving techniques and the importance of water were held in Beijing in March and in Guangzhou and Shanghai in April 2014. The events in the three cities attracted a total of about 150,000 people. Featuring panel displays, games to learn about water facts in a fun way, exhibits of award-winning paintings in the Kao International Environment Painting Contest for Children, and demonstrations of water-saving laundry detergent sold by Kao in China, the events allowed visitors to learn water-conservation knowledge in fun and easy-to-understand ways. The events were run with the support of student and employee volunteers. Many participants at the events gave feedback such as, "I learned many ways that I can save water at home. We also want to contribute to saving water."

As a new initiative in 2015, events to promote the importance of water were held from mid-March to late April at around 50 universities in China. Another event to announce the results of activities held at each university was held in Shanghai on May.



Voice Increasing my own motivation by participating in events

I have participated in the events for three years in a row, giving demonstrations of *Attack* laundry detergent.

These events not only introduce Kao products – they also communicate the preciousness of water and ways to conserve water at home. This makes them a valuable opportunity to communicate Kao's approach to the environment and its activities for society to a large number of people.

Many people also bring their children to the events, and at our booth we show how precious water is in ways that are easy for both adults and children to understand as well as ways to conserve water together with children.

There was a lot I didn't know myself before I started participating in the events. The activities have taught me a lot, and now I try to conserve water in my day-to-day life. I think efforts to teach the next generation about the preciousness of water are very meaningful.



Ji Kan, Kao (China)
Research and
Development Center

Environmental communication

Kao creates many opportunities to engage in communication with stakeholders and takes steps to further enhance its environmental activities by incorporating stakeholder feedback into management.

Policies/structures

The Kao Group has defined Conservation as one of the three key areas in the Kao Sustainability Statement, released in 2013. This makes clear Kao's corporate stance of aiming to realize a sustainable society by conducting environmental activities in partnership with stakeholders.

In 2009 before the release of the Kao Sustainability Statement, the Kao Group recognized environmental problems including climate change and resource depletion as pressing issues. We then released the Kao Environmental Statement, which sets a clear environmental policy and targets looking to the future, including reducing our environmental impacts across the product lifecycle and

searching for sustainable raw materials.

We believe that working together with our customers, business partners and the wider community in "eco together" activities is important to advance these initiatives. For this reason, we release information on Kao's thoughts in relation to the environment and the features of our environmentally conscious products. We also conduct ongoing communication activities with all of our stakeholders to proactively provide information in a range of venues to encourage individual customers who use Kao products to take part in easy-to-do "eco together" activities in their daily lives.

Environmental and Safety Reports issued by plants and affiliated companies

Global

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 2014, the Kao Group's seven plants in Japan produced Environmental and Safety 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.



Environmental and Safety Reports issued by plants of Kao Group in Japan

Environmental communication

Kao Eco-Lab Museum updates its exhibits

Kao Group in Japan

The Kao Eco-Lab Museum opened in July 2011 on the first floor of the Eco-Technology Research Center (ETRC) in Wakayama as a base to communicate information about “eco together” and eco-technologies in an experiential format. The end of 2014 saw total visitors reach the 50,000 mark.

The museum has exhibits designed for the general public as well as school children taking social studies field trips. Other exhibits introduce Kao’s advanced environmental technology research. An exhibit unveiled in October 2014 explains high-level applications of biomass, namely algae and cellulose, being developed at the ETRC.

In the past, the chemicals exhibit space has focused on chemical materials that have ecological contributions. The exhibits have now been updated to introduce the latest technologies to a wider range of visitors. For example, at the exhibit space entrance, a large screen introduces an overview of eco-technology research and video of laboratory experiments in progress. Watching the laboratory experiments in action makes it easier to understand how the exhibits in the museum were developed by human endeavor. Panels explaining the exhibits aim to communicate the essence of the research in easy-to-understand ways and were created by the researchers themselves.

Additionally, on November 4, 2014, we held the fourth

annual Kao “eco together” Forum, under the theme of “Responding to our Changing Earth.” Experts from a wide range of fields were invited, offering participants an opportunity to exchange information with experts on achieving a sustainable future and to tour the museum and Wakayama Plant.



Visitors watching a video presentation on eco-technology research

Exhibiting at Eco-Products 2014

Kao Group in Japan

Kao participated in the Eco-Products 2014 Exhibition held at the Tokyo International Exhibition Center (Tokyo Big Sight) for three days from December 11 to 13, 2014. The venue was crowded with visitors every day, with more than 16,000 people stopping by Kao’s booth.

The theme for the 2014 exhibition was “Discover Ideas to Change the Future!” Kao’s booth featured panel displays and demonstrations that introduced Kao’s ecological views and eco-products in easy-to-understand ways.

In the area with panel displays, Kao introduced its approach to sustainable raw materials procurement, advanced applied research on biomass raw materials, and *New CuCute* dish detergent which uses approximately 20% less water for dish washing by improving the rinsing effect. Kao also introduced its packaging-related activities based on the 4R’s, which adds renewable to the original 3R’s of reduce, reuse and recycle. Kao introduced industrial products in the Chemical Business, such as low-temperature fusing toner, which can reduce photocopier power consumption, as well as high-performance rubber for tires, which can improve the performance of fuel-efficient tires.

A participatory stage was set up in Kao’s booth, where visitors could experience Kao’s approach to sustainable raw materials procurement in a demonstration of “Kao’s Focus on ‘eco’ Materials: Using Biomass Resources.” Visitors learned

about how surfactants work and dishwashing tips in the “*New CuCute* eco-cleaning classroom,” and learned about Kao’s refill products in the “So easy, eco refill workshop.” A hands-on experiment called “Making environmentally friendly cement—*Kao Mighty & Kao Visco Top*” featured eco-chemical technology with social benefit in an event.



Visitors crowding around Kao’s booth

Environmental communication

Exhibition at UNESCO World Conference on ESD

Kao Group in Japan

Through its bases located nationwide in Japan, Kao Customer Marketing (Kao CMK), Kao's affiliate for selling Kao consumer products to retailers, promotes saving water and electricity and reducing waste at environmental events held at retail stores and organized by the government. It conducts these activities together with retail stores, communities, and the government in each region, which are in frequent contact with customers.

In 2014, Kao CMK offered suggestions on eco-activities that can be done at home to around 90,000 customers at approximately 200 events.

At the Aichi-Nagoya ESD* Exchange Festa, organized by Aichi Prefecture and held in conjunction with the UNESCO World Conference on ESD that took place in Nagoya in November 2014, visitors together with Kao considered what a sustainable society meant through Kao products.

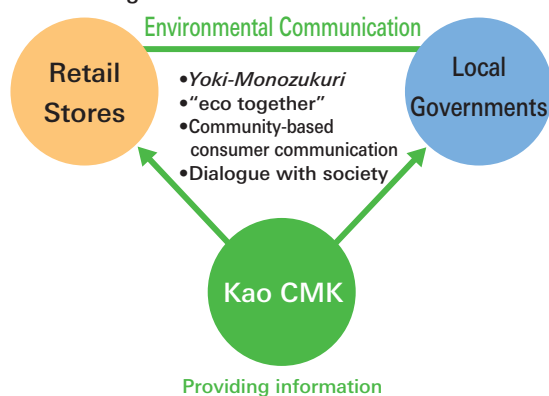
On the theme of the environment, Kao conducted activities to introduce ways to save water and electricity by using Kao products and distributed samples of *Ultra Attack Neo* to visitors and "eco together" diaries to children. Many visitors expressed surprise when they learned specific ways they could save water and electricity in their normal routine and listened keenly to the suggestions.

Kao intends to continue conducting "eco together" activities in partnership with retail stores and the government looking to realize a sustainable society.

* ESD (Education for Sustainable Development)

Activities that take ownership of various issues facing modern society including environmental problems, poverty and human rights, and are conducted with the goal of thinking about and creating a sustainable society to resolve issues

Environmental communication in partnership with retail stores and the government



- Store-based events
- Community-based events
- Events linked to retailers and the government
- Community Learning Centers



Introducing "eco together" activities that can be done at home

5th Kao International Environment Painting Contest for Children

Global

Kao organized the 5th Kao International Environment Painting Contest for Children under the theme "eco together." Kao Japan and seven Kao Group companies in Asia invited elementary and junior high schools children to submit paintings, with entries received from school children in 30 countries and regions worldwide. Entries exceeded the previous year in number, totaling 8,753 (2,032 from Japan, and 6,721 from overseas).

During the Eco-Products 2014 Exhibition, seven contest winners were invited to the awards ceremony at the Kao booth, and works including those of seven winners were displayed there. The seven 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.

➡Prizewinning works for the fifth 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_07.html



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

Environmental communication

Topics

"Eco Together" — Planet Earth Grand Prix: Thoughts from the award winner Furi Morikawa

I drew the picture with the idea of wanting everyone to do possible eco-activities, even one at a time, while having fun. The animals in the forest are enjoying a bath without using electricity or gas. There are candles for light, and the bathwater is used to do laundry and water the flowers. The rabbit taking a shower looks like it is enjoying itself. It was hard to draw the birds carrying water.



"Eco Together"
Furi Morikawa, age 6, Japan

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

Kao Group Overseas

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

Among these, PT Kao Indonesia and Kao Thailand invited the winners from among the entries received in the fifth contest to awards ceremonies and painting exhibitions in their own countries.

At PT Kao Indonesia, a very active campaign for entries led to an overwhelming 3,190 entries being received. On February 14, 2015, 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.

Kao Thailand received an impressive 611 entries in the contest. On March 21, 2015, it held an awards ceremony for prizewinning children and their families and friends at Bangkok's Lumpini Park. An exhibition of contest entries was also held in the park, where the public could enjoy paintings submitted in the contest that expressed the children's thoughts about the environment through pictures.

The works displayed among the park greenery not only delighted the invited guests, but were also appreciated by the many people visiting the park.



Contest winners in Indonesia



Awards ceremony and painting exhibition in a park in Thailand

Environmental communication

Society for Sustainable Food & Life Styles hosts dialog at Tohoku University

Kao Group in Japan

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 has conducted a range of activities to contribute to realizing more sustainable lifestyles since 2011.

In 2014, the Society organized an exchange workshop at the Graduate School of Environmental Studies, Tohoku University, with the theme of "Let's Live a Spirited and Spiritually Rich Life with an Eco Spirit!" 14 people from the Tohoku region, mainly Miyagi Prefecture, participated in the workshop.

Participants learned about practices and technologies that offered a glimpse into the lifestyle of the future through a lecture by Professor Hideki Ishida of the Graduate School of Environmental Studies, Tohoku University, the workshop venue, and a tour of its research facilities. Following this, participants held a group discussion on what ideas or ingenuity could be used to make daily life more ecologically sound and enjoyable at the same time, while looking ahead to 2030, when environmental constraints are expected to become more severe.

The participants said they wanted to practice the ideas they learned and things they became aware of in the workshop in their day-to-day life and wanted to share these with their family at home, an indication of the expectations consumers have of companies.



Professor Ishida gives explanations of exhibits introducing a range of eco-ideas to participants

Exhibit at the 9th Annual Eco-Products International Fair

Global

During the four days from March 13 to 16, 2014, Kao Taiwan exhibited at the 9th annual Eco-Products International Fair, held at the Taipei World Trade Center. Kao's booth welcomed many business visitors including officials from the Taiwanese government during the exhibit, as well as members of the general public interested in the environment.

Using panel displays and videos, Kao's booth introduced Kao Taiwan, which celebrated its 50th anniversary as a member of the Kao Group, as well as the ecological focus of environmentally conscious products marketed in Taiwan.

In consumer products, Kao introduced visitors to *Attack Powder*, which uses more than 90% recycled paper in its box, *Attack Liquid*, *Biore* and *Essential* refill products, which drastically reduce the amount of plastic in their packages, and the new *Merries* featuring an eco-design. In industrial products (chemicals), Kao introduced the *CLEAN THROUGH 700 Series* among other high-performance precision electronic component cleaning solutions.



Kao Taiwan's booth was crowded with the visitors

Highlights of Three Key Areas

Conservation

Community

Culture

Engaging with communities through business



Educational activities on beginning menstruation

Since first marketing *Laurier* sanitary products in 1978, Kao has provided various support for education on beginning menstruation to children, their parents and elementary and junior high schools.

Education on beginning menstruation in Japan and Asia

Global

Initiatives in Japan

In Japan, Kao has been providing support activities for education on the start of menstruation for more than 30 years since marketing *Laurier* products. These activities can be mainly divided into three areas: 1) providing free menstruation educational kits, 2) operating an informational website, and 3) providing educational lectures on beginning menstruation.

Initiatives in Thailand

In Thailand, Kao has been conducting educational activities on beginning menstruation mainly at local girls' schools since 1997. The number of participants in these activities now reaches 1 million. Information on the mechanism of menstruation and the practical day-to-day aspects of menstruating is provided through pamphlets, video and games. Feedback received from participants includes comments on the quality of the activities and usefulness of the information.

Initiatives in Indonesia

In Indonesia, education from local governments on beginning menstruation is only provided at some private schools. Therefore, PT Kao Indonesia is partnering with NPOs and other groups and has been providing education on beginning menstruation to local eighth graders since 2000. Educational activities include storytelling using sets of pictures to explain the mechanism of menstruation, and providing educational pamphlets on beginning menstruation and menstruation calendars. In 2014, education was provided to 230,000 students at 2,200 schools.

2014 activities in Asian countries/regions

| | |
|-----------|---|
| Indonesia | Education on beginning menstruation to 230,000 students at 2,200 junior high schools |
| Thailand | Education on beginning menstruation to 45,000 students at 150 junior high schools |
| Malaysia | Education on beginning menstruation to 202,000 students at 547 junior high schools |
| Taiwan | Education on beginning menstruation to 36,800 students at elementary schools |
| Hong Kong | Education on beginning menstruation to 50,000 students at elementary and junior high school in partnership with another company's feminine cleanser |

Main support activities in Japan

1 Providing free menstruation educational kits

Every spring, Kao makes available free *Laurier* First Menstruation Educational Kits, containing an educational pamphlet and sanitary product samples, to elementary schools nationwide in Japan. In 2014, these kits were given to more than 6,000 schools. The kits are used as supplementary educational materials for instructing students on the start of menstruation. School nurses have provided feedback on the kits, saying that they are a useful instructional aid and that students are keenly interested in learning using the kits.



Laurier First Menstruation Educational Kit

2 Operating an informational website

Kao operates a *Laurier* website for elementary and junior high school students that provides information on beginning menstruation and the physical changes that occur during puberty. The popular "Chat Club" section on the website regularly features questions and episodes sent in by elementary and junior high school students with additional comments provided by Kao.



Laurier website with information on beginning menstruation and the physical changes of puberty

3 Providing educational lectures on beginning menstruation

The Tochigi Plant holds local parent-and-child seminars each summer. One of these seminars is an educational lecture about beginning menstruation provided by an expert in the field.

Highlights of Three Key Areas

Community

Information-sharing support across the entire chemical supply chain

In response to laws and regulations on chemical substances management, Kao is taking steps to share information on chemical substances across the entire supply chain jointly with related associations and distributors.

Supply chain management of chemical substances contained in products

Global

Kao strives for effective communication on information concerning chemical substances with all business partners.

In recent years, laws and regulations requiring chemical substances management at companies that assemble articles for electric and electronic products, automobiles, and other products have been strengthened. Companies in the supply chain met to effectively address these laws and regulations and formed the Joint Article Management Promotion-consortium (JAMP) in 2006.

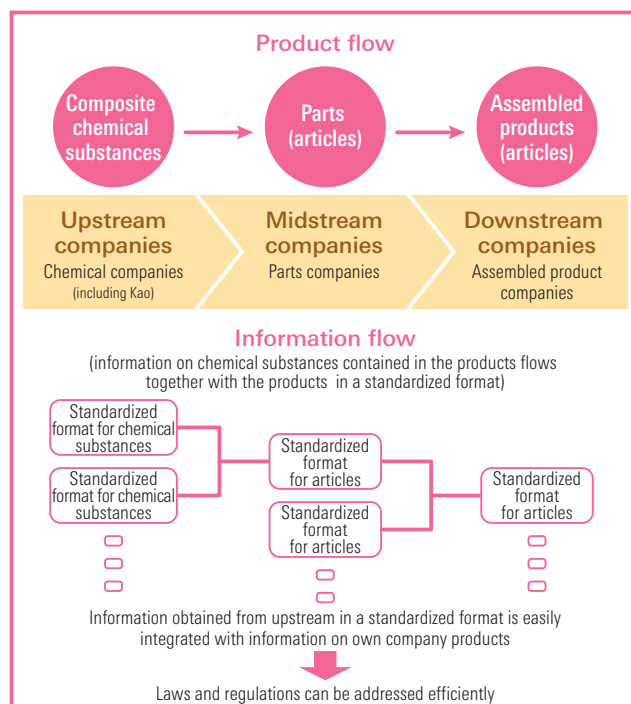
Kao, as one of founding members of JAMP, proactively shares chemical products information on the regulated chemical substances contained in products using MSDSplus, a standardized information transmission form for chemical substances. At the same time, Kao established an organization in divisions involved with chemical substances in products and continues to conduct activities aimed at improving supply chain management of chemical substances contained in products.

In 2014, revised versions of the MSDSplus were issued twice, distributed and publicly released. At the same time, Kao consistently obtains the latest version of the MSDSplus from suppliers for the raw materials it purchases.

Kao will continue to conduct activities in partnership with related divisions and groups both inside and outside the company to improve and expand the practice of supply chain management of chemical substances.

Web Kao chemical product information:
<http://chemical.kao.com/global/>

Supply chain management of chemical substances contained in products



Partnering with customers and distributors

Global

Communicating information in the supply chain as part of chemical substances management has become necessary following new publication and revision of laws and regulations related to chemical substances inside and outside Japan. In addition, the roles of Kao's sales distributors continue to expand and take on greater importance. These roles include compliance with laws and regulations during import and export, sharing information during disasters such as earthquakes, and handling delivery adjustments with customers.

Kao holds meetings every year to exchange information with major sales distributors in the Chemical Business, including the latest developments with various laws and regulations both inside and outside Japan pertaining to chemical products and environment and safety efforts.

Kao also holds new employee workshop and plant tour for distributors once every two years so that they understand the quality and safety of Kao's chemical products and to continuously receive cooperation from customer companies. Each workshop session is attended by more than 60 people.

Through these activities, Kao develops close communication with customers and distributors.



New employee training for distributors in 2013

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/structures

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

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

Basic Policy for Quality Management Activities

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

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.

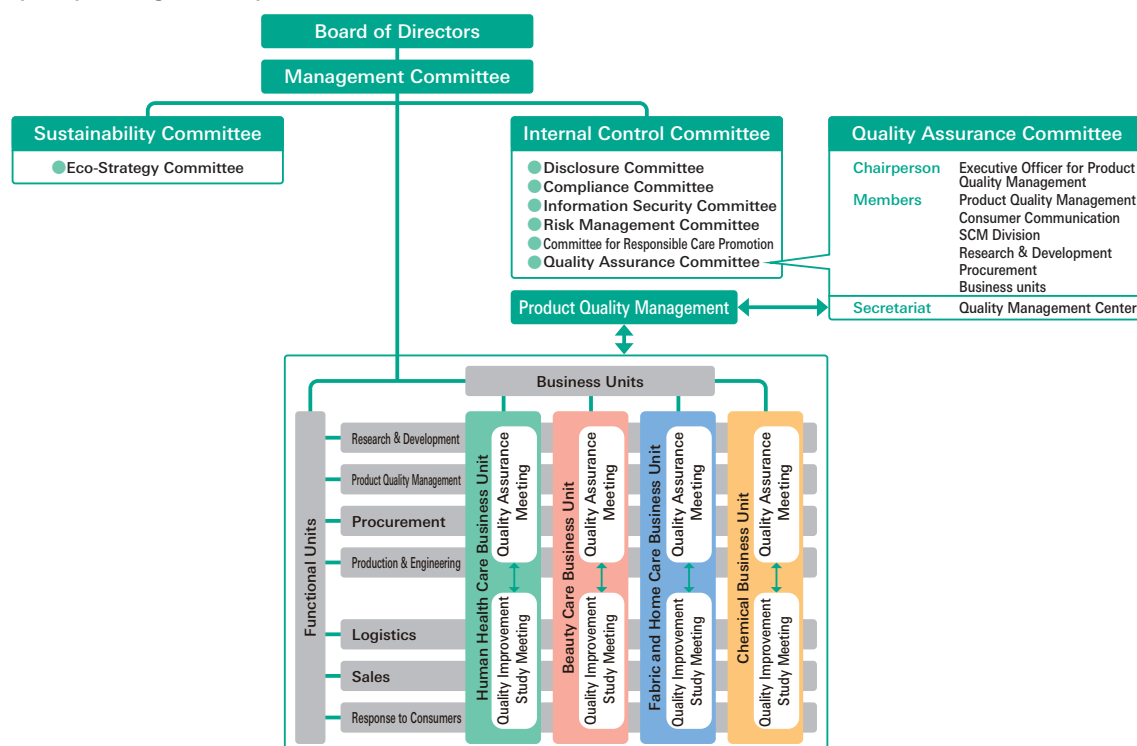
Based on the policies set by Quality Assurance Committee, Quality Management Meetings are held at the business unit level to assess each unit's quality assurance policies, quality issues and progress with quality assurance activities.

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



Product quality management [PR1]

Company-wide quality management initiatives

Global

Kao's Basic Policy for Quality Management Activities was established based on our consumer-driven principle that consumers/customers decide on the quality of the products, 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 across the product lifecycle.

In 2014, 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, Kao Group has revised its safety standards for cosmetic products,

from the development stage through to the post-marketing stage, and has announced and implemented the revised standards. Furthermore, besides implementing pharmaceutical affairs and quality management measures in relation to the integration of the R&D divisions and Production and Engineering divisions of Kao and Kanebo Cosmetics, we have also undertaken the integration of the quality assurance systems relating to the two companies' product development processes.

Kao has also introduced Total Product Quality Evaluation (TPQE) in relation to the consumer products business in Europe and the Americas, involving concrete analysis of every stage from the customer's selection of products in a store, through taking the products home and using or storing them, right through to disposal. In this way, Kao has been able to identify potential quality issues and take measures to prevent them.

Safety assessment and management

Kao Group in Japan

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 medical personnel, government agencies, and other parties to manage safety. In particular, as of April 1, 2014, revision of the adverse reaction reporting system for quasi-drug and cosmetics were started in Japan. Kao group has taken possible measures to enforce the post-marketing safety management system for the new obligations.

Evaluating the safety of alternatives to animal testing

Global

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 2009. The process concluded in 2012, and as of December 2014 the assays are undergoing final international review with the aim of having the new technology incorporated into OECD testing guidelines. Kao has also developed EpiSensA, a new testing method that uses a cultured human skin model, and which permits testing of poorly water-soluble substances that h-CLAT is not suitable for; the utility of this new method has already been confirmed. In the future, we will be working to complete verification studies and preparation of testing guidelines for EpiSensA.

Moreover, verification of cells used in short-term exposure (STE) eye irritation trials were completed in Japan, and as of December 2013, this technology had already completed final international review aimed at securing inclusion in OECD testing guidelines, and it is anticipated that the related OECD testing guidelines will be approved in 2015. 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.

Product quality management [PR1]

Consumer-driven quality management activities

Global

In 2013, Kao has pushed ahead with the implementation 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, Europe, 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 subsidiaries and affiliates in Japan and overseas, we are strengthening our efforts to provide consumers and customers with more timely responses.

➡For details about Global Echo, refer to "Communication with consumers" p.57

Conducting quality management audits/self-checks

Global

Product Quality Management thoroughly understands Kao Group product quality audit activities and implements audits and self-checks.

In 2014, we underwent audits by prefectural governments in relation to the renewal of manufacturer and vendor licenses pursuant to the Pharmaceutical Affairs Law, along with related manufacturer supervision, and we had the renewal of all such

licenses approved.

Kao Group companies in Japan as well as in Asia, Europe 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.

Implementation of thorough product quality management for food products

Kao Group in Japan

Kao's functional 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:

➡Report on *Econa* cooking oil
<http://www.kao.co.jp/econa/>

*1 Traceability

Verifying the origin, 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.

Disclosing information on country of origin and allergenic

Kao Group in Japan

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.

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/structures

With “Consumer Driven” the foundation of its *Yoki-Monozukuri*, Kao has consistently expanded business based not only on the superior fundamental performance characteristics of its products, but also on providing products that are “easy for everyone to use.” Recently, changes in demographic composition and lifestyles, such as an aging society 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 diffusion of this concept, Kao formulated its Guidelines of Universal Design to be shared among all employees for the

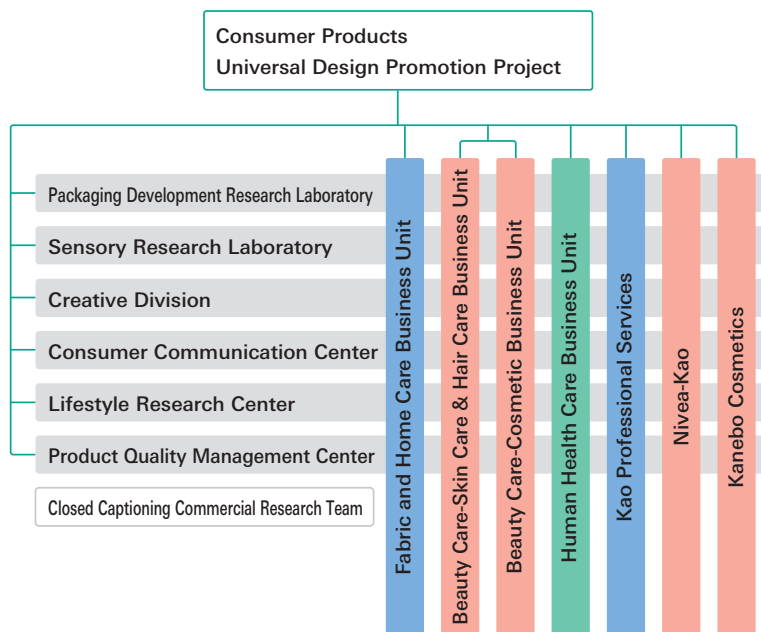
promotion of Universal Design (UD).

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, and various initiatives in response to those issues. This information then supports cross-divisional activities, including the formulation of guidelines.

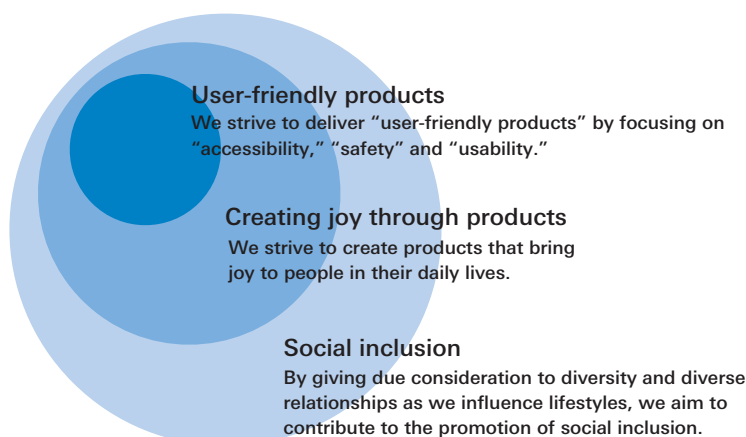
When preparing to launch new products and improved versions of existing products, Kao makes sure to implement improvements from a UD perspective, based on the Guidelines of Universal Design.

➡ P9 Non-financial highlights>Cumulative number of products improved with UD considerations and implementation rate (consumer products in Japan)

Universal Design Promotion Project organization



Kao's Guidelines of Universal Design



Universal Design

Topics Implementing the Workshops Empathizing with Elderly 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.

Amongst its various Universal Design (UD) promotion activities, Kao has been implementing workshops empathizing with elderly people with the aim of getting a fresh perspective on how new improvements can be made. For each of these workshops, a rental studio based in a single-family home is used, and a dozen or so Kao employees make use of equipment that provides a virtual experience of being a person requiring Level 1 Nursing Care,* experiencing what it is like for such people to perform housework and other daily living activities, etc.

By performing home living activities over a period of half a day, Kao employees are able to develop a better understanding of what it is like being a senior citizen, including the physical constraints; by actually using the products, participants are able to notice issues of usability and accessibility that would not necessarily be picked up when examining the products in isolation. These discoveries can lead on to new improvements from a UD perspective. In 2014, 16 workshops empathizing with elderly people were held, with a total of 177 Kao employees taking part.

*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.

Topics Participation in Events for Persons Undergoing Cancer Treatment

Since 2012, Japan's National Cancer Center has been holding an annual "Ideas for Helping to Improve Cancer Sufferers' Lives" exhibition, based on surveys of the difficulties that cancer sufferers experience, and targeting cancer sufferers themselves, their family members and friends, medical practitioners involved in cancer treatment, etc. Kao has provided sponsorship for this exhibition for three consecutive years.

The exhibition aims to introduce techniques and readily-available products for eliminating or mitigating the inconvenience that cancer sufferers experience in their daily lives*; the exhibition also includes seminars, etc. Responding to comments from carers involved in helping cancer sufferers on a daily basis that "There are everyday items and things that people can get hold of easily which can be very useful, and we would like to let other cancer sufferers know about them," Kao has been showcasing a variety of products that it hopes may be of use to people undergoing cancer treatment, including skin care products for dry, itchy skin, mild incontinence pads and other excretion care products, and *Quickle Wiper* that enable people to clean up without needing to exert too much effort and without stirring up dust, etc. Kao has also been able to offer advice on cosmetics use for cancer sufferers to help them feel more self-confident about their appearance.



Kao personnel participating in the exhibition, together with carers from the "Yosou" dressing support stand

*62% of Japanese men and 46% of Japanese women will be diagnosed with cancer at some point in their lives (according to data published by the Center for Cancer Control and Information Services, National Cancer Center); cancer is a common disease that can affect anybody. While cancer sufferers can usually receive treatment for the disease in hospital, they often experience a great deal of inconvenience in various aspects of their daily lives.

Universal Design

Examples of product improvement based on consumer feedback

Case Study 1–Foaming Hand Soap Container

Kao has made the *Bioré Foaming Hand Soap* container even easier to use. The dispenser pump head has been made bigger so that it fits the palm of the hand better, making it easier to press down on. The center of gravity of the container has been shifted further downward toward the base, so that it is less likely to fall over when in use. In addition, the size of the label on the refill containers was made larger, with bigger lettering that is easier to read.

The response from users of the product has been very positive, with users commenting that “Making the dispenser pump larger has made it much easier to press. In the past, it was hard for my grandchildren to press the dispenser down to get soap, but now they can use it easily. I find it easier to use too; I am glad that Kao has made it more convenient for both senior citizens and children to use.”



Case Study 2–Liquid Detergent Container for Dishwashers

In the past, liquid detergents for dishwashers were designed in such a way that users needed to use something like a measuring spoon to measure out the right amount of detergent before pouring it into the machine. With Kao's new *CuCute One-push Clear Gel* liquid detergent for dishwashers, the user just needs to press lightly on the push button on the back of the bottle to deliver the correct amount of detergent for a single wash with just one hand (for both left-handed and right-handed people). In addition, the wide bottle mouth makes it easy to refill the container. This new container has been very well-received, with users remarking that "the way the bottle is shaped makes it easy to store; you don't get detergent spilling like you do with detergent powder, and you don't get it dripping down the bottle, which makes it very easy to use."



Case Study 3–Fabric Bleach Refill Bags

Kao's refill bags for liquid fabric bleach bottles and for softener use a hook-type spout to prevent the spout from slipping out of the mouth of the bottle that is being refilled. While this improved design has been widely praised for being easy to use, some customers have reported that they did not know the right way to use the pouch.

To ensure that purchasers realize how easy it is to use, Kao's *Wide-Haiter EX Power* fabric bleach refill bag is labeled with details of "How to refill the bottle" positioned near the spout. Also, to ensure that users don't get confused as to where the easy-open tab is, a dotted line has been added at the point where users need to cut to create the spout, along with the message "Cut along the dotted line." In addition, to make it easier for users to cut properly, a message saying "Hold here" has been added.



Refill bags labeling

Universal Design

Case Study 4—Cosmetics Product Packaging

On the basis of the findings of Kao's workshops empathizing with elderly people, the packaging of Kao's *SOFINA Primavista Dea Powder Foundation UV* has been made more accessible. The color contrast in the explanatory text section has been heightened, and the characters made larger, to enhance readability. The text indicating that a makeup sponge is included has been made larger and more obvious, as has the top panel indicating the product color. These changes embody Kao's commitment to ensuring that customers across all age ranges can find the product they are looking for in a stress-free manner.



The old packaging

The new packaging

Topics

Adoption of Tactile Identification Labeling for Kao's Body Soap Containers

The improved *Bioré-u* body soap range containers that were launched in April 2015 feature a line-type tactile cue on the top of the dispenser pump and on the side of the container, to enable visually impaired people to tell that it is a body soap container.

In 1991, responding to requests from consumers noting that "Shampoo containers and hair rinse containers are confusingly similar; it would be helpful if you could make the shape of the containers different," "It would be much appreciated if you could modify the design of the containers to take account of the needs of visually impaired people like me," etc., Kao added an indented notch to its shampoo containers to make them easier to tell apart from hair rinse bottles. This improvement was recognized in both the Japanese Industrial Standards (JIS) and ISO as an accessible packaging design. Today, almost all shampoo bottles sold in Japan have this kind of notch on them. However, it was clear that visually impaired people would also appreciate it if it was easier to identify body soap containers, another product that is commonly used in the bathroom. Responding to their requests, Kao joined a tactile identification strategy formulation working group established by a major industry organization, and in May 2014, as a result of an industry organization led initiative, the relevant Japan Industrial Standards (JIS) were revised to add provision for a "Line Type Tactile Cue" for body soap containers. Starting with the new *Bioré-u* containers that were launched in April 2015, Kao will continue to introduce tactile cues on all of our body soap products.



Universal Design

Closed captioning television commercial

Kao Group in Japan

Although digitalization has enabled closed captioning of most television programs, efforts to provide closed captions for commercials have proceeded more slowly. 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 locations where loud noises are prohibited, such as hospital waiting rooms, etc.

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 on ways to make closed captioning more effective at transmitting information.

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 help ensure that closed captioning commercials become more common.

Kao's efforts in this area received public recognition in 2014 with the awarding of a Certificate of Commendation from the Minister of Internal Affairs and Communications on Japan's 64th

annual Radio Day.

A "Closed Captioning Commercial Promotion Council" has been established by a group of government agencies and related organizations, and preparations are already underway for fully-fledged commercial broadcasting of closed captioning commercials in Japan.

In the future, Kao will continue its efforts to promote closed captioning commercials, through collaboration with organizations in related sectors.



Example of closed captioning television commercial

Product catalogue sites suitable for text-to-speech software

Kao Group in Japan

Pages in the online Product Catalog site introducing details such as product components, quantity to be used, and instructions for use, etc. now support the use of text-to-speech software, enabling customers to listen to the text, supplemented by descriptions of graphic-based contents.

For example, the cap of Kao's *Success Shampoo* bottle is designed so that, when the blue nozzle is twisted toward the left, liquid shampoo comes out; when the silver-colored part at the base of the cap is twisted, the cap comes off so that the bottle can be refilled. On the product itself, arrows show which direction to twist in, and the labeling includes text referring to the silver-colored part. In the online Product Catalog, to ensure that users fully understand the instructions, the text-to-speech content also includes supplementary instructions to "twist the silver-colored part at the base of the cap to the left."

| | |
|-----|---|
| 販売名 | サクセス薬用シャンプー |
| 成分 | ピロクトン オラミン [*] 、水、ポリオキシエチレンラウリルエーテル硫酸アンモニウム (1E, O,) 液、ラウリン酸アミドプロピルベタイン液、エタノール、アルキルグリコシド、ラウリルヒドロキシスルホベタイン液、POE (16) ラウリルエーテル、メントール、POE (3) ラウリルエーテル、ユーカリエキス、POEアルキル (12~14) エーテル、塩化ジメチルジアリルアンモニウム・アクリルアミド共重合体液、塩化トリメチルアンモニオヒドロキシプロピルヒドロキシエチルセルロース、無水クエン酸、BG、香料、青1 [*] は「有効成分」無表示は「その他の成分」 |
| 使い方 | <p>●髪を濡らした後、ノズル (青い部分) を左回りに90度回し、ノズルを軽く頭皮にあて、適量を塗布します。ひと押し約1秒間を3ヶ所程度が目安です (約5ml)。頭皮をマッサージするように洗い、あと充分すすいでください。使用後はノズルを開めてください。</p> <p>●つめかえ時はシルバー部分 (キャップ根元) を左に回してください。</p> |
| |   |
| | > 使い方の動画&イラストを見る |
| ご注意 | <p>●湿疹、皮膚炎 (かぶれ、ただれ) 等の皮膚障害のある時は、悪化させるおそれがあるので使わない</p> <p>●かぶれ、刺激等の異常が出たら使用を中止し、皮膚科医へ相談する</p> <p>●目に入らないよう注意し、目に入った時や顔等についた時は、すぐに充分洗い流す</p> <p>●幼児の手の届くところに置かない</p> <p>●誤飲に注意する</p> <p>> 応急処置SOS</p> |

Product catalogue: example of graphic transformed into sentence format (*Success Shampoo*)

Supplementary spoken content is provided to clarify information that, on the actual product, is shown graphically (the part marked in green)

Universal Design

Providing information to the visually impaired

Kao Group in Japan

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 June and October 2014, the following information was provided phonetically in the voice of Kao employees: hair care advice, how to wash without damaging your skin, methods for keeping the kitchen hygiene (June), the health benefits of having a bath and how to get the most out of a bath, and how to prevent gum disease (October).



A Kao employee narrates Home Life, providing lifestyle information in spoken format

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," and "CHLORINE-BASED," which help to prevent mistakes when using these products. 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 household products

Implementing a Universal Design lesson for elementary school children

Kao Group in Japan

Starting in 2013, Kao's Consumer Communication Center has been actively involved in the development of the "User-friendly products" presentations, a joint project with the other members of the Universal Design Promotion Project and with Tokyo Gakugei University. Commencing with elementary schools in Tokyo and Osaka, in 2014 presentations were held at nine schools, with around 700 schoolchildren taking part.

The content of these presentations involves helping children to get a better understanding of the significance of Universal Design (UD) by focusing on everyday objects that they are familiar with, such as shampoo bottles, and why shampoo bottles have notches in them; for Kao, as the company that originally developed the idea of having notches in shampoo bottles, the presentations constitute a marvelous opportunity to talk to children directly about the background to this idea, and about the fascinating secrets of its implementation.

The children who attended the presentations have found them very enjoyable, making comments such as "I was amazed to learn that such an ordinary, everyday thing as a shampoo bottle, which you usually don't pay much attention to, could be so meaningful," and "I hadn't really thought much about shampoo or hair rinse until now, but this got me interested in them. I think I would like to do this kind of work in the future." The children's teachers commented that "By giving this presentation on UD in which everyone could

appreciate the happiness and joy that the product development process can provide, the organizers gave children a better understanding of UD that made it feel more relevant to them; it was a very worthwhile presentation."

We hope that, through this project, in the future Kao will be able to continue to inform people about the company's approach to Universal Design, which emphasizes designing things so that they can be used by as many people as possible.



Children examining the disparities between different types of bottle

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/structures

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.

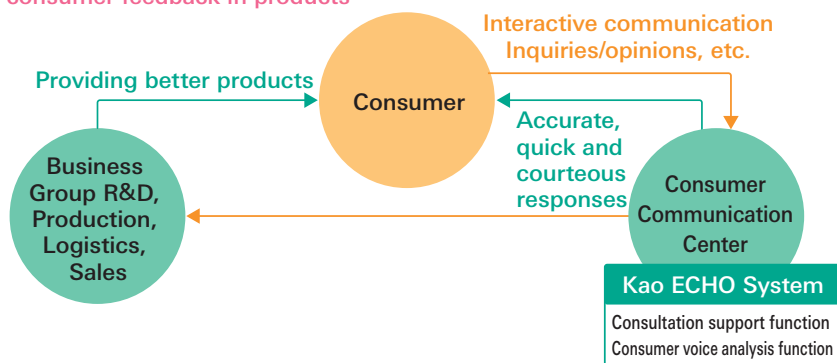
Kao developed a database, the Kao ECHO System, in 1978. This system, which has been upgraded five times in the intervening years, enables effective communication between Kao and its consumers and provides a foundation for the entire company to share and utilize consumer feedback.

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.

Structure to reflect consumer feedback in products



In 2014, Kao Corporation, Nivea-Kao Co., Ltd. and Kanebo Cosmetics Inc. together handled approximately 224,000 consumer inquiries received via phone and e-mail (equivalent to 96% of the previous year's total). The fall in the number of inquiries compared to the previous year was mainly due to the decrease in the number of inquiries received by Kanebo Cosmetics relating to the voluntary recall of Kanebo products, which had risen in the previous year. There has been an increase in inquiries from the elderly, reflecting Japan's aging society, and also an increase in inquiries from men.

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 communication by organizing various seminars and actively

participating in events organized by administrative agencies. Since 2010, Kao has been providing in-school education support program, including environmental lesson, hand washing lesson and house cleaning lesson that are related to school curriculums. Kao aims to expand such opportunities, enabling us to communicate directly with more consumers.

Communication with consumers [PR3]

Providing information on the Kao website

Kao Group in Japan

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 1,200 items has been made available in order, as we work to support the ability of consumers to select the products that meet their needs.

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.

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.

Starting from 2014, Kao has added a large, readily-visible link on the Kao website home page, making it even easier to access the Customer Inquiry page.



➡The Kao website home page
<http://www.kao.com/jp/>



➡The main inquiries page
<http://www.kao.com/jp/soudan/>

Communication with consumers [PR3]

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 2014, we added Q&A information for Kao's *Deep Clean* finger-type toothbrush set and for Kao's *Attack Deodorant Strong* series.

The *Deep Clean* finger-type toothbrush set consists of a soft finger pouch with a small protrusion on it on which special toothpaste can be spread for cleaning one's teeth and gums. This is a new way of cleaning one's teeth, intended to help prevent pyorrhea, etc. As this is a completely new kind of product, we have received questions such as "Do I need to

rinse my mouth out after brushing?" The Q&A section for this product gives the correct response to this question, which is that "Yes, you do need to rinse your mouth after brushing with this product."

Kao's *Attack Deodorant Strong* is a new type of deodorant product capable of neutralizing even urine odors. As this product incorporates bleach and softener, the daily wash can be done using just this product, but for those customers who also want to use bleach and softener, the Q&A section for this product informs them that it is in fact possible to use bleach and softener together with *Attack Deodorant Strong*. Kao will continue to expand its Q&A information to cover more products designed for senior citizens.



⇒ Products Q&A main page
<http://www.kao.com/jp/qa/>



Products Q&A example

Communication with consumers [PR3]

Product catalog

This is Kao's consumer product catalog site. It includes approximately 1,200 items, with the information presented on product packaging labels, such as product components, usage, etc.

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 products, aerosol products and chlorinated products, and an "Emergency Treatment SOS," a link consolidating various treatments for urgent situations including cases of 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.

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

In 2014, modification of containers led to changes in the method of use of some existing Kao products. As there was a possibility that customers who had been using these products for a long time might try to continue using them in the old way, Kao endeavored to prevent any possible problems by publicizing information about the changes and about how to solve problems caused by using the products the wrong way. As the unit responsible for listening to consumers' views, the Consumer Communications Center is constantly striving to find out what consumers would like to know, to identify potential problems in advance, and to disseminate related information.



► Product Catalog main page
http://www.kao.com/jp/products/



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.

Discontinued products that were announced in 2014 included *Humming Flair Mainichi Funwari Essence*, *Curél Moisturizing Base Makeup* and *Relief Leak-free Pad* (for men and women).



► Main page for discontinued product announcement
http://www.kao.com/jp/products/haishihin/index.html



Example of discontinued product announcement

Communication with consumers [PR3]

Interactive events

Kao Group in Japan

Among its relationships 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 2014, Kao exhibited at seminars held by government institutions and at consumer communication events. At the request of a government agency, Kao implemented a hand washing promotion event and environmental seminar on the "Children's Day for Visiting Kasumigaseki." These were designed as experiential events, and it was obvious that the participating children were enjoying "learning by doing."

Kao continues to contribute to society through such activities.



The Kao booth at Lifestyle Festa Tokyo 2014 (an event organized by government agencies)

Globalization of consumer communication activities

Global

Kao is applying consumer communication know-how honed in Japan to activities carried out by overseas Kao Group companies as well. To ensure that consumer communication in all countries is conducted in an appropriate, timely manner, Kao is utilizing information sharing through day-to-day e-mails and telephone calls, as well as the holding of regular web conferences, etc., so that consumer communication processes and values are shared throughout the entire Kao Group. In addition, every year a meeting is held at which consumer communication representatives from every company in the Group come together to share information on how consumer communication is being implemented across countries and develop an enhanced understanding of the Kao Group's consumer communication strategy, which in turn contributes to an enhancement of the overall quality of consumer communication provision and helps to provide forward momentum for Kao's global activities.

In order to realize a strengthening of the provision of support for activities in each country, in 2009 we developed the Global ECHO System, a framework for the sharing and

effective utilization of the views expressed by consumers in different countries, which operates in a similar manner to the Kao ECHO System that had already been adopted in Japan; since 2009, the Global ECHO System has been gradually introduced across all Kao Group overseas member companies. Through this System, the voice of overseas consumers, the content of consultations from overseas consumers to consumer communication staff, and the content of the responses implemented, can be shared with related divisions, thereby facilitating the prompt provision of support to consumers and also strengthening the taking of coordinated action across countries.

In the future, as the scale of the Kao Group's overseas operations continues to expand, we will be working to achieve a further enhancement in the level of satisfaction of consumers in all countries by promoting measures to enhance consumer communication capability across all Group companies while taking into account the differing customs and values in each country.

Communication with corporate customers

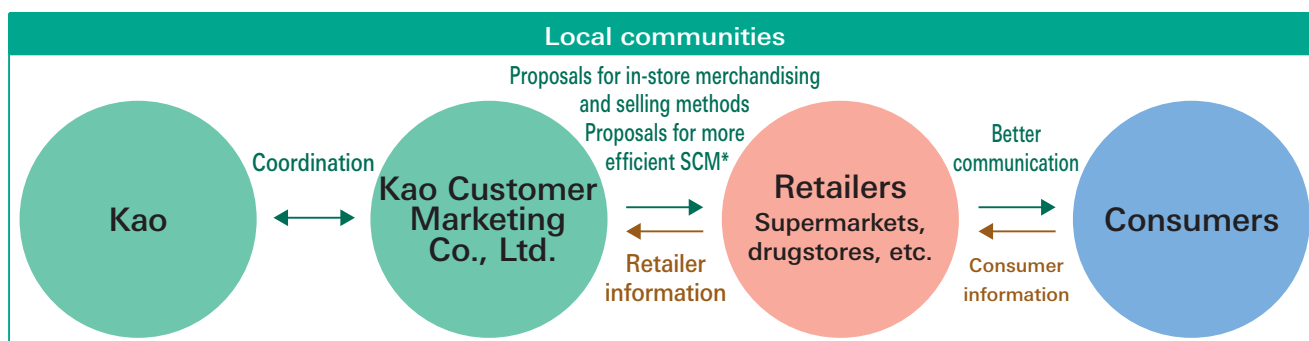
Consumer Products Business Policies/goals/structures

Kao Customer Marketing Co., Ltd. (CMK) works with retailers such as supermarkets and drugstores to inform consumers about Kao products and the value they provide, and to help ensure consumer satisfaction.

To achieve these goals, CMK takes concrete steps to monitor consumers' purchasing preferences and purchasing activities, and the capabilities of the entire Kao Group are utilized to implement in-store merchandising development and planning from a customer-focused perspective, emphasizing market building and market invigoration.

Collaboration between CMK and retailers

Contributing to the success of our retail customers



Improving products and sales activities through retailer and consumer input

* SCM: Supply Chain Management

Consumer Products Business

Making in-store merchandizing and selling methods more user-friendly

Kao Group in Japan

Kao is working to develop in-store merchandizing that make it easier for customers of all ages to purchase products.

Starting from 2014, Kao has been helping retailers to develop selling spaces based around the new concept of "Deodorizing Urinary Odor," with the aim of providing enhanced support for the day-to-day living activities of seniors and their family members.

In the area of nursing care, one major problem affecting both carers and carees is the urinary odors that can affect clothing and indoor spaces. To help overcome this problem, Kao has launched the *Deodorizing Strong* laundry detergent and laundry refresher range. When carers were asked whereabouts in stores they would like these products to be sold to make them easy to find and purchase, their responses indicated that, rather than locating these products with ordinary washing and deodorant products, they would prefer to be able to buy them in the same section as the store where the adult diapers and other care products are positioned,



The *Deodorizing Strong* range of laundry detergent and laundry refresher products for managing the urinary on clothes and in indoor spaces

because "this is the section of the store that I visit most often" and "this is the most suitable location for this type of product."

Responding to these suggestions, Kao has developed a new proposal for retail outlets: the "Senior Citizen Toiletries Section," which includes *Deodorizing Strong* products and also adult diapers and other care products. The response from stores that have adopted this new idea has been very positive, with stores reporting that "We have had a lot of customers coming in who were concerned about the problem of urinary odors in nursing care, and they have been very happy with the new arrangement."



The "Senior Citizen Toiletries Section"

Communication with corporate customers

Chemical Business

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.

Chemical Business

Continuously implementing information exchange meetings with sales distributors

Kao Group in Japan

In light of newly announced and revised domestic and overseas laws and regulations related to chemical substances, information transmission 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 2014, Kao and its 10 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 2013 PDCA activities regarding overall safety and 2014 plans. Kao, meanwhile, explained international trends in chemical substance-related laws and

regulations, including the most up-to-date information on the legal and regulatory framework in various Asian countries, and described some of Kao's related initiatives. Participants also exchanged information on the latest trends in government and industry reporting requirements in regard to chemical substance management, together with reporting operations, 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.

➡P47 Community>Information-sharing support across the entire chemical supply chain

Professional Business

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 and 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 and 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 service, 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 and sanitation" operation systems tailored to serve each customer.

Professional Business

Food hygiene management: a total system proposal

Kao Group in Japan

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, and when necessary jointly promote a new hygiene management 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 2014, we implemented customer appraisals at 217 locations, and conducted 195 hygiene lectures.

Communication with corporate customers

Professional Business

Implementing infection-control support activities

Kao Group in Japan

KPS organized “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 2014, we added four new locations and held 64 “Infection Control Best Practices Program” (working groups)



Infection Control Best Practices Seminar

for nurses, care workers, and other medical professionals from 548 hospitals and 131 nursing-care facilities.

Kinki region seminars were attended by 1,140 health professionals from 360 hospitals and 93 nursing-care facilities, etc.

To better share information with health professionals of hospitals and nursing-care facilities, KPS 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. 2014 saw an increase in requests for seminars and the holding of more product exhibits as awareness of infection prevention has grown, and we conducted a total of 336 study sessions and 109 product exhibits.



Product exhibit at Infection Control Best Practices Seminar

Professional Business

“Food Sanitation Management Seminar” in Ofunato City

Kao Group in Japan

In November 2014, KPS held a hygiene control workshop in Ofunato City, Iwate Prefecture (which was severely damaged in the 2011 Great East Japan Earthquake) for local leaders and for other front-line workers who are engaged in recovery efforts through the manufacturing of food products. KPS specializes in providing hygiene control, infection prevention and food poisoning prevention solutions etc. for companies in food-related sectors, including restaurants, food processing firms, etc. The workshop was implemented as part of the supporting activities for the self-directed recovery (industrial recovery) initiative launched by the Michinoku Revival Partners, of which Kao is a member.

During the workshop, KPS personnel demonstrated the correct methods of cleaning the machinery and tools used in an actual fresh fish processing plant, and answered the questions of the employees working in the plant. The KPS staff also gave a presentation on the risks relating to the danger of bacteria attaching themselves to and breeding in food products during the various processes that take place before consumption by the customer, and how these risks can be controlled.



Hygiene control workshop

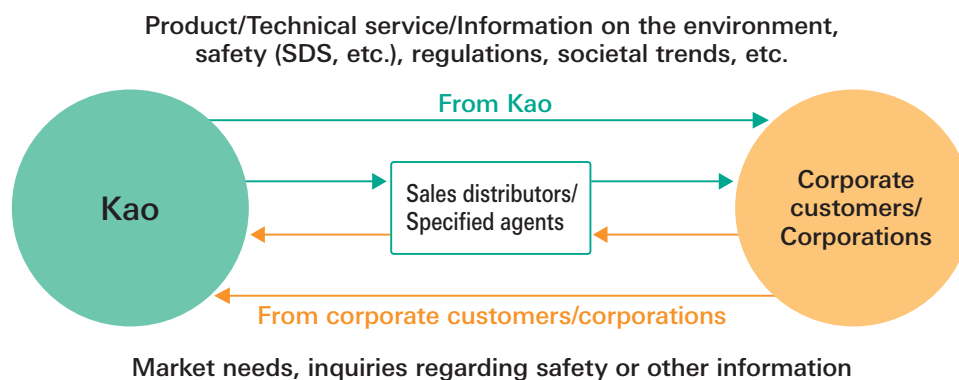
Communication with corporate customers

Chemical Business

Professional Business

Cooperation with corporate customers and sales distributors

Kao collaborates closely with corporate customers and distributors, sharing various types of information with them.



Highlights of Three Key Areas

Conservation

Community

Culture

Engaging with local communities through partnerships



Social contribution activities with employee participation

Kao Group employees participate in various activities, including visiting schools to conduct an education program, participating in the Smile Tohoku Project to aid the recovery of regions affected by the Great East Japan Earthquake, and operating the Kao Heart Pocket Club, an employee participatory donation organization.

Visiting schools to conduct an education program

Kao Group in Japan

Hoping to help children cultivate a zest for life, Kao employees visit elementary, junior high and high schools nationwide in Japan to deliver an education program. These activities started in 2009 with the hand washing lesson and environmental lesson. The house cleaning lesson was added in 2010, and the Universal Design (UD) lesson was also included in 2014 to create the current education programs comprising four different lessons.

All of the lessons teach children about the topic in easy-to-understand and fun ways using innovative hands-on exercises and demonstrations. For example, the house cleaning lesson is structured to help them explore their role in the family. The lesson also tries to teach children to feel happy about being useful and to feel grateful while they practice washing dishes and dusting.

In 2014, approximately 1,200 Kao Group employees participated in the above four lessons, which were held in 235 schools in 46 prefectures for 17,000 children. Since beginning the activities in 2009, approximately 61,000 children in total have taken the programs. Employees from a range of divisions at Group companies participate in the lessons, which serve as a valuable opportunity to learn about social contribution activities through the interaction with the children. Kao Group companies outside Japan are also conducting these activities.

Hand washing lesson teaches how to properly wash hands

Hand washing is a highly effective means of preventing the spread of infectious diseases, but many children do not know how to properly wash their hands. Kao started conducting the hand washing lesson for children in the lower grades of elementary school in 2009. First children learn the importance of washing hands and a fun way to properly wash hands while singing Kao's original hand washing song, *Awa awa terai no uta*.

In 2014, the hand washing lesson was conducted for approximately 8,000 children at 109 elementary schools in 37 prefectures with the participation of about 560 employees from a wide range of Kao Group divisions.



House cleaning lesson



Hand washing lesson

➡P9 Non-financial highlights>Cumulative number of children who have taken hand washing lessons (Kao Group in Japan)

Highlights of Three Key Areas **Community****Smile Tohoku Project**

Kao Group in Japan

Kao Group is a supporter of the Smile Tohoku Project supporting restoration from the Great East Japan Earthquake, which is promoted by three newspapers (*Iwate Nippo*, *Kahoku Shimpō Publishing*, *Fukushima-Minpo*) located in the Tohoku region.

In 2014, a combined total of 346 Kao Group employees participated in the Smile Flower Garden projects and temporary housing visits. Kao will continue to conduct activities with a focus on fostering human connections in 2015.

Smile Flower Gardens planted in three Tohoku prefectures

In 2014, Kao continued to participate in a project to plant flower gardens in local areas around Iwate, Miyagi and Fukushima prefectures, planting seeds and seedlings with local adults and children.

In the Yuriage district of Natori City, Miyagi Prefecture, annual grasses and perennials were planted in a layout that allowed people to enjoy flowers for long periods of time. Local volunteers took daily care of the flowers, which stayed in beautiful bloom until winter.

A local citizen told an employee participating in the project how the blooming flowers brought them solace. The employee commented that planting the flower gardens sent a message that the Tohoku region was still flourishing in spirit.

Visiting temporary housing

With the desire to work in closer cooperation with local areas, Kao Group employees visited temporary housing facilities in 40 locations across three prefectures in 2014. They deepened exchanges with the residents by offering hand care.

Residents talked about their experiences during the earthquake and tsunami, and the hand-to-hand contact during these conversations conveyed a sense of warmth and brought smiles to everyone's faces. Participating employees said, "I was happy to see residents' smiling faces in a personal setting," and "Being told at the end that they wanted me to continue those activities. I hope that this program

doesn't stop with just this one time." The activities were also a valuable opportunity for employees themselves to deepen their awareness and understanding and also gain energy and motivation.



Planting seeds and seedlings together with local adults and children



Providing a hand massage to a resident of temporary housing

Kao Heart Pocket Club

Kao Group in Japan

The Kao Heart Pocket Club marked its 10th anniversary in 2014. Employees who support its objectives become members and donate a portion of their monthly salary to fund the Club's activities aimed at creating a better society. Funds are donated to NPOs and citizen groups working to resolve social issues and are used to offer support when large disasters strike. A steering committee made up of member representatives manages the Club's operations and decides where funds are donated.

In 2014, the Club donated to 48 groups in total. It supported various groups, for example groups involved in community activities in Tochigi, Wakayama and Ibaraki prefectures where Kao worksites are located. It also donated funds through Mirai Pocket Fund, a grant program that expanded on grant funding newly established in 2013. This program provides opportunities to learn about social issues in the context of the activities through exchanges with donation recipients, including recipient screenings and observational visits by members.

In addition to donations, employees also participate in a program to send picture books to children, sponsored by the Shanti Volunteer Association. In 2014, 180 employees attached stickers of translated text into picture books and sent them to children in Laos.



Presentation on activities at a donation recipient screening meeting

<Activities to Date>

Donation recipients: 443 groups Donated amount: 73.8 million yen
Membership (as of December 2014): 2,614

Corporate citizenship activities [EC7]

Kao has been utilizing its resources to conduct systematic activities in the three areas of “Environment,” “Education,” and “Community.”

Policies/structures

Kao has adopted the theme of “Creating an Environment and Developing Human Capital 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 Capital to Nurture the Next Generation

Environment

- Kao Creating Forests for Everyone
- “FURUSATO” Environment Conservation Project in Northern Thailand

Education

- Kao Earthwatch Teachers’ Fellowship
- Supporting science education/ Education programs

Community

- Kao Family Concert
- Kao Social Entrepreneurship Schools

Employee participation activities

Kao Heart Pocket Club, Pink Ribbon Campaign

Support of the arts

Tokyo Music Competition, Support for the New National Theatre Tokyo, Art exhibitions

The Kao Foundation for Arts and Sciences

Corporate citizenship activities—Education [EC7]

School activities

Kao Group in Japan

Hoping to help children cultivate a zest for life, Kao provides an education program: hand washing lesson, house cleaning lesson, environmental lesson, and Universal Design (UD) lesson* which are closely related to Kao's business.

In 2014, the four lessons involved a total of about 1,200 Kao Group employees, who visited 235 schools in 46 prefectures and taught about 17,000 children. A total of 61,000 children have participated since the programs' start in 2009.

Employees from a wide variety of divisions at Kao Group companies participate, and say that this education program is a good opportunity for them to interact with local communities and to learn more about social contribution.

In order to expand the scope of Kao's school education support activities, Kao also makes available teaching materials so that school teachers can implement the hand washing lesson and house cleaning lesson on their own. Kao has also been working to promote junior high school home economics for which Kao provides the teaching materials for school teachers to use.

Hand washing lesson

Kao has been conducting this lesson 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 2014, about 560 employees visited 109 schools in 37 prefectures and gave hand washing lessons to about 8,000 children.

In addition, the teaching materials for the hand washing lesson were distributed to 66 schools and institutions.



Hand washing lesson

House cleaning lesson

This lesson, 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 lesson also tries to teach children to feel happy at being useful and to feel grateful.

In 2014, the house cleaning lesson was implemented for a total of around 4,500 children in 64 elementary schools in 28 prefectures, with approximately 380 Kao personnel offering instruction and practical training. In addition, the teaching materials for the house cleaning lesson were distributed to another 15 schools.



The house cleaning lesson

Environmental lesson

This hands-on lesson, 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 2014, the lesson was offered to about 4,200 elementary, junior high and senior high school students in 53 schools across 28 prefectures.



Elementary school environmental lesson

*For more information about the Universal Design (UD) lesson

➡P56 Community>Universal Design>Implementing a Universal Design lesson for elementary school children

Dissemination of teaching materials for junior high school home economics

In 2011, Kao began working with home economics teachers in 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.

In 2014, Kao provided teaching materials to 159 schools and government agencies.

Corporate citizenship activities—Education [EC7]

Topics

Teaching materials co-created by Kao win Award of Excellence at the National Institute on Consumer Education

The teaching materials entitled “A Comfortable, Environmentally Conscious Life” for use in junior high school home economics classes received an Award of Excellence at the 9th Commendation on Instructional Materials for Consumer Education Awards (for business enterprises and industry organizations) symposium organized by the National Institute on Consumer Education (NICE), which was held in June 2014.

The Commendation on Instructional Materials for Consumer Education Awards are held to recognize outstanding teaching materials compiled by business enterprises and industry organizations, etc. for use in consumer education in schools.

The teachers who had used the teaching materials commented that “The program uses simple practical exercises in which it is very easy for children to understand how the dirt is removed; the children’s response was extremely positive, and from a teacher’s point of view the activity was easy to prepare,” and that “The program was very easy to implement, because of the way it effectively integrated the company’s technological know-how and teachers’ instructional know-how.”



The practical activities were praised for being simple and easy to understand.

Support for science education

Kao Group in Japan

Support for the Japan Science and Engineering Challenge (JSEC)

The JSEC (which is organized by the Asahi Shimbun Company and TV Asahi Corporation) is a contest of independent science and engineering research targeting high school and technology college students nationwide, with the goal of nurturing world-class scientists. Kao supports 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 2014 Kao Award and Kao Special Incentive Award

The winners of the JSEC 2014 Kao Award and Kao Special Incentive Award have been chosen from among over 200 entries. The Kao Award went to Chika Matsui, Chizumi Maeta and Saori Tabara from Yonago National College of Technology for their research on “Preventing Melanin Pigment Deposition in Food Products Using the Functionality Demonstrated by the Inner Layer of Egg-shell.” The Kao Special Incentive Award went to Hiroyuki Kanaya, Shiho Fujimura and Ayaka Fukumoto from Yamaguchi Senior High School for “Ecology of Green *Dugesia Japonica*.”



The Kao Award was presented at the 2014 JSEC awards ceremony

The three winners of the Kao Award were sent to the Intel International Science and Engineering Fair held in the U.S. in May, 2015.

JSEC 2013 Study Tour Held

In March 2014, Kao held its JSEC 2013 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 of Kao research facility and deepen their exchanges with researchers there.

On the day of the tour, the winners of the JSEC 2013 Kao Special Incentive Award from Meikei High School were joined by the winners of the Kao Award from Hitachi First Senior High School. Researchers presented examples of their work, while the high school students presented their own winning research. Students who participated noted that they had been able to learn what areas of research it would be useful to focus on in the future, while their teachers commented that, as high school students normally don’t have much opportunity to learn about corporate research activities, the students had been able to acquire a lot of new ideas and new knowledge.



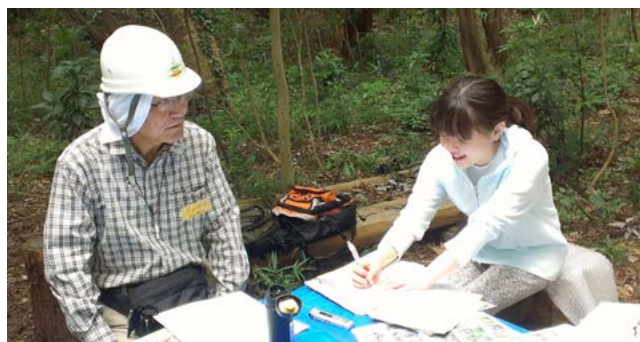
High school students giving a presentation on their work during the JSEC 2013 study tour

Corporate citizenship activities—Education [EC7]

Supporters of Kao Creating Forests for Everyone

Kao Group in Japan

The Supporters of Kao Creating Forests for Everyone program involves university students interviewing civic groups that have received support through the “Kao Creating Forests for Everyone” program, and then writing articles about the civic groups’ activities. The students do more than just ask the members of the civic groups about the goals which the groups were established to achieve and about their activities; the students also “get their hands dirty” by participating directly in the civic groups’ activities, thereby developing a more in-depth, hands-on understanding of civic action and environmental protection. The program also provides students



Students interviewed a supported organization

with an opportunity to learn how to write articles and take photographs for publication, and to deepen their understanding of the work of NPOs and business enterprises.

In 2014, a total of 10 students interviewed and wrote articles about 10 civic groups. Since this project was first launched, a total of 86 students have interviewed 87 civic groups.

The project has been administered in collaboration with the Japan NPO Center (JNPOC), with the students’ reports being published on the NPO Hiroba database managed by JNPOC.



Students conducted fieldwork

Kao Earthwatch Teachers’ Fellowship

Kao Group in Japan

The Kao Earthwatch Teachers’ Fellowship makes it possible for elementary school and junior high school teachers from schools throughout Japan to spend a period during their summer holiday participating as volunteers in overseas biodiversity protection field research overseen by the NPO Earthwatch. The aim of the program is for the teachers to use their experiences in environmental education in schools and in the community after returning to Japan. The sense of immediacy provided by the teachers having participated directly in the field research themselves can help to spread awareness—among schoolchildren, fellow teachers, and the local community—of the importance of protecting biodiversity and conservation.

In 2014, 10 teachers took part in 5 field work projects. Since the Kao Earthwatch Teachers’ Fellowship project was first launched, a total of 119 teachers have taken part in 60 field work projects.



Research on the cognitive powers of elephants being undertaken in Thailand

Corporate citizenship activities—Education [EC7]

Youth education through plant visits

Kao Group in Japan

Every year, over 3,000 people take part in plant tours of Kao's Toyohashi Plant. In 2013, the Toyohashi Plant developed and introduced a new plant tour program linked to the industrial production unit of the social studies curriculum for fifth grade elementary school students. The Toyohashi Plant has been actively welcoming visits to the Plant by elementary school students.

The new plant tour program incorporates explanations of the painstaking care taken on, and the safety measures implemented in relation to, the production line at the Toyohashi Plant, which undertakes small-volume production of a wide range of different skin care products, including *Nivea* products, in addition to a practical session in a special workshop where the children can take part in the making of skin cream themselves. The new program has been developed in the hope that it will help to stimulate children's interest in *Monozukuri*.



A showing of the "eco together Dance" DVD

In 2014, Kao incorporate new content into the plant tour program, combining the "eco together Dance" DVD with quiz activities that are included in the Eco Kit, the program provides practical activities that children can do at home. This new content has received a very positive response from teachers, who praised the way the content had been designed to be easy for children to understand.

Other Kao plants have also been implementing plant tour programs. Kao's Kawasaki Plant has introduced a plant tour program that showcases the plant's environmentally conscious product development, linking this with the industrial production unit of the social studies curriculum for fifth grade elementary school students. The Wakayama Plant has developed a special program using the Kao Eco-Lab Museum which is linked to the social studies units studied by third and fifth grade elementary school students.



Tackling one of the Eco Kit quizzes

Corporate citizenship activities—Community [EC7]

Providing support for social entrepreneurs through the Kao Social Entrepreneurship Schools

Kao Group in Japan

Kao supports the development of young 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, starting in 2010, Kao launched Kao Social Entrepreneurship Schools, a social entrepreneur development program, in cooperation with Entrepreneurial Training for Innovative Communities (ETIC.), focusing in particular on providing support for entrepreneurs who work to help solve issues surrounding families.

The program incorporates two divisions: Startup Division, which provides support for young entrepreneurs who have just started, or are getting ready to start, their own businesses, and Innovation Division to support entrepreneurs with previous success with their new efforts. In the Startup Division, during the support period, young entrepreneurs have the opportunity to benefit from advice from experts and more experienced entrepreneurs, as well as receiving other forms of support to help them get their business off the ground. In the Innovation Division, support is provided by arranging the

temporary assignment of talented individuals who can assist the entrepreneurial business to achieve further growth.

In 2014, the two divisions provided support for a combined total of four teams. To date, the program has provided support to a total of 24 groups of entrepreneurs.

In addition, as part of Kao's support for reconstruction following the Great East Japan Earthquake of 2011, Kao has been participating (alongside ETIC. and seven companies) in the Michinoku Revival Partners to help self-directed recovery efforts in the Tohoku Region. Through its participation in this partnership, Kao supports the cultivation of the next generation of local leaders who will continue working to solve social problems and foster recovery in the areas affected by the earthquake and underpin future development in the Tohoku region.

►P64 Community>Communication with corporate customers
>"Food Sanitation Management Seminar" in Ofunato City

◆Startup Division in 2014

○Tsukuba Agri-Challenge

Vice Director and Farm Manager: Mr. Fumiya Itoh

Focus: Helping to create a society in which people with disabilities can live happily

○Chebura

Legal Representative: Ms. Kyoko Nagata

Focus: Providing support to help women experiencing the menopause to live healthy, fulfilling lives

○FindSitter

Legal Representative: Mr. Satoshi Haneda

Focus: Helping families to find baby-sitters in their neighborhood

◆Innovation Division in 2014

○Pilcon

Chairperson: Ms. Asuka Someya

Focus: Developing and promoting the adoption of family education programs to help children avoid sex-related problems



Individual coaching by experienced mentors



Business strategy meeting at which participants can exchange ideas with experts and experienced entrepreneurs

Corporate citizenship activities—Community [EC7]

Pink Ribbon Campaign

Global

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 through self-checking, etc. 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 for some time now, and in 2014 Kanebo Cosmetics' conduct activities in Thailand, Malaysia, Singapore, Indonesia and the Philippines also began implementing the Campaign.

In addition, to help disseminate related information to even more people, a special "Pink Ribbon" app has been developed for the iPhone, and is already in use.



In-store activity supporting the Pink Ribbon Campaign



"Pink Ribbon" app

Kao Family Concert

Kao Group in Japan

Kao has organized the Kao Family Concerts with the aim of giving people living in the areas where our plants and facilities are located exposure to high-quality music and encouraging them to develop a greater familiarity with the arts. The work of guiding audiences at the venue on the day, the announcements, ticket checking, etc. is all undertaken by Kao employees; revenue from ticket sales is all donated to support local music education, etc.

Kao Family Concerts have previously been held near Kao facilities in Sakata, Tochigi, Kashima, Wakayama and Ehime. In 2014, the 30th Kao Family Concert was held in the town of Mashiko in Tochigi Prefecture, with a total of 930 people attending.



Kao Family Concert in Tochigi
Violinist Mariko Senju was invited to perform.

Corporate citizenship activities—Community [EC7]

Participating in community activities

Global

Kao Group member companies continue to participate actively in activities that foster communication and involvement with local communities. Besides company-led activities such as issuing invitations to take part in plant tours, individual Kao employees also help with fund-raising for social activities, and provide direct support for social welfare facilities, schools, etc., participating in activities that meet the needs of the



Donation of products for use in a charity event (Kao Malaysia)

region in question.

In 2014, a wide variety of community activities were carried out all over the world. For example, Kao Malaysia has donated products for use in charity events; in Mexico, Quimi-Kao has helped with the repair of public facilities in the vicinity of the Kao plant; Kao Spain has helped to provide food for disadvantaged people.



Donating food to a food-bank (Kao Corporation S.A., Spain)



Company employee painting the walls of a local kindergarten (Quimi-Kao, Mexico)

Disaster relief in 2014

Global

| Disaster | Company | Support provided |
|--|-----------------------------|---|
| Typhoon in the Philippines | Kao Corporation | Donated products to Aboitiz Foundation Incorporated to support disaster relief in the aftermath of Typhoon Haiyan, which struck the Philippines in November 2013. |
| | Kao USA | Donation to American Red Cross and employees' volunteer support equivalent to 410,000 yen. |
| Flooding in Indonesia | PT. Kao Indonesia Chemicals | Donated the equivalent of 130,000 yen to help people living in flood-affected areas. |
| | PT Kao Indonesia | Made available two boats for the use of relief activity. Product donation and employees' volunteer support equivalent to 500,000 yen. |
| Earthquake in Chiang Rai Province, Thailand | Kao Commercial Thailand | Product donation, gift of money and employees' volunteer support to residents of Chiang Rai Province equivalent to 400,000 yen. |
| Torrential rains in Japan in August 2014 | Kao Corporation | Donated 1 million yen to Central Community Chest of Japan, and also donated products to Fukuchiyama City, to Hyogo Prefecture, and to Hiroshima City. |
| Earthquake in Yunnan Province, China | Kao Corporation | Donated 5 million yen to the Shanghai Charity Foundation |
| Hurricane Odile in Mexico | Quimi Kao | Donation and employees' volunteer support equivalent to 270,000 yen. |
| Kamishiro Fault Earthquake, Nagano Prefecture, Japan | Kao Corporation | Donated products to Hakuba Village and Otari Village in Nagano Prefecture. |

Highlights of Three Key Areas

Conservation

Community

Culture

Integrity



Promoting Integrity

Society is constantly changing, and sustainability in society and expectations of companies from society are constantly changing as well. Kao is advancing various initiatives to respond to the changing expectations from society.

Instilling prevention and the Kao Business Conduct Guidelines in employees' minds

Global

Preventing bribery and corruption

Kao takes a firm approach against bribery and corruption in the Kao Business Conduct Guidelines (BCG). It clearly states 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.

To more clearly define this approach, the Kao Group has introduced the Kao Anti-Bribery Guidelines, consisting of a global bribery and corruption prevention policy as well as concrete approval procedures and monetary standards regarding entertainment and giving and receiving of gifts.

Sound business activities

To conduct sound business activities and prevent situations that would impact the faithful execution of the Kao Group's obligations and responsibilities by executives and employees, Guidelines for Avoiding Conflicts of Interest already introduced in Kao Group companies in Japan have been introduced at Kao Group companies outside Japan in 2014.

These Guidelines require some forms of approval or notifications corresponding to the specific situation in which there is a risk of a real, apparent or potential conflict of interest regarding 1) competitive activities by executives, employees or their close relatives and the Kao Group, 2) transactions by executives, employees or their close relatives and the Kao Group, or 3) monetary loans with the Kao Group, business partners or competitors by executives or employees.

Identifying mid- to long-term issues and studying corresponding initiatives

Global

Kao conducts compliance promotion activities based on mid- to long-term and annual activity plans. These include regularly revising the BCG, improving and operating compliance hotlines, and holding Integrity Workshops.

From 2014, Kao introduced a process to verify the validity and appropriateness of existing activities when formulating the activity plan for the following year and thereafter. To facilitate more effective compliance activities, this verification process includes gathering the opinions of staff involved in compliance in company divisions as well as employees and third parties (consulting companies). Activities to gather internal feedback began in the second half of 2014. Then in the first half of 2015, Kao asked a third-party to evaluate the current state of its compliance structure, including the structure to prevent bribery and corruption, and received a report on it. Kao plans to validate the opinions and issues that are brought up pertaining to these activities and take steps to address them.

PDCA Cycle for Compliance Activities (New activities planned are ●)

Plan

- ① Plan introduction and/or revision of BCG and compliance-related guidelines
- ② Plan establishment of Kao Group compliance hotlines (in new entities)
- ③ Plan new educational measures
 - Plan new measures based on employee opinions and third-party evaluations

Do

- ① Introduce and revise BCG and compliance-related guidelines
- ② Establish and operate Kao Group compliance hotlines
- ③ Implement training based on plans
 - Implement educational measures based on employee opinions and third-party evaluations

Act

- Address issues that require improvement based on division self-diagnoses and third-party evaluations

Check

- ① Self-check of activities (Division self-diagnoses, audit by Global Internal Audit, etc.)
- Ask employees their opinions
- Third-party evaluations



Activities to communicate and instill the BCG

Global

Kao has released the BCG and compliance-related guidelines such as the Anti-Bribery Guidelines as well as the Guidelines for Avoiding Conflicts of Interest in Japanese and 18 other languages, and shares these with Kao Group employees.

To deepen employee understanding of these Guidelines,

Kao holds workshops for new employees, newly appointed managers, Group company employees outside Japan, and other groups using discussions of case studies.

►P9 Non-financial highlights>Number of Kao Business Conduct Guidelines annual test participants and participation rate (Kao Group)

Sustainable procurement of raw materials

Kao strives for sustainable procurement of raw materials. This includes commitment to zero deforestation at the source in its procurement of raw materials including palm oil, paper and pulp, as well as conducting research and development to extract fats and oils from algae.

Guidelines for Sustainable Procurement of Raw Materials

Global

Kao revised and implemented the Guidelines for Sustainable Procurement of Raw Materials in 2014 to realize sustainable procurement of raw materials based on the scarcity of resources, degradation of biodiversity, global warming and other environmental problems, and human rights. In the revised guidelines, Kao commits to zero deforestation at the source in

its procurement of raw materials including palm oil and paper, which account for a large share of Kao's raw materials. Kao commits to zero deforestation at the source by 2020.

Web

Guidelines for Sustainable Procurement of Raw Materials
http://www.kao.com/jp/en/corp_csr/procurement_05.html

Target of zero deforestation in palm oil procurement

Global

Kao has committed to zero deforestation in its palm oil procurement in 2014, setting the new target of purchasing only sustainably sourced palm oil that is traceable to the plantation for use in Kao Group consumer products by 2020.

To achieve this goal, Kao commits to purchasing only sustainable palm oil and palm kernel oil traceable to the mill for use in Kao Group consumer products by the end of 2015. In addition, Kao commits to zero deforestation at the source of palm oil through cooperation with plantations, suppliers (mills and refineries) and third-party organizations by 2020.

Kao joined the Roundtable on Sustainable Palm Oil (RSPO) in 2007 to resolve issues of ecosystem destruction from logging of tropical rain forests and human rights and other abuses at the source and at processing plants. Kao began purchasing RSPO-certified palm oil in September 2010. As of 2014, two Kao plants in Japan and nine plants outside Japan have been certified by RSPO for their manufacturing, processing and distribution. The Kao Group is striving to build a supply chain by 2020 with approved production, processing and shipment of products using sustainable palm oil traceable to the plantation.



Bunches of oil palms, a raw ingredient of palm oil
 (trading with a local producer)

Topics

Obtaining fatty acids from algae, a world first

Some of the fats and oils that are raw materials in products such as detergents and shampoos are the same fats and oils that are consumed as food. As the global population continues to grow, competition with edible oil is a concern.

The Eco-Technology Research Center promotes research on forward-looking and sustainable environmental technologies centering on advanced use of biomass. In its research on algae, it has succeeded in finding some strains that contain a large number of medium-chain fatty acids, a raw material for surfactants in detergents and shampoos, as well as an enzyme that contributes to production of medium-chain fatty acids. This is the first such identified from algae in the world and was announced at the 1st Asian Conference on Oleo Science in September 2014. Kao will continue pursuing technological development for industrial production of medium-chain fatty acids from algae.



Searching for useful algae

Highlights of Three Key Areas

Culture

Human rights initiatives

In recognition of human rights as an important issue, Kao has adopted the Kao Human Rights Policy in accordance with international human rights principles and is strengthening efforts in the area of human rights.

Adoption of Kao Human Rights Policy

Global

In 2005, Kao declared its support for the United Nations Global Compact, which defines 10 principles in the four areas of human rights, labor, the environment, and anti-corruption. The Kao Business Conduct Guidelines, the Kao Group's Code of Conduct, define prohibitions against discrimination, child labor, forced labor and harassment. Respect for human rights in the supply chain is covered in human rights provisions for suppliers to follow in Kao's Guidelines for Supplier's Assessment.

In addition, in light of the growing interest in human rights at global community, Kao held discussions with related internal divisions and outside experts and adopted the Kao Human Rights Policy in June 2015 based on the United Nations Guiding Principles on Business and Human Rights.*1 Kao respects international principles on human rights, including the International Bill of Human Rights*2 and the International Labour Organization's ILO Declaration on Fundamental Principles and Rights at Work.*3 Kao has also clearly defined its efforts to respect human rights, including human rights due

diligence*4 and appropriate education for employees. Going forward, Kao will strive to establish widespread understanding of this policy and promote related efforts.

*1 UN Guiding Principles on Business and Human Rights

Principles related to business and human rights proposed by UN Special Representative John Ruggie and endorsed by the UN Human Rights Council in June 2011

*2 International Bill of Human Rights

Consists of the Universal Declaration of Human Rights and the International Covenant on Civil and Political Rights

*3 ILO Declaration on Fundamental Principles and Rights at Work

Declaration defining core labor standards adopted at the International Labour Conference in 1998

*4 Human rights due diligence

Ongoing process to identify, evaluate, and avoid or mitigate impacts of corporate activities on human rights

Web

Kao Human Rights Policy

http://www.kao.com/jp/en/corp_csr/csr_action_03.html

Kao Business Conduct Guidelines

http://www.kao.com/jp/en/corp_info/compliance_01.html

Guidelines for Supplier's Assessment

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

Efforts toward human rights due diligence

Global

Kao participated in the 2014 Global Conference on CSR and Risk Management, held in Tokyo over two days in September 2014. Discussions focused on how to promote solutions to various issues related to business and human rights.

On the morning of the first day, a workshop in the exclusive session focused on risk mitigation and prevention using existing risk management methods based on cases of companies facing human rights risks in the supply chain. In the afternoon, respective leaders of key organizations in the business and human rights field presented their activities as well as the efforts of global companies. The second day took up the four themes of children's rights, forced labor, mega sporting events and human rights, and issues related to water, energy and food. The current situations were outlined and meaningful discussions held on the issues and efforts to address them using cases of corporate activities. Kao will mobilize the expertise learned from ongoing participation in such conferences and deepen understanding of human rights due diligence within the Group.

The Procurement Division is a member of the Supplier Ethical Data Exchange (SEDEX), the world's largest membership organization for sharing ethical supply chain

data. In addition to the results of self-assessments, Kao is preparing its supplier risk assessments, which also contain human rights provisions.

Kao will build on these activities to study future human rights due diligence implementation.



Representatives of companies participating in the 2014 Global Conference on CSR and Risk Management

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 fulfilling its corporate responsibility, Kao views its materials and equipment suppliers as vital partners who have an important role to play in the realization of Kao's *Yoki-Monozukuri*. We communicate Kao's philosophy and corporate objectives, maintaining Policies for Procurement conforming to standards of fairness, compliance and ethics, and social responsibility, as we pursue our procurement activities.

➡ For details, refer to "Policies for Procurement"
http://www.kao.com/jp/en/corp_csr/procurement_00.html

Kao has formulated Guidelines for Supplier's Assessment to facilitate the practical implementation of procurement activities in accordance with Kao's Policies for Procurement. In its procurement activities, Kao gives priority to those suppliers that place importance on social responsibilities, including compliance with laws, regulations and social norms, protection of human rights, assurance of health and safety and fair trade, and to those

suppliers that collaborate fully on environmental issues such as Environmental Management System, etc. that Kao considers to be important. Kao also gives priority to purchasing items the procurement and packaging of which gave due consideration to environmental concern issues.

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.

In order to realize the implementation of Kao's *Yoki-Monozukuri*, Quality Improvement Meetings are held with those suppliers whose quality requires improvement. These meetings allow suppliers and Kao to unify their efforts to improve and prevent defect recurrences.

➡ For details, refer to "Guidelines for Supplier's Assessment"
http://www.kao.com/jp/en/corp_csr/procurement_04.html

Goals

Through close collaboration with suppliers, Kao is able to monitor compliance with the Guidelines for Supplier's Assessment through self-assessment. Target ratios are set for the percentage of suppliers meeting environmental and social responsibility standards.

If a supplier does not meet Kao's standards, we visit the supplier, share our concerns about the issues in question, and work with the supplier to realize improvements.

Kao is also implementing new measures to further strengthen its relationships with suppliers.

In the area of social responsibility, in 2014 Kao joined SEDEX,*¹ the largest organization in the world working to promote the sharing of corporate ethical data. In the future, Kao will be working to expand the scope of both self-assessment results and the supplier risk assessment reports compiled by Kao's buyers.

On the environmental side, in addition to the supply chain project of the CDP*² for monitoring GHG emissions in which

Kao was already participating, Kao is now also participating in the CDP supply chain water project,*³ which focuses on water resources and the prevention of drought and water pollution, which constitute key obstacles to sustainable development, and Kao is proceeding with the implementation of risk assessment for its supply chain.

*1 SEDEX (Supplier Ethical Data Exchange) is a large-scale, global platform for the sharing and verification of information relating to labor standards, health and safety, environmental protection and business practices, aimed at promoting the adoption and maintenance of ethical business practices in global supply chains.

*2 CDP (Carbon Disclosure Project) refers to cooperation between institutional investors and major corporations in climate change initiatives and promotion of disclosure of GHG 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.

*3 This is a CDP initiative to promote reporting on water use and wastewater emissions status.

Status of the Guidelines for Supplier's Assessment

Global

Number of suppliers and supplier plants monitored and percentage meeting CSR Procurement Standards

| | Social issues | | Environmental issues | |
|------|------------------------------|----------------------------------|------------------------------------|--|
| | Suppliers to Kao Corporation | Suppliers to the Asian Kao Group | Supplier plants to Kao Corporation | Supplier plants to the Asian Kao Group |
| 2009 | 934 (99%) | 380 (98%) | 1,256 (98%) | 242 (95%) |
| 2010 | 947 (99%) | 461 (98%) | 1,286 (99%) | 283 (95%) |
| 2011 | 962 (99.7%) | 551 (98%) | 1,303 (99.6%) | 331 (95%) |
| 2012 | 989 (97%) | 631 (95%) | 1,326 (99%) | 374 (95%) |
| 2013 | 992 (97%) | 708 (96%) | 1,330 (99%) | 510 (97%) |
| 2014 | 999 (98%) | 806 (97%) | 1,341 (99%) | 537 (97%) |

Partnering with our suppliers [DMA]

Implementation of supplier satisfaction surveys

Kao Group in Japan

Kao conducts supplier satisfaction surveys every three years in order to ensure that procurement activities are carried out in fairness. These surveys are conducted anonymously by an outside institution, and the results are incorporated into our policies.

On the basis of the results obtained in the 2013 survey, in

2014 progress was made in two areas: “providing clearer acceptance/rejection notifications to suppliers” and “clarifying conditions of estimate.” Regarding issues with the ordering process, efforts are being made to improve the precision of order placement.

Implementation of vendor summits

Global

Each year, we hold vendor summits to provide a place to share information and exchange opinions on selected themes.

We also hold them for our partners at main Kao group

companies overseas. There, we strengthen partnerships with suppliers.

Number of companies that participated in the vendor summit
(Number of companies)

| | Held in Japan | Held outside of Japan | Total |
|------|---------------|-----------------------|-------|
| 2009 | 180 | 139 | 319 |
| 2010 | 169 | 219 | 388 |
| 2011 | 183 | 187 | 370 |
| 2012 | - | 205 | 205 |
| 2013 | 184 | 151 | 335 |
| 2014 | 183 | 233 | 416 |

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



Vendor summit

Employee training and education

Kao Group in Japan

Kao has educated its 11 new Procurement Division employees our basic approach to procurement such as fairness and equity, adherence to laws and ethics, and social responsibilities. Through such training, we strive to encourage our employee

in understanding of global social issues such as human rights and labor which are required ISO26000 and United Nations Global Compact (UNGC) principles.

Topics Promoting testing for environmental certification

As part of Kao's Education for Sustainable Development,*¹ beginning in 2012 the Procurement Division encourages its employees to take the Certification Test for Environmental Specialists (Eco Test*²). Currently, 70% of the employees of the division have become certified.

*¹ Education for Sustainable Development

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 Eco Test

The test promotes an environmentally and economically sustainable society through development of human capital able to address environmental issues based on a broad understanding of the environment.

Partnering with our suppliers [DMA]

Promoting the sustainable sourcing of raw materials

Global

Responding to risks to sustainable development such as scarcity resources, environmental issues (such as degradation of biodiversity and global warming), and human rights issues, 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, which seeks to curtail climate change, asking its main suppliers to disclose and curtail GHG emissions. Kao also cooperates with suppliers to rationalize logistics and reduce the environmental impact created by its procurements.

Kao recognizes that its business depends on natural capital, and commits to zero deforestation at the source in its procurement of raw materials including palm oil and paper. Over the medium and long term, Kao will be taking measures to reduce the amount of raw materials that need to be used, and will be taking measures to switch over to the use of non-food biomass sources such as algae, etc., striving to promote sustainable procurement that gives due consideration to the ethical issues that have been thrown into relief by the process of globalization.

Kao has undertaken the following specific initiatives.

1 Procurement of certified sustainable raw materials

The revised version of the Guidelines for Sustainable Procurement of Raw Materials that was compiled in 2014 included a declaration that, with the aim of zero deforestation, Kao was aiming to switch over to procuring palm oil, paper and pulp from sustainable sources by 2020.

With regard to procurement of palm oil and palm kernel oil, besides joining the Roundtable on Sustainable Palm Oil (RSPO) and promoting the obtaining of supply chain certification and the procurement of certified sustainable palm oil, Kao is also taking measures to ensure traceability (all the way back to the source) of all palm oil and palm kernel oil that the company purchases, by 2020.

Regarding procurement of paper and pulp, Kao is aiming to ensure that, by 2020, all paper, pulp and packaging materials used in Kao products, and all paper used in Kao offices, are either recycled paper or paper from

a sustainable source. In particular, in the case of pulp, by 2020 Kao aims to be purchasing only pulp that has traceability back to the area where the timber was logged.

➡For details, refer to "Guidelines for Sustainable Procurement of Raw Materials"
http://www.kao.com/jp/en/corp_csr/procurement_05.html
 ➡P28 Conservation>Measures for biodiversity conservation

2 Sustainable sourcing of plant resources

As the scarcity of natural plant resources and the problems relating to resource capture have become clear, Kao is promoting natural plant resource procurement that reflects ABS* concerns, and Kao is also continuing with initiatives to diversify sourcing routes and to convert from natural plants to artificially cultivated materials, giving due consideration to the natural environment in the producing areas.

3 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.

4 Green procurement

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

*ABS (Access and Benefit Sharing) relates to the fair and equitable sharing of the benefits deriving from the exploration, development and use of genetic resources in relation to the issue of the capture of the bio-resources (genetic resources) of producer nations (which are generally developing nations) by advanced nations and multi-national corporations; realizing ABS is one of the goals of the Convention on Biological Diversity (CBD).

Highlights of Three Key Areas

Conservation

Community

Culture

Diversity and Inclusion



Diversity and Inclusion efforts

Kao intends to bring new value to society with the vitality generated from diversity to contribute to enriching people's lives through *Yoki-Monozukuri*. Therefore, Kao endeavors to create workplaces in which diverse employees can demonstrate their capacities and enthusiasm to the maximum extent.

*From 2015, Kao has revised the term Human Resource to Human Capital with the aim of further promoting the development and activation of people, who represent a valuable asset for Kao.

Activating Talent Project

Kao Group in Japan

Kao conducted activities from April to December 2014 to promote the development, activation, and diversification of human capital, Kao's most valuable asset.

Women and seniors were two key themes in particular. Issues were delved into through Genba Roundtable sessions, in which President Sawada and employees exchanged opinions, for the purpose of receiving proposals on creating working environments and systems that contribute to driving motivation.

Genba Roundtable sessions were held a total of 22 times with women employees including beauty advisors and counselors, and a total of 5 times with senior employees.

Based on the opinions given by employees in a diverse range of circumstances, the direction of company policy for

women was defined as 1) shortening career interruptions, 2) designing career aspirations, and 3) working sustainably. The direction of company policy for senior employees was defined as 1) further improving motivation and 2) support for career self-direction.

Specific measures will be advanced in phases and connected to future Human Capital Development (HCD) policy with the aim of increasing options at various career stages as well as lifestyle options so that not only employees involved in the discussions but also the next generation may have a more forward-looking outlook toward building their careers at Kao and we can better accommodate employees' dreams and hopes. Regular follow-up on progress will also be conducted.

Growing together globally

Global

Global implementation of systems

To pursue *Yoki-Monozukuri* globally, Kao is advancing unified operations, including business standardization, collaboration and sharing of the Kao Way corporate philosophy. In addition to standardizing performance management scheme and process, Kao is also providing employees with transfers, promotions and training opportunities through a global talent management process to accelerate employee's participation regardless of nationality.

Attracting global talent

The Global Leadership Development Program (GLDP) is a global program in which members selected from companies in the Kao Group study Kao's business challenges from a broader perspective. Approximately the same numbers of Japanese and non-Japanese staff engage in vigorous discussions and make proposals to executive management in the program. Networking among participants and overseas sessions also provide opportunities to learn diverse cultures.



Fiscal 2014 Kao selected for Nadeshiko Brand and Health & Productivity Stock

The Nadeshiko Brand recognizes companies that are "exceptional in encouraging women's success, in the workplace" while the Health & Productivity Stock recognizes companies that are "enhancing corporate value through health and productivity management." Both designations are selected from among publicly listed companies by the Ministry of Economy, Trade and Industry (METI) and the Tokyo Stock Exchange (TSE). Kao's efforts to support balanced work and family life as well as improve health were recognized in designating Kao for the lists in March 2015.



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 capital, 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

Holding the Global Human Capital Development Conference

Global

Kao aims to become a company that can attract human capital who pursues global careers around the world, and all Kao Group companies make concerted efforts so that excellent human capital 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 capital development in Japan, Europe, the United States, and Asia.

As Kao continues to promote the global standardization of human capital 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 capital development in each country where we do business.

Promoting the cultivation of global talent through training programs

Global

Kao Group implements a wide range of different training programs, providing Kao employees all over the world with learning opportunities. Employees' personal growth is vital to the growth of Kao as a whole. Training is designed to meet a wide range of different needs, and incorporates common elements based on a global perspective and also elements tailored to meet the specific needs of particular regions, companies and positions, etc.

In cultivating future leaders who can drive Kao's global business development, Kao collaborates with leading international business schools to implement intensive training. Besides working to enhance trainees' management skills, there is also a concerted

effort to build human networks and to disseminate the values associated with Kao's *Yoki-Monozukuri*.

At the same time, in-house trainers are cultivated at individual Kao business locations around the world, working with speed and attention to detail to ensure that all Kao employees absorb the Kao Way and Kao's emphasis on integrity.

Kao also makes effective use of new learning tools such as e-learning and other Internet-enabled tools for language learning, etc. Besides creating new learning environments in this way, Kao also actively supports employees' own self-directed learning efforts.

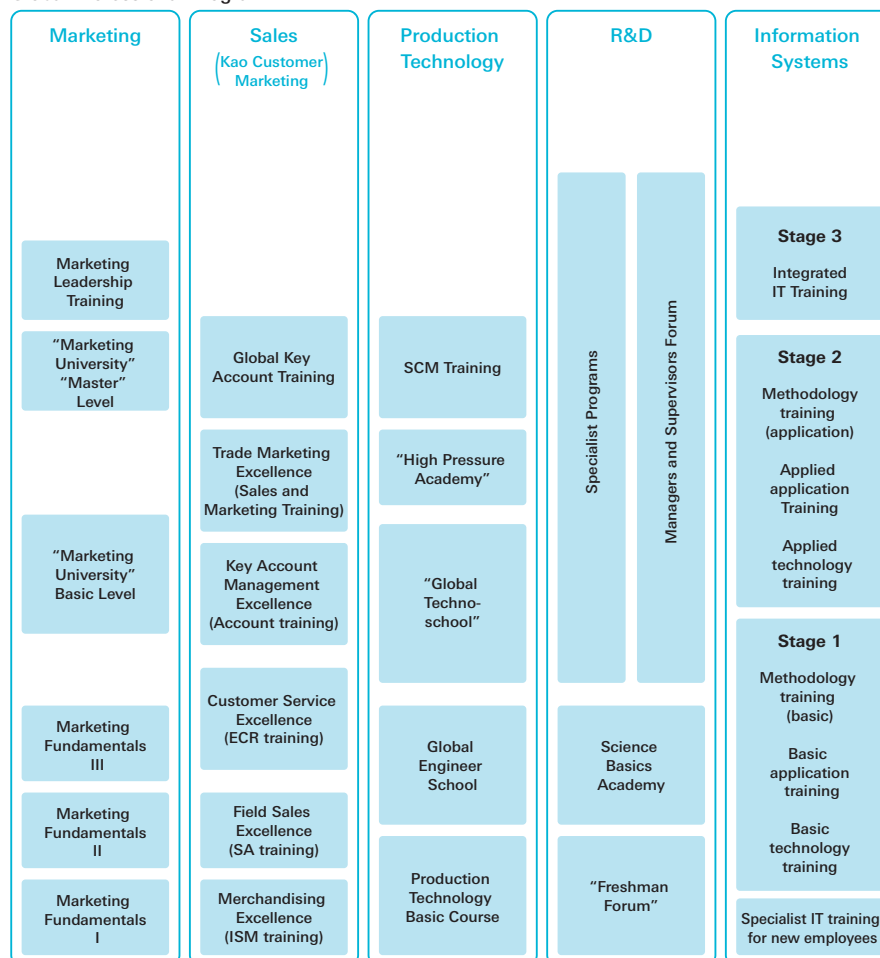
Human capital development [DMA, LA10]

Kao Group Global Common Training Program Scheme

Global Common Program



Global Professional Program



Training expenditure per employee (Kao Group)

| 2012 | 2013 | 2014 |
|------------|------------|------------|
| 56,000 yen | 55,000 yen | 63,000 yen |

Global leader cultivation

Global

The Global Leadership Development Program (GLDP) has been implemented as a 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 had 24 participants in 2014.



The GLDP completion ceremony

Human capital development [DMA, LA10]

Global rollout of management training

Global

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 24 internal instructors in Asia (9 instructors), Europe and the United States (1), and Japan (14), and are moving toward the harmonized management across the Kao Group. We are seeing more instances of cross-organizational cooperation, with internal instructors providing support to other Group companies throughout the world. 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 (Singapore)

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

Global

To help promote practice of the Kao Way in daily operations, Kao has held the Kao Way Workshop since 2006, starting with overseas affiliates and then expanding the program to include Kao Group companies both overseas and in Japan. 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. Implementation began in 2014, initially targeting units located within Japan, and it was intended that the Kao Way Dialog would be conducted in 80% of units in Japan in 2015, to be followed successively by Kao Group units in other parts of the world.



Kao Way Dialog at the Odawara Office

Fair and transparent evaluation and compensation

Global

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.

Since 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.

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 find, 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 so that the maximizing of individual employees' potential can be integrated effectively with Kao's business development, with employees and Kao contributing to one another's growth.

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 Activities 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 Inclusion and an attitude of mutual respect, and firmly establishing these in our employees' minds and behavior.



EPS Awareness Activities Meeting

Utilization of diverse human capital

Global

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 program regularly includes female participants.

As of the end of 2014, women made up 10.1% of management positions in our domestic Group companies as a whole, and 8.5% in Kao Corporation. 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 PR, 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.

Status of regular employees (Kao Corporation)

| | 2012 | 2013 | 2014 |
|--|-------|-------|-------|
| Regular employee (persons) | 6,052 | 6,172 | 6,664 |
| Male | 4,830 | 4,874 | 5,188 |
| Female | 1,222 | 1,298 | 1,476 |
| Percentage of female employees (rate) | 20.2 | 21.0 | 22.1 |
| Percentage of female managers (rate) | 7.9 | 8.1 | 8.5 |
| Average age | 42.4 | 42.3 | 42.0 |
| Male | 43.6 | 43.5 | 43.1 |
| Female | 37.7 | 38.1 | 38.3 |
| Average length of employment | 19.8 | 19.4 | 19.1 |
| Male | 21.5 | 21.1 | 20.6 |
| Female | 13.5 | 13.1 | 13.8 |
| Number of recent graduates hired (persons) | 224 | 238 | 268 |
| Male | 156 | 170 | 193 |
| Female | 68 | 68 | 75 |
| Turnover (rate) | 0.5 | 0.4 | 0.6 |

Number of Kao Group employees (regular employees)

| | Total (share of overall total) | Male | Female | Percentage of female employees |
|------------------------------------|--------------------------------|--------|--------|--------------------------------|
| Total | 32,707 | 15,367 | 17,340 | 53.0% |
| Japan | 21,852 (66.8%) | 9,771 | 12,081 | 55.3% |
| | Contract employees 2,161* | 427 | 1,734 | |
| Asia and Oceania (excluding Japan) | 7,086 (21.7%) | 3,517 | 3,569 | 50.4% |
| Europe and the Americas | 3,769 (11.5%) | 2,079 | 1,690 | 44.8% |

* Contract employees not included in main total

Promoting Diversity & Inclusion and respecting human rights [10, LA1, LA12]

Promoting female employees' engagement

Global

Women's abilities are indispensable

In 1934, Kao established the Nagase Housework Science Laboratory, where female employees played an important role. Since then, Kao has continued to recognize the vital role that female employees play in developing the company's business operations. 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 leads to expanded roles for female employees. As of March 2015, Kao had one female Managing Executive Officer, and one female Executive Officer.

Kao's percentage of female managers tends to rise over the past several years, and stood at 27.6% as of December 2014 for the Kao Group including Group companies outside Japan; the percentage of female managers in the Kao Group

in Japan was 10.1%.

There are many different types of workplace within the Kao Group, and the issues faced by female employees vary from workplace to workplace. To help speed up the process of creating more opportunities for female employees, in 2014 Kao Corporation administered a questionnaire survey to its employees and held manager hearings, to explore issues relating to gender awareness. At Kao Customer Marketing Co., Ltd., (CMK), a project team composed of female employees implemented hearings and formulated an action plan for helping female employees in sales positions to fulfill their potential, and submitted related proposals.

In the future, the Kao Group as a whole will redouble its efforts to build a female-friendly working environment and to expand the opportunities open to female employees.

▶P9 Non-financial highlights>Percentage of female managers (Kao Group)

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

Kao Group in Japan

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.

Measures implemented at ordinary workplaces

At ordinary Kao workplaces, a Disability Understanding Sheet has been introduced, which disabled employees can use to share information about their disability status, along with their hopes and concerns, with the workplace. This system was launched for personnel suffering from hearing disabilities in 2014, and it is anticipated that in 2015 the program will be extended to cover employees suffering from restricted movement.

Kao has also introduced a Mentoring System that provides disabled new employees with opportunities to talk to senior employees with similar disabilities.

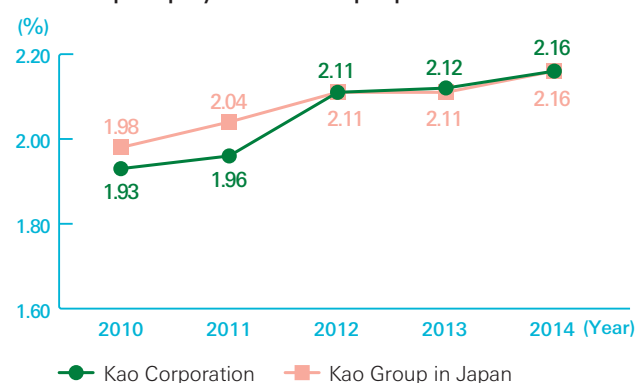
Measures implemented at special subsidiaries

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 2015, 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 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 (which include visits to the Kao Peony facility) 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, 2014)

*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., Kao Sanitary Products Ehime 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.

Promoting Diversity & Inclusion and respecting human rights [10, LA1, LA12]

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

Kao Group in Japan

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 2014, 99 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 2014, 341 employees participated).

Kao has also introduced Senior Partner policy, which re-employs retired employees, 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.

Number of re-employment after retirement (Kao Corporation)

| Year | Number of employees who reach the retirement age* | Number of re-employment after retirement | Percentage |
|------|---|--|------------|
| 2012 | 94 persons | 55 persons | 58.5% |
| 2013 | 116 persons | 64 persons | 55.2% |
| 2014 | 152 persons | 116 persons | 76.3% |

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

Promoting creation of a workplace free from discrimination and harassment

Kao Group in Japan

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.

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 2014, we issued a newsletter focused on maternity harassment and same-sex sexual harassment themes.

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 68 items in 10 groups.

We not only observe laws and regulations, but also achieve recommended targets for most of those items.

In 2014, Kao Customer Marketing Co., Ltd. implemented

workplace bullying awareness raising activities targeting supervisors (at team leader level and above) and BAs,*¹ and also organized a study session for directors and executive officers at which a counselor from an external counseling organization served as the instructor. Furthermore Kanebo Cosmetics Inc. implemented human rights training targeting all of its employees. Kao has also been implementing measures in the workplace to promote greater understanding of LGBT*² issues, and has held study sessions attended by personnel managers from all major Kao Group member companies in Japan.

*1 BA

The abbreviation for “Beauty Advisor.” Beauty Advisors work in retail stores, providing customers with skincare consultations, and selling cosmetics products while giving counseling advice.

*2 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, twice a year, the senior management, including the President, explains the company's current situation and priority issues regarding human capital development and the like to employee representatives and also answer questions from employees. Since 2011, we have called this opportunity the "Kao Forum" and are expanding 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

Promoting highly motivating working environment by employee opinion survey, "Find"

Global

Kao implements employee opinion survey, "Find" every two years on a Group-wide basis, with the aim of further enhancing Kao's organizational culture and functions, and of identifying issues and taking steps to bring about improvements, thereby contributing to the creation of workplaces characterized by a working environment in which employees feel strongly motivated. Based on the results obtained, individual divisions draw up their own action plans to address existing issues and promote the improvement of work environments and the creation of a supportive corporate culture by implementing these plans.

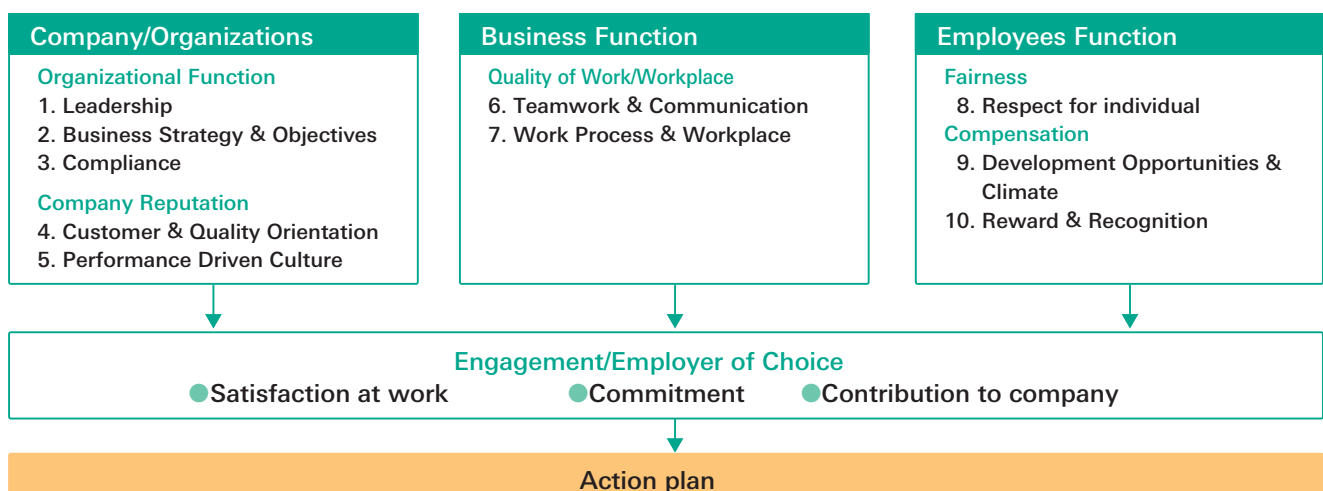
The 7th "Find" survey, implemented in 2014, had a very high response rate of over 90%. This time, "committing to the

fundamentals of organizational management with everyone's involvement" was taken as a shared global theme for action plans Group-wide.

Fundamental of organizational management in Kao Group is "line management." We aim to improve work environment and develop human capital by sharing objectives and action principles among managers and members and by maintaining regular and meaningful communications.

In 2015, employees in Kao Group are focusing on action plan implementation and working together to strengthen organizational capabilities of Kao Group as a whole.

Questionnaire Items for "Find"



Work-life balance [LA3]

Kao strives to create workplace environments that are conducive to work and facilitate a synergistic 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.

We work with the circumstances in each country to enhance a variety of support systems and promote the creation of better working environments. For instance, in balancing work and child and/or nursing care, we are committed to 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 Activities* Meetings, we work to ensure that these programs reach all of our employees.

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

* EPS Awareness Activities

►P86 Culture>Promoting Diversity & Inclusion and respecting human rights>Policies/structures

Balance support systems

Kao Group in Japan

At Kao, we have put in place a variety of systems for supporting work-life balance to assist those employees who have child rearing and nursing care responsibilities. To make these systems easy to understand for 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 | ● Extended Child-care/Family-care leave | ● Shortened work hours | ● Child-care time |
| | ● Sick/Injured child-care leave | ● Overtime work exemptions | ● On-site day care facilities, etc. |
| Creating a supportive organizational structure | ● Work and Life Balance Guidebook | ● F&M (Father & Mother) meetings | ● Awareness posters/pamphlets |
| | ● Pre- and post-child-care leave interviews | ● e-learning for managers | ● Newsletters, etc. |
| | ● Child-care leave reports | ● Nursing care handbook | |
| | ● Seminars for those returning from child-care leave | ● Nursing care seminars | |

Work-life balance [LA3]

Supporting a balance between work and child-care

Kao Group in Japan

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.

From pregnancy through to returning to work

To help ensure that employees who have taken an extended child-care leave can enjoy 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 (Extended Child-care Leave Reports). In addition, special seminars are held on an annual basis to assist employees who will soon be returning to the workplace. At these seminars, Kao provided special programs where employees who have been on leave can learn about the preparations they need to make before returning to work, and where employees' spouses can learn useful techniques for helping to carry out work-life balance as fathers. Employees and their partners are encouraged to participate together in these programs (regardless of whether the partner is a Kao employee) and asked to work together with their partners to think about their future child-care and career plans.

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 regular 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 38% among male employees.

After returning to work

Recognizing that child-care requires full participation from each partner regardless of gender, Kao offers a variety of events that provide new opportunities for employees to meet and share their experiences. These include our F&M (Father & Mother) Meetings for employees currently raising children, roundtable talks with female managers who are also mothers, and work-life management seminars conducted by outside instructors for our male employees.

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

| | | 2012 | 2013 | 2014 |
|--|--------|------|------|------|
| No. of employees taking child-care leave | Female | 581 | 647 | 638 |
| | Male | 78 | 75 | 106 |



F&M Meeting
(Work-life management seminar for male employees)



In-house child-care facility

Topics

Kao wins an Award of Excellence in the Corporate HR Department Section

Kao's forward-looking initiatives to support employees who want to combine work and child-care have received public recognition, with the presentation of an Award of Excellence in the Corporate HR Department Section at the Nihon no Jinjibu HR Awards. The HR Awards are held to honor those corporate HR or personnel departments that proactively develop new activities and take on new challenges in the fields of personnel management, human resources development and labor management, with the aim of promoting an enhancement and invigoration of all firms and individuals involved in personnel and human resources development affairs. The award decisions are based on the results of a questionnaire survey (with 2,462 responses in 2014) administered to business owners and managers and the employees of firms involved in recruitment and training or personnel services development.



The HR Awards 2014 award presentation ceremony

Work-life balance [LA3]

Supporting a balance between work and nursing care

Kao Group in Japan

Based on the results of a survey of employee circumstances regarding nursing care, Kao established a mid-term action plan and has been working to promote a system for supporting a balance between work and nursing care, focusing on addressing the heavy mental burdens placed on those providing nursing care for family members by strengthening the nursing care consultation system and through awareness-raising in the workplace.

Every year, on an ongoing basis, Kao holds nursing care seminars (five such seminars were held in various parts of Japan in 2014, with a total of 275 people participating), uses

the company newsletter to disseminate information about nursing care, and implements case-study-based training for new managers. In 2014, Kao also organized a large-scale training activity at which HCD staffs from Kao business locations throughout Japan came together to strengthen their understanding of, and ability to deal with, nursing care related issues.

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.

Promoting appropriate working hours

Kao Group in Japan

Kao is working to implement comprehensive work management which, besides embracing the “work-life balance” concept, also seeks to realize effective, efficient working methods and enhance employees’ health and fitness.

Kao respects its employees’ individual autonomy, and uses systematic but flexible self-management as the foundation for appropriate work management that endeavors to prevent employees from having to undertake excessively long periods of continuous work, or work excessively long hours, by utilizing Kao’s Work Management System to facilitate sharing of information about clocking-off times, working hours, overtime requests, leave requests, etc. between employees and their supervisors.

In 2014, Kao will also be launching a project that involves measures to overhaul working practices.

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. A slogan created by a Kao Group employee was selected in the Slogan Division of the 8th Annual Work-Life Balance Awards held by the Japan Productivity Center, the

third 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

| | 2012 | 2013 | 2014 |
|----------|------|------|------|
| Rate (%) | 67.8 | 71.0 | 70.9 |

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

Dedicated to helping people around the world in the areas of cleanliness, beauty and health, Kao strives to make a major contribution toward enriching people's lifestyles. Good health is a prerequisite—at both the public and private levels—or living a full and satisfying life, and Kao believes that helping its employees and their families stay fit and healthy has a vital role to play in ensuring the company's successful future development.

The Kao Group Health Declaration was announced in 2008. The Declaration embodies the intention to provide proactive support for individual employees' health by the company and the Kao Health Insurance Society; besides the Top Message stressing the importance of health-oriented efforts that encompass not only each individual employee but also their colleagues and family members, it also incorporates the Kao Group Health Declaration Five Support Measures.

Kao Group Health Declaration Five Support Measures

1. Measures to address lifestyle-related diseases

- Provision of health care advice focused on preventing lifestyle-related diseases
- Specific health guidance coordinated with the Health Insurance Society
- Provision of support for employees' attempt to improve their lifestyles
- Introduction of the "Health Mileage" Program
- Implementation of the "Spring Walking Challenge"



Encouraging employees to think about their living habits through the "Healthy Eating Campaign"

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
- Implementation of mental self-care training for regular employees
- Establishment of a counseling system that combines in-house and external counseling
- Distribution of the monthly "Kao Kokoro" bulletin

3. Measures to support employees wanting to quit smoking

- Implementation of the "Kao Group No Smoking Marathon." In 2014, 25 out of the 57 participating employees succeeded in quitting smoking (representing a 9% increase in the success rate compared to the previous year).
- Survey on status of anti-smoking measures
- Formulation of smoking cessation promotion plan



Activities to mark World No-Tobacco Day are held throughout the company

4. Measures to support employees affected by cancer

- Addition of cancer detection categories to the annual physical check-up designated by the Industrial Safety and Health Act

5. Measures to support women's health

- Spread of knowledge of women's health issues and increase the rate of females receiving gynecological exams



Seminar (for both female and male employees) on the physical and mental health issues relevant to working women

Consideration for employee health and lifestyles

Fostering employees with high health literacy

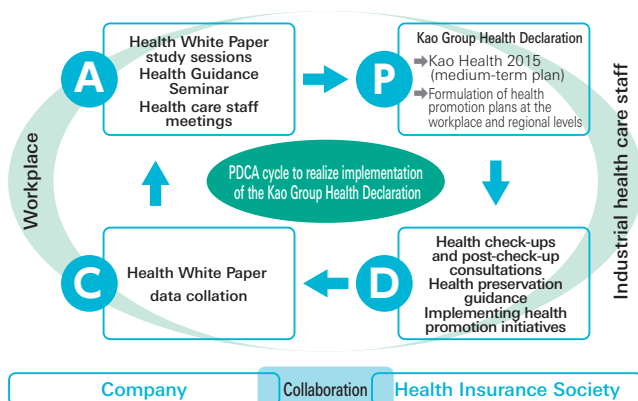
Kao Group in Japan

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 as demonstrating high health literacy if he or she:

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.

PDCA cycle to realize implementation of the Kao Group Health Declaration



Health Promotion Management System

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 check-ups, 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. Since 2009, Kao has held Health White Paper study sessions to provide opportunities for studying methods of analyzing the various types of health data and formulating steps to address any issues.

A health maintenance cycle centered on health check-ups

To help enhance employees' health literacy, Kao has been emphasizing the importance of a health maintenance cycle centered on health check-ups.

By implementing a number of different health enhancement programs, Kao is making a serious effort to encourage employees to incorporate health maintenance activities in their daily lives.

- (1) Using Web-QUPIO* to record daily living habits (5,376 participants)
- (2) Implementation of the “Kao Health Mileage” system, whereby employees earn points for their health promotion achievements (9,120 participants)
- (3) Implementation of the “Spring Walking Challenge” health promotion program (2,323 participants)

* QUPIO

This is a program aimed at providing support for health promotion and preventive lifestyle improvement measures, based on knowledge obtained from joint research undertaken with the University of Tokyo using a database of health check-up data for one million people covering an extended period of time.

Further strengthening of measures for securing the safety and health of workers

Kao Group in Japan

In order to support measures to arrange work assignments so that employees can maximize their potential while still maintaining good health, in 2014 Kao introduced new work management standards that take the results of employee health check-ups into account. Following the health check-up, an occupational health physician makes a determination as to what categories of work the employee should perform, in accordance with the work management standards, so that

appropriate work assignment measures can be taken. By complying with the instructions given, employees can recover their health more quickly. Referencing the opinions of occupational health physicians when implementing work management is a demonstration of Kao's commitment to fulfilling its obligation to ensure the safety and wellbeing of its employees.

Promotion of Specific Health Guidance

Kao Group in Japan

Specific Health Check-up and Specific Health Guidance, initiated in 2008, is implemented on a mandatory basis by the Kao Health Insurance Society. Kao Corporation is promoting Specific Health Guidance based on the entrustment from the Kao Health Insurance Society.

Kao's nursing staff work closely with Healthcare Committee Inc. (HCC) to provide Specific Health Guidance for Kao employees. At the same time, in order to reduce the

number of new candidates for Specific Health Guidance, Kao is also implementing special guidance for employees in the “pre-metabolic syndrome group” whose health problems are currently still relatively minor. As a result, the share of employees requiring Specific Health Guidance has been reduced from 28.5% of male employees and 8.3% of female employees in fiscal 2008 to 19.7% and 5.8% respectively in 2014.

Consideration for employee health and lifestyles

Promotion of mental health measures

Kao Group in Japan

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 (external specialist facilities and specialists).

In 2014, in the area of "line care," Kao held six mental health training courses for managers (basic course); topics covered included the importance of corporate mental health measures and the role that managerial personnel are expected to play in relation to these measures, as well as the current state of workers' mental health and the key trends in this area. Kao also held four mental health training courses for managers (advanced course), at which participants used role play exercises to learn how to communicate effectively with subordinates and how to help employees who are returning to the workplace after an extended absence.

With regard to self-provided care, in addition to regular self-provided care training, Kao also implements training that

makes use of the Assertion*¹ and Egogram*² techniques.

In addition, the holding of the COCOOHN meeting, attended by nursing staff and in-house counselors, helped to strengthen communication and collaboration between those personnel involved in providing support for Kao employees' mental health. A mental health measures conference was also held, at which HR staff, nursing staff and counselors met together to consult with one another regarding the company-wide sharing of information relating to mental health issues and the formulation of measures to tackle these issues.

*1 Assertion: A communication skill that involves expressing one's feelings and thoughts directly to the other party in a manner appropriate to the situation while respecting the other party's thoughts and feelings

*2 Egogram: A self-analysis chart (using the personality analysis method) developed by the U.S. psychologist J.M. Dusay. The Egogram helps people to gain a better understanding of their personality traits, which in turn can help them to recognize patterns in the problems they may be experiencing in their inter-personal relationships, thereby helping them to function better in society.

Topics

Kao President gives an address about Health Management

Organized by the University of Tokyo Policy Alternatives Research Institute, a Symposium on the Role of the Government's Growth Strategy in Promoting Health Management—How Government, Industry and Universities Can Work Together to Create a Framework for Promoting Investment in Health was held in September 2014 at the Ito Shaon Hall, Ito International Research Center, University of Tokyo. As part of the effort to develop proposals for collaboration on health management between government, industry and universities, addresses on the topic of health management were given by Michitaka Sawada, President and CEO of Kao (representing industry), officials from the Budget Bureau, Ministry of Finance and the Health and Welfare Department, Shizuoka Prefectural Government (representing central and local government agencies), and researchers from the University of Tokyo Policy Alternatives Research Institute (representing the university sector).

Kao President Sawada outlined the initiatives adopted by Kao in order to make a positive contribution to society while still maintaining profitable growth, including not only the contribution made to Kao's customers through the company's products and services, but also the issuing of the Kao Group Health Declaration, which is based on recognition of the importance of supporting the health of company employees and their family members, and seeks to ensure that employees are fit and healthy, so that they can continue making their own contribution to society, along with other measures implemented to support employee-focused health promotion, such as Kao's Health Mileage and QUPiO programs.



Kao President Sawada speaking at the Ito International Research Center, University of Tokyo

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 structure 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, together with details of the implementation framework and related activities, can be found on the following page:

➡P113 Responsible Care Activities

2014 targets and results

Global

The Kao Group has established the three prioritized goals of “Eradication of Occupational Accidents,” “Creating a Pleasant Working Environment and Improving Employees’ Health,” and “Maintenance of Safe, Stable Operations (Eradication of Accidents for Security, Disaster-Prevention Activities)” and has implemented activities to achieve these goals.

Specific activities to eradicate occupational accidents have focused on equipment and operational risk assessment, equipment safety measures and prevention of equipment-related incidents by ensuring thorough awareness of and compliance with rules; activities have also focused on measures to prevent slip and fall accident involving stairs, etc., and work-related traffic accidents, etc.

In the area of creating a pleasant working environment and improving employees’ health, we have been strengthening management of the working environment, ensuring effective implementation and follow-up of health

check-ups, holding health promotion activities, and implementing risk assessment for chemical substances.

Regarding maintenance of safe, stable 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 strengthened security; each implementing division has been required to formulate, and put into effect, detailed implementation plans.

Starting from 2014, the scope of these activities has been expanded to include contractors targets and results for all domestic and overseas production sites.

*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

| Category | Relevant division | Indicator | 2014 | | 2013 results |
|------------------------|--|---|--------------|---------|--------------|
| | | | Targets | Results | |
| Occupational accidents | All domestic divisions Overseas production sites (including both regular employees and temporary staff) | No. of employees with lost work days Kao Group | 0 | 33 | 32 |
| | | Total injuries frequency rate*1 Kao Group | 2.12 or less | 2.67 | — |
| | | Total injuries frequency rate*1 Kao Group in Japan | 1.08 or less | 1.75 | 1.7 |
| | Domestic and overseas production sites (contractors) | No. of employees with lost work days Kao Group | 0 | 7 | 9 |
| | | Total injuries frequency rate*1 Kao Group | 1.01 or less | 2.36 | — |
| | | Total injuries frequency rate*1 Kao Group in Japan | 1.56 or less | 2.41 | 1.3 |
| Traffic accidents | Sales, logistics | 100% negligence accidents causing bodily injury (no. of accidents) Kao Group in Japan | 0 | 17 | 20 |
| | | Accidents other than 0% negligence per 100 vehicles*2 Kao Group in Japan | 7.2 or less | 8.67 | 7.9 |
| Accidents | All domestic divisions Overseas production sites | Fires/explosions/leaks, etc. (no. of accidents) Kao Group | 0 | 6 | 2 |

*1 Total injuries frequency rate: Number of employees injured in occupational accidents including accidents without lost work days per million hours worked

*2 Accidents other than 0% negligence per 100 vehicles: No. of traffic accidents other than 0% negligence / No. of vehicles in fleet × 100

Occupational safety and health, process safety and disaster prevention [LA6]

Targets for 2015

Global

In order to achieve the targets established for the Kao Group including overseas production sites, we promote activities for occupational safety and health and disaster prevention.

We have expanded the scope of collection of accident and disaster data at our overseas group companies and work to prevent the occurrence of accidents and disasters.

We have replaced our original target of zero occupational accidents with a new target of achieving zero serious lost time accidents (such as death, function loss accident), while adding the new occupational accident rate index, which makes it easier to calculate the effectiveness of individual initiatives.

Targets for 2015

| Category | Relevant division | Indicator | 2015 targets |
|------------------------|---|---|---------------------------------|
| Occupational accidents | All domestic divisions Overseas production sites (including both regular employees and temporary staff) | Serious lost time accidents (persons)* ¹ | Kao Group 0 |
| | | Lost time injuries frequency rate* ² | Kao Group 0.39 or less |
| | | Total injuries frequency rate* ³ | Kao Group 1.92 or less |
| | | Total injuries frequency rate* ³ | Kao Group in Japan 1.00 or less |
| | Domestic and overseas production sites (contractors) | Serious lost time accidents (persons)* ¹ | Kao Group 0 |
| | | Lost time injuries frequency rate* ² | Kao Group 0.41 or less |
| | | Total injuries frequency rate* ³ | Kao Group 0.95 or less |
| | | Total injuries frequency rate* ³ | Kao Group in Japan 1.40 or less |
| Traffic accidents | Sales, logistics | 100% negligent accidents causing bodily injury (no. of accidents) | Kao Group in Japan 0 |
| | | Accidents other than 0% negligence per 100 vehicles* ⁴ | Kao Group in Japan 6.6 or less |
| Accidents | All domestic divisions Overseas production sites | Fires, explosions, leaks, etc. (no. of accidents) | Kao Group 0 |

*1 Serious lost time accidents: Accidents involving death or injuries which caused the loss of physical function

*2 Lost time injuries frequency rate: Occurrence of occupational incidents that resulted in a worker's fatality or at least one lost work day per million hours worked

*3 Total injuries frequency rate: Number of employees injured in occupational accidents including accidents without lost work days per million hours worked

*4 Accidents other than 0% negligence accidents per 100 vehicles: Number of traffic accidents other than those that are not in any way attributable to negligence / Number of vehicles in the company's fleet × 100

Occupational safety and health, process safety and disaster prevention [LA6]

Status of occupational accident occurrences

Global

In 2014, 159 employees were involved in accidents across the Kao Group in Japan and at our overseas production sites, of whom 33 lost work days as a result.

The number of employees across the Kao Group in Japan (including temporary staff) who suffered occupational accidents in 2014 decreased to 88 from 97 in 2013. Of these, the number of employees suffering injuries resulting in lost work days decreased from 19 to 14 (of whom four lost work days from traffic accidents in which they were 0% negligent).

As in 2013, the top causes—representing over half of all incidents—included 34 fall and slip accidents due to carelessness or failure to check, followed by cuts and scratches, and accidents involving involuntary strain or overexertion, with 10 victims each.

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 19 in 2013 to 18 (with the number of employees who lost work days as a result of accidents falling from 2 to 0).

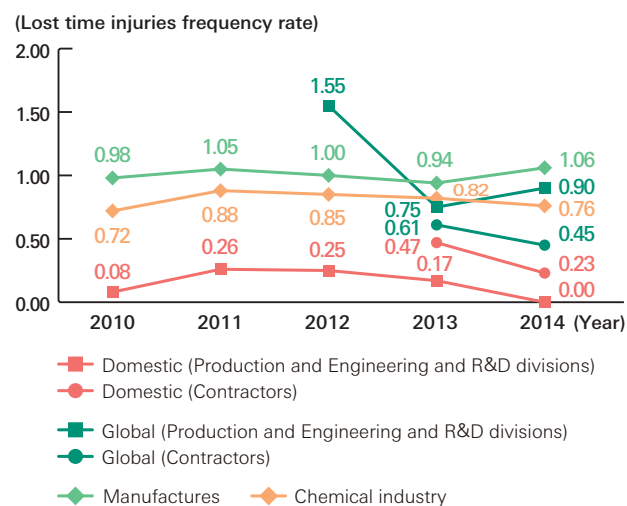
The number of people in our overseas Production and Engineering and R&D divisions who were victims of accidents rose from 41 in 2013 to 71 in 2014 (with 19 losing work days as a result).

The most common causes of accidents involving overseas employees included coming into contact with hazardous materials, etc. or with substances at very high or very low temperatures (24 employees), cuts and scratches (9 employees), getting body parts trapped or twisted (7 employees); between them, these causes accounted for over half of all incidents. Operational risk assessment is being carried out.

The global lost time injuries frequency rate for employees in the Production and Engineering and R&D divisions was 0.90; the severity rate was 0.02.

As regards occupational accidents involving contractors, the global total of accident victims rose from 26 in 2013 to 37 in 2014 (of which 7 employees lost work days as a result). The lost time injuries frequency rate was 0.45, and the severity rate was 0.01.

Lost time injuries frequency rate in the Production & Engineering and the R&D divisions★

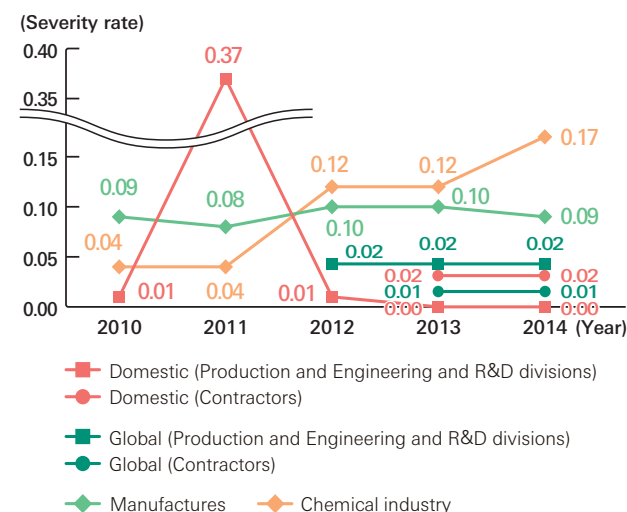


Lost time injuries frequency rate: Occurrence of occupational incidents that resulted in a worker's fatality or at least one lost work day per million hours worked

*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 in Japan "Survey on Industrial Accidents 2014."

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 in Japan "Survey on Industrial Accidents 2014."

Drills to prepare for large-scale disasters

Kao Group in Japan

In the Kao Group in Japan, in addition to the fire prevention training and emergency evacuation training conducted at the level of the individual workplaces, the Kao Group in Japan as a whole has been conducting the following trainings aimed at being prepared for a large-scale disaster.

(1) Training in inputting data into the employee safety confirmation system (website) for use in confirming the safety of Kao employees throughout Japan in the event of a serious earthquake

To ensure that employees know how to input the required data properly following an earthquake, Kao is continuing to implement training twice a year, in March and September. Employee awareness is being steadily raised, and Kao plans to continue with this training in the future.

(2) Company-wide reporting training, organized by Kao's disaster prevention organization, covering the use of satellite phones and internal electronic bulletin boards for confirming and collating data from the employee safety confirmation system,

and for reporting disaster status, etc.

Recognizing the need to be prepared for a major earthquake such as an earthquake with its epicenter directly below Tokyo or in the Nankai Trough, or an earthquake affecting other parts of Japan, in May 2014 Kao implemented training that assumed the establishment of a disaster response headquarters in Tokyo to collect information from the disaster area, and in October 2014 a further training session was held which assumed that a disaster response headquarters was established in Osaka following a disaster affecting Tokyo.

As some Kao sites had not yet had the opportunity to participate in one of these training exercises, Kao's sites within Japan have been divided into four regional groupings, with each grouping taking it in turns systematically to take on the role of the region where a disaster is assumed to have taken place, thereby making it possible for Kao sites throughout the country to undergo training.

Occupational safety and health, process safety and disaster prevention [LA6]

Safety and disaster prevention audits

Global

In September 2014, an on-site safety and disaster prevention audit was conducted at the plant of Huludao Jinxing Casting Materials Co., Ltd. in China, to verify safety and disaster prevention implementation status.

The audit results showed that site data summaries and emergency action guidelines had not been clearly documented; it was agreed that the plant would need to make improvements

in its systems and documentation (i.e. manual preparation).

As part of Kao's human capital cultivation efforts, it was proposed that safety and disaster prevention auditing personnel from chemical plants in other Asian countries should be able to participate in plant audits, so as to bring about an improvement in the overall level of safety and disaster prevention measures at all facilities.

Occurrence of small-scale accidents (fire, leaks)

Global

A total of six small-scale accidents occurred in Kao.

In Japan:

- Two small-scale fires occurred (one involving a fire that broke out during disposal of chemical reagents, and one which occurred while a spray-type cleaning agent was being used)
- One leak occurred (involving a leak from the flange of a pipe where the gaskets had deteriorated)

Overseas:

- One small-scale explosion occurred (involving an electrostatic precipitator)
- One small-scale fire occurred (involving hot oil that had leaked out from the outlet valve of a circulating pump)
- One leak occurred (involving the falling of a raw materials container)

Regarding the small-scale fires, Kao has strengthened its operational management and taken steps to ensure more rigorous compliance with operating procedures; with regard to the small-scale explosion, improvements have been made to relevant equipment, and regarding the leaks, Kao has revised its gasket selection criteria and implemented new leak prevention strategies.

Strengthening safety and disaster prevention

Kao Group in Japan

The Production and Engineering Division is promoting earthquake response measures as part of strengthening risk management. Measures implemented in 2014 included seismic resistance diagnostics and seismic reinforcement, measures to address liquefaction, tsunami measures, automatic shutdown of equipment in the event of an earthquake, etc. As part of the measures to ensure automatic shutdown of equipment in the event of an earthquake, work was carried out on 192 items of equipment (including the follow-up plan), and emergency isolation valve measures to prevent tank leakage were completed.

In addition, as part of the measures taken to improve the safety of polymerization and exothermic reaction equipment in response to incidents that have taken place at other companies' chemical plants, work has already begun at the Wakayama Plant and Kashima Plant on the improvement of operating manuals to emphasize the need for careful operational control, thorough reporting, and ensuring that sufficient information is given to responding firefighters. In the future, the application of these measures will be expanded to include Kao's overseas plants as well.

Occupational safety and health, process safety and disaster prevention [LA6]

High-pressure gas safety inspection, auditing and verification

Kao Group in Japan

The Wakayama Plant has been designated an Accredited Safety Inspection Executor* pursuant to the High Pressure Gas Safety Act. Every year, the Wakayama Plant performs safety inspection, safety auditing and safety verification of its own facilities. The Wakayama Plant's certification as a Certified Safety Inspection Implementer is coming up for renewal in 2015, and the plant is already making the necessary preparations.

The high-pressure gas equipment at other Kao sites has safety inspection performed by external inspection bodies; safety auditing and safety verification are carried out in-house, and a serious effort is being made to ensure safe equipment operation.

*Accredited Safety Inspection Executor

An Accredited Safety Inspection Executor is a company or organization authorized by the Minister of Economy, Trade and Industry to perform self-inspection, either while equipment is in operation or while it is out of operation, to verify whether the safety of specified items of equipment conforms to the relevant technical standards pursuant to the High Pressure Gas Safety Act.

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 prompt, highly efficient, sound and transparent management with the aims of achieving management plans and continuously enhancing corporate value. Kao considers corporate governance to be one of its most important management issues. Kao conducts annual reviews and implements the necessary measures to improve corporate governance as appropriate while integrating social trends and responding to the requests of shareholders and all other stakeholders.

● Structure outline

Kao has introduced, within the governance framework of a company with an Audit & Supervisory Board system, the Executive Officer system in order to separate the supervision function from the execution function. Following the conclusion of the Annual General Meeting of Shareholders held in March 2015, Kao has continued the system of: six (6) members of the Board of Directors (6 men) including three (3) Outside Directors; and five (5) Audit & Supervisory Board Members (4 men, 1 woman) including three (3) Outside Audit & Supervisory Board Members. The executive officer system has twenty-six (26) Executive Officers (24 men, 2 women) 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. 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 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 15 times during the fiscal year ending December 2014, including extraordinary meetings. At the end of the fiscal year ending December 2014, the average attendance rate of Outside Directors was 95.0%, and Outside Audit & Supervisory Board Members 100%. To facilitate thorough discussions in meetings of the Board of Directors, Outside Directors were informed of each agenda item in advance by the Board of Directors secretariat as necessary, including the background, objective and description of agenda items.

● Compensation Advisory Committee and Committee for the Examination of Nominees

Kao has established the Compensation Advisory Committee for the Members of the Board of Directors and Executive Officers and the Committee for the Examination of the Nominees for the Members of the Board of Directors and Executive Officers (renamed the Committee for the Examination of the Nominees for the Members of the Board of Directors in May 2015), which fulfill functions similar to the compensation committee and nominating committee of a "company with committees."

The Compensation Advisory Committee

The Compensation Advisory Committee consists of the Chairman of the Board of Directors (the Chairman of the Board of Directors has been absent from the meeting of the Board of Directors held in March 28, 2014) and all Representative Directors to deepen the members'

understanding of the Company's compensation system and responsibility of each position, and all Outside Directors and all Outside Audit & Supervisory Board Members to absorb independent and objective perspective (eight (8) out of nine (9) are men and one (1) is woman) and the chairman of the Committee is chosen by the members of the Committee. 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 remuneration 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 2015, 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 examination result was reported at a meeting of the Board of Directors held in March 2015.

Committee for the Examination of the Nominees

The Committee for the Examination of the Nominees for the Members of the Board of Directors and Executive Officers, consists exclusively of all Outside Directors and all Outside Audit & Supervisory Board Members (five (5) out of six (6) are men and one (1) is woman) to absorb independent and objective perspective, and the chairman of the Committee is chosen by the members of the Committee. Members of the Committee are to conduct an advance examination on the appropriateness of the new appointment and reappointment of the Members of the Board (including Representative Directors) and Executive Officers (including Executive Officers with titles), and report their opinion to the Board of Directors. Furthermore, the Chairman and President and CEO submit the necessary and adequate examination materials (including materials related to the person under examination as well as an overview of the new management structure including classification of responsibilities of the Board of Directors, etc.) to each committee member before the Committee meets.

For the appointment of the Directors at the Annual General Meeting of Shareholders held in March 2015 as well as the subsequent appointment of the Representative Directors, Executive Officers with titles and Executive Officers by the Board of Directors, all committee members attended a Committee meeting held before these appointments and reported their opinion that the new appointments and reappointments of the Members of the Board and Executive Officers were appropriate to the Board of Directors meeting held in February 2015.

In addition, the positions subject to screening by the committee was changed to Board of Director members based a decision by the Board of Directors meeting held in May 2015, and the committee was renamed the Committee for the Examination of the Nominees for the Members of the Board of Directors.

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

To improve the auditing effectiveness and strengthen and maintain the auditing function, one (1) Outside Audit & Supervisory Board Member was added to the Audit & Supervisory Board after the Annual General Meeting of Shareholders held in March 2013. The Audit & Supervisory Board, consisting of five (5) Audit & Supervisory Board Members, three (3) of whom are Outside Audit & Supervisory Board Members, maintains

Corporate governance [34,38,39,40,41,42,45,51,52,53]

neutrality independent from Kao's management. The Audit & Supervisory Board Members regularly 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 as appropriate and when such needs arise.

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

The 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 compensation.

Based on the outside research institution's data on Members of the Board of Directors' and Audit & Supervisory Board Members' remuneration, Kao decides the compensation of the Members of the 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 remuneration of the Members of the Board of Directors except

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

- (1) Fixed salary
- (2) A short-term incentive compensation in the form of bonus
The amount of bonus is set at around 20% 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 fixed salary and stock options (Share Remuneration Type Stock Options).

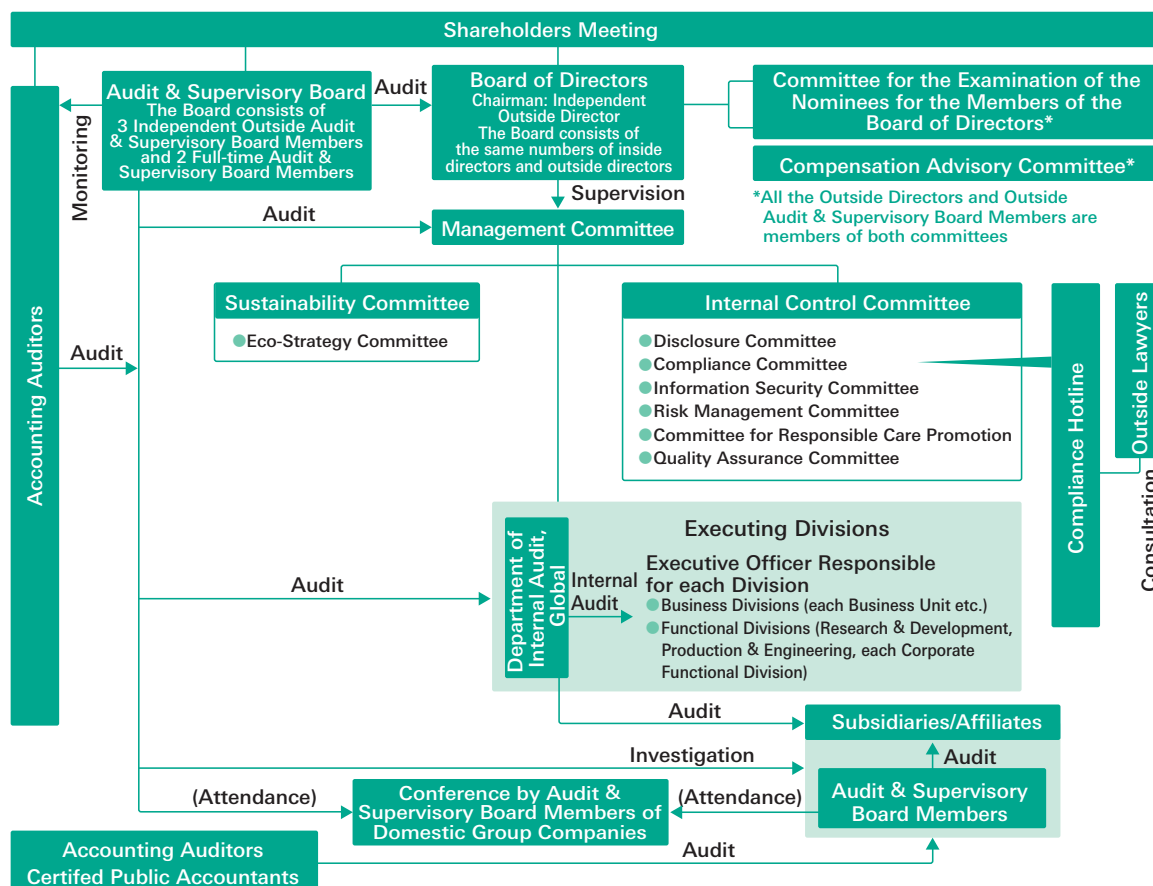
The compensations of the Audit & Supervisory Board Members consist only of fixed salary.

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 2014 is available in the "Report Concerning Corporate Governance."

►For details, refer to "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)

Corporate governance [34,38,39,40,41,42,45,51,52,53]

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

Kao Group in Japan

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.

➡For details, refer to "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, reports to the Board of Directors after an annual review confirming the level of compliance, and revises it as needed.

The Internal Control Committee (chaired by the Representative Director, President and CEO) reviews and approves system maintenance and operational planning, periodically evaluating and revising as necessary.

In addition, six committees have been placed under the Internal Control Committee to analyze and confirm the situation surrounding internal control. They develop the internal control system and make improvements as necessary 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

Basic policy to eliminate antisocial forces and its maintenance

Kao Group in Japan

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 harmonization of internal control

Global

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.

Information disclosure

Policies/structures

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. Kao discloses information which is obligated to release publicly and information useful to shareholders and investors, in English and Japanese, 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 dialogue with institutional investors inside 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
- ➡ For details, refer to "Disclosure Guidelines"
http://www.kao.com/jp/en/corp_ir/disclosure.html
- ➡ P118 Recognition by Outside Organizations>SRI indexes and evaluations

Publicizing shareholder meetings and facilitating the exercise of voting rights

Kao Group in Japan

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, Kao posts the convocation notice on its website before the date of dispatching, including an English translation in summary form. To increase the number of shareholders who exercise their voting rights, Kao has also introduced an electronic voting system for the AGM.

Furthermore, to provide prompt and fair information

disclosure to foreign shareholders, who hold approximately half of its shares, 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.

Fiscal 2014 Annual General Meeting of Shareholders
(Held in March 2015)
Total number of shareholders who attended: 1,637

Holding dialogue between Kao and its shareholders and individual investors

Kao Group in Japan

Kao strives to promote two-way communication between Kao and its shareholders and investors. In 2014, Kao conducted a total of 10 tours of the Kao Museum and the Kawasaki Plant for shareholders over five days during June, and two days of tours of the Wakayama Eco-Lab Museum in December, with a total of approximately 380 people attending.

The tours included explanations from Executive Officers of Kao's performance, mid-term management plan and status of shareholder returns as well as subsequent question-and-answer sessions with shareholders.

We received many favorable comments from participants in the tours, including, "I appreciate having a deeper understanding of Kao's history and corporate stance," "I learned about the excellence of Japanese manufacturing," and "I keenly felt the need for not only companies but also individuals to think and act with an eco perspective."

We continue to incorporate such feedback as we plan and implement future events to bring higher satisfaction to shareholders.

Information disclosure

Overview of IR activities

Global

- 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 the President: twice a year
- Business briefings and facility tours: five times a year
- One-on-one meetings: approximately 280 interviews in and outside of Japan
- Disclosure of information on corporate website
- Reports to shareholders (half-year and full-year) (Japanese version)
- 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

Constructive and purposeful dialogue with institutional investors

Global

Kao engages, in the form of constructive and purposeful dialogue, with overseas institutional investors on an ongoing basis, such as in the UK where the UK Stewardship Code is already introduced, as well as with institutional investors in Japan.

In Japan, the Financial Services Agency released the “Principles for Responsible Institutional Investors,” also called the Japanese Stewardship Code, in February 2014, which leading institutional investors have announced they would adopt.

Based on this Stewardship Code, opinion exchanges were held with institutional investors on the ideal form of meaningful engagement and how companies and investors should engage in communication. We create a variety of opportunities for engagement among our IR activities and will further strengthen our communication of non-financial information including not only business strategy but also information on ESG (Environment, Social, Governance), and make efforts to enhance our sustainable growth and corporate value.

Compliance [57,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/structures

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.

Compliance promotion structure

Kao has established the Compliance Committee, chaired by The Representative Director and Managing Executive Officer, and comprised of representatives of relevant divisions and affiliates.

The Compliance Committee:

- 1) reviews the establishment and revision of the Kao Business Conduct Guidelines (BCG) and other compliance-related internal guidelines;
- 2) implements educational activities to promote wider permeation and establishment of corporate ethics both in and outside of Japan; and
- 3) 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.

In addition to conducting these activities, Kao monitors and evaluates the activities and continues to improve them using the PDCA cycle.

Auditing and monitoring structure

Kao conducts audits for compliance through the Department of Internal Audit, Global and monitoring of activities in a variety of formats.

●Auditing through the Department of Internal Audit, Global

The Department of Internal Audit, Global 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 company-wide opinion survey "Find" conducted every other year.

●Supplier satisfaction survey

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

➡P79 Culture>Partnering with our suppliers

●Self-check exercises at seminars

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

Introduction of Anti-Bribery Guidelines

Global

Kao clearly specifies in the BCG that bribes shall not be given to or received from government officials, private companies, or other business associates regardless of affiliation. Furthermore, the BCG explicitly prohibits facilitation payments, which are small payments to governmental officials to speed up routine non-discretionary government actions. Based on the principles of the BCG, Kao has defined donation guidelines that prohibit political contributions in the Kao Group.

Kao confirms that the Kao Group did not offer any political contributions in 2014.

In 2014, the Anti-Bribery Guidelines were introduced in each company and region, including overseas Kao Group companies. These Guidelines encompass the bribery and corruption prevention policy that is shared among the Kao Group in and outside Japan as well as procedures detailing the rules for entertaining and gift-giving at each Kao Group company. These Guidelines also specify approval procedures in the case of cross-border invitations to governmental officials. In the case of entertainment and gift-giving, the Guidelines specify and implement recording of the purpose of these activities to increase transparency.

Compliance [57,DMA]

Introduction of Guidelines for Avoiding Conflicts of Interest

Global

To conduct sound business activities and prevent situations that would impact the faithful execution of the Kao Group's obligations and responsibilities by executives and employees, Kao has established Guidelines for Avoiding Conflicts of Interest. In 2014, these Guidelines were already introduced in Kao Group companies in Japan as well as outside Japan.

These Guidelines require some forms of approval or

notifications corresponding to the specific situation in which there is a risk of a real, apparent or potential conflict of interest regarding 1) competitive activities by executives, employees or their close relatives and the Kao Group, 2) transactions by executives, employees or their close relatives and the Kao Group, or 3) monetary loans with the Kao Group, business partners or competitors by executives or employees.

Publishing of the Kao Business Conduct Guidelines Casebook

Global

In 2014, Kao published the Kao Business Conduct Guidelines Casebook, which introduces a range of issues that employees should keep in mind using cases of situations that could arise in respective work settings. The Casebook was created in both the Japanese and English languages, published on the internal Intranet system as well as company website, and provided to employees.

Kao is planning to prepare translations of the Casebook in 17 languages in 2015 to provide to employees of Kao Group companies outside Japan.



Kao Business Conduct Guidelines Casebook

Accelerating holding of Integrity Workshops

Global

Sixteen new instructors were selected from Group companies in the European region and an instructor workshop was held with the aim of completing BCG training, called Integrity Workshops, which have been held on an ongoing basis since

2008, for all employees of Kao Group companies outside Japan in 2016. Starting in 2015, further Integrity Workshops are scheduled to be held at Kao Group companies in the European region over two years.



Integrity Workshop (Hair Care Business, Europe and North America)



Standing with "Mr. BCG" at Integrity Workshop in Vietnam

Compliance [57,DMA]

Establishment and operation of compliance hotlines

Global

Kao Group operational policy

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

In operating the hotlines, after properly confirming the report and caller's needs, companies take steps to respect the individual's privacy, strive to ensure that callers suffer no disadvantage as a result of their good faith consultation, and receive the caller's consent when a third party needs to be involved.

In the year 2014, there were 180 calls to the hotlines in the Kao Group including companies outside Japan, none of which presented a serious risk. About 70% of the calls concerned consultations about communications in the workplace.

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 clinical psychologists. Some of the internal and external hotlines accept reports and inquiries not only from Kao employees but also from related parties including business partners.

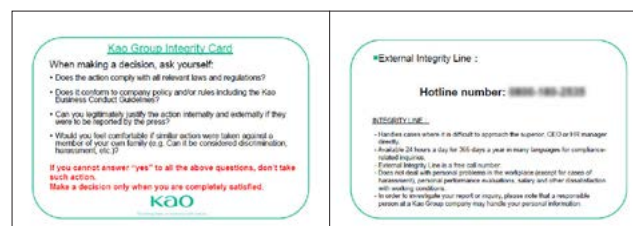
Kao Group companies outside Japan

Kao Group companies outside Japan have established and operate either internal compliance hotlines in which the company's HR manager or other representative handles 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 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 2014, a new hotline was set up for a Kao Group company in South Korea.



Poster and Integrity Card for the Integrity Line in Europe

Response to compliance violations

Global

Kao upholds a principle of disclosing serious violations of laws and regulations in the Kao Group's business operations.

No serious violations of laws and regulations occurred in the business operations of Kao Group companies in 2014.

Minor violations seeking private gain and improper handling of operational and other data did occur, and relevant improvement measures were taken internally.

*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.

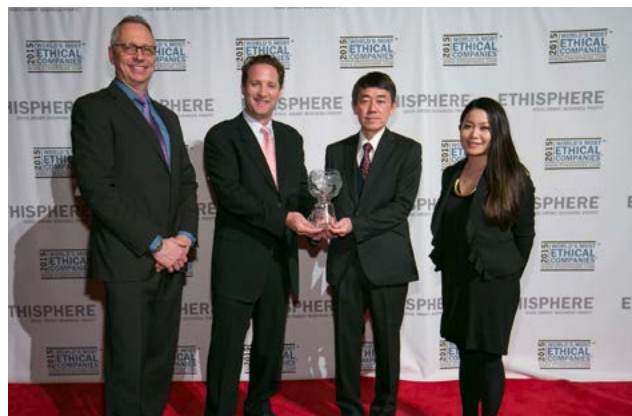
Compliance [57,DMA]

Nine years on the World's Most Ethical Companies list

Global

In March 2015, Kao was named to the list of the World's Most Ethical Companies 2015 by the U.S. think tank Ethisphere Institute. We have been on this list for nine 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 nine 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 132 companies (of which 30 are outside the United States) in 57 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.



Awards ceremony

Measures ensuring full compliance in daily work

Kao Group in Japan

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 2014 for which laws and regulations experts conducted relevant activities:

- Patent Attorneys Act
- Companies Act
- Industrial Safety and Health Act, 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 2014

Number of laws for which laws and regulations experts* have been appointed: 341 laws in total from 78 laws and regulations experts
Number of internal regulations registered: 591

*Laws and regulations experts
The managing division independently appoints laws and regulations experts for specified laws and regulations

Safeguarding intellectual property

Global

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 [58]

The Kao Group develops and upgrades management systems to protect trade secrets, personal information, and the hardware and software used for these purposes, and conducts educational activities for employees.

Policies/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.

Implementing divisional self-patrols

Kao Group in Japan

In April and May of every year, divisional members for protection of trade secrets (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 2014 self-patrols, including always giving instructions to outsourced contractors that

handle personal information to destroy or otherwise dispose of information, thorough compliance with the Guidelines on Handling Trade Secrets revised in 2013, and 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 2014 and set as improvement goals for 2015.

The 21st TS & Personal Information Protection Promotion Meeting

Kao Group in Japan

The Kao Group in Japan holds regular meetings for the purpose of protecting TS and personal information, which are attended by divisional committee members for protection of TS and supervisors who handle personal information. At the 21st TS & Personal Information Protection Promotion Meeting

held in July 2014, a guest speaker from a leading IT security company gave a presentation on the importance of human security measures especially related to personnel in organizations among the current overall information security measures.

Re-confirming the information system managing personal information

Kao Group in Japan

Personal information obtained by Kao Group companies in Japan is managed in information systems operated by each company and outsourced contractors outside the Kao Group. As there were cases of large-scale leaks of personal information at other companies, the Kao Group has once

again confirmed the management conditions of personal information in the information systems of Kao Group companies and outsourced contractors, and is taking steps to maintain and improve the security level of the information systems.

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

Kao maintains a management framework and takes appropriate action in response to risks that could negatively impact achievement of the Kao Group's targets and its business activities.

Policies/structures

Kao visualizes the various risks pertaining to achieving the Kao Group's targets and its business activities and implements measures to reduce their frequency and influence. In addition, we make preparations and conduct necessary drills to minimize damages and loss in the event that such risk becomes a reality.

With regard to risks involved in business strategies, a responsible division reviews the progress of short-term and medium- to long-term business plans, including business conditions, which form the basis of such strategies, and further identifies risks and considers and implements necessary countermeasures, in cooperation with related divisions.

With regard to operational risks, the Risk Management Committee, chaired by the Executive Officer in charge of Risk Management, verifies the furtherance of Group-wide risk management and establishes basic policies for the activities to be carried out upon each occurrence of disasters/accidents, product quality problems and other emergency situations, as well as preparation and operating plans of specific countermeasures, in accordance with the "Kao Risk Management Policy." In addition, in each division we appoint a member responsible for promoting risk management, who

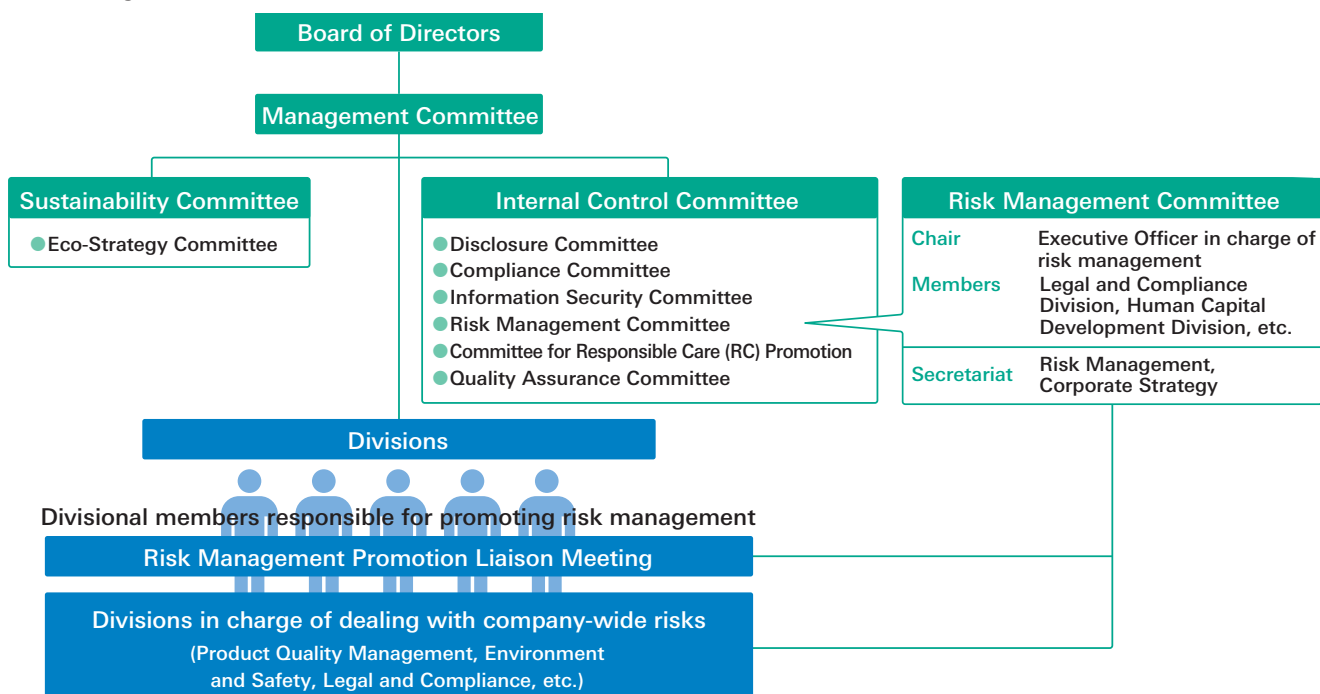
identifies, evaluates and considers measures to avoid or deal with operational risks on a regular basis.

In addition to the enhancement of operational risk management that it has conducted up to now, Risk Management, Corporate Strategy will enhance overall risk management by visualizing and formulating countermeasures for risks involved in business strategies that must be dealt with by the entire Kao Group.

In the event of an emergency, an emergency response organization will be established to respond to such a situation, centered on the responsible divisions and, depending on the graveness of the impact on the Kao Group as a whole, an emergency response headquarters will further be established in order to direct a prompt response to the situation with the President and Chief Executive Officer or another appropriate person acting as the head thereof.

The management status of the above-described business strategy and operational risks will be reported and discussed at the meeting of the Board of Directors or at the Executive Committee on a regular basis, and also in a timely manner whenever necessary.

Risk management structure



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

Goals

Kao has specified the following key themes in order to appropriately manage risks.

1. Identification of risks that could seriously affect achievement of management targets and business activities, and strengthening of countermeasures

Kao works to respond appropriately to strategic risks by having top management and responsible persons in each division review the progress of short-term plans and the Kao Group Mid-term Plan 2015 (K15), including the business conditions on which they are based, identifying risks and implementing necessary countermeasures.

With regard to operational risks, Kao will conduct risk surveys at key divisions in Japan as well as at Kao Group companies outside Japan to identify events that could seriously affect Kao Group business activities, factors in their occurrence, current countermeasures and issues. In addition, Kao will establish policies based on the results of these surveys and have the divisions responsible for the relevant risks formulate responses as a priority measure to reduce the impact on business activities.

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. The impact on the business when such emergency situations occur 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 will fulfill our responsibility to ensure the delivery of products that our customers need by formulating and continuously improving a business continuity plan that hypothesizes various events and their main causes that could have a serious negative impact on the continuity of our business activities, such as an operational stoppage due to a large-scale earthquake or an epidemic.

*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

Identifying and strengthening countermeasures to risks that could have serious negative impact on achievement of management targets and business activities

Global

In addition to risks that could disrupt or suspend operations and/or business activities, including conceivable accidents and natural disasters, and risk of product problems, the results of the risk survey conducted in 2014 confirmed risks pertaining to company credibility such as leaks of personal information and risks in conducting business outside Japan, and measures to address these were taken.

Based on the results of ascertaining serious strategic and operational risks that could negatively impact achievement of Kao's management targets and business activities, the securities report "Business Risks and Other Risks" has been modified and revised.

In 2015, Kao will evaluate and verify the status of strategic and operational risk management and strive to further strengthen countermeasures.

Development and strengthening of the emergency response system

Global

In 2014, we aimed to broadly disseminate understanding throughout the Kao Group including at companies outside Japan of the emergency response system for various incidents in and outside of Japan such as accidents and disasters, political and social unrest and labor disputes that was developed the previous fiscal year. In addition, we also identified and took measures to address related issues, such as globally accepted notification standards. In Japan,

assuming an earthquake with an epicenter in the Tokyo Metropolitan area, we conducted the initial response drill and carried out the wide-area notification drill between the head office and the Kansai region (Wakayama, Osaka), that would serve as an alternate base of the head office.

We will further strengthen our emergency response capabilities in 2015.

Strengthening the business continuity plan (BCP)

Global

In 2014, we continued to strengthen our supply chain system to ensure delivery of products to customers by revising our raw materials procurement and production and logistics systems assuming a large-scale earthquake that may strike in the future.

For the procurement of raw materials, we have taken steps to enable flexible purchasing according to conditions by having multiple vendors and creating standardized specifications for the whole Kao Group. We have built a new online system that designates alternate materials in the event that supply of raw materials is suspended to strengthen our

product supply system.

To strengthen our manufacturing system, we have taken measures such as seismic strengthening and liquefaction-proofing to make plants more disaster resistant. In addition, we are restructuring our production bases globally to handle production and supply of priority products in the event of a large-scale disaster occurring. In 2015, we will evaluate and verify measures to strengthen the business continuity plans being implemented by each division to enhance the efficacy of these plans.

Responsible Care Activities [14,DMA]

Kao vigorously implements Responsible Care (RC) Activities, which are self-monitoring activities by companies engaged in the chemical industry, to ensure ongoing occupational safety and environmental conservation.

Policies/structures

Kao carefully safeguards individuals and the environment at every step of business, from product development to manufacturing, logistics, use and disposal, and defines contributing to the realization of a sustainable society as part of its mission. 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*¹ (self-monitoring efforts governing the environment, safety and health set out by the chemical industry), set targets for each year, and are currently implementing activities based on our annual plan.

Specific activities are divided among eight divisions*² based on their role in the Kao Group in Japan and are implemented with the inclusion of all subsidiaries outside Japan.

The Executive Officer in charge of environment and safety management chairs the committee. The committee comprises 11 members: representatives from the eight divisions as well as staff from the Product Quality Management Division. The Environmental and Safety Division and Product Quality Management Division serve as the secretariat.

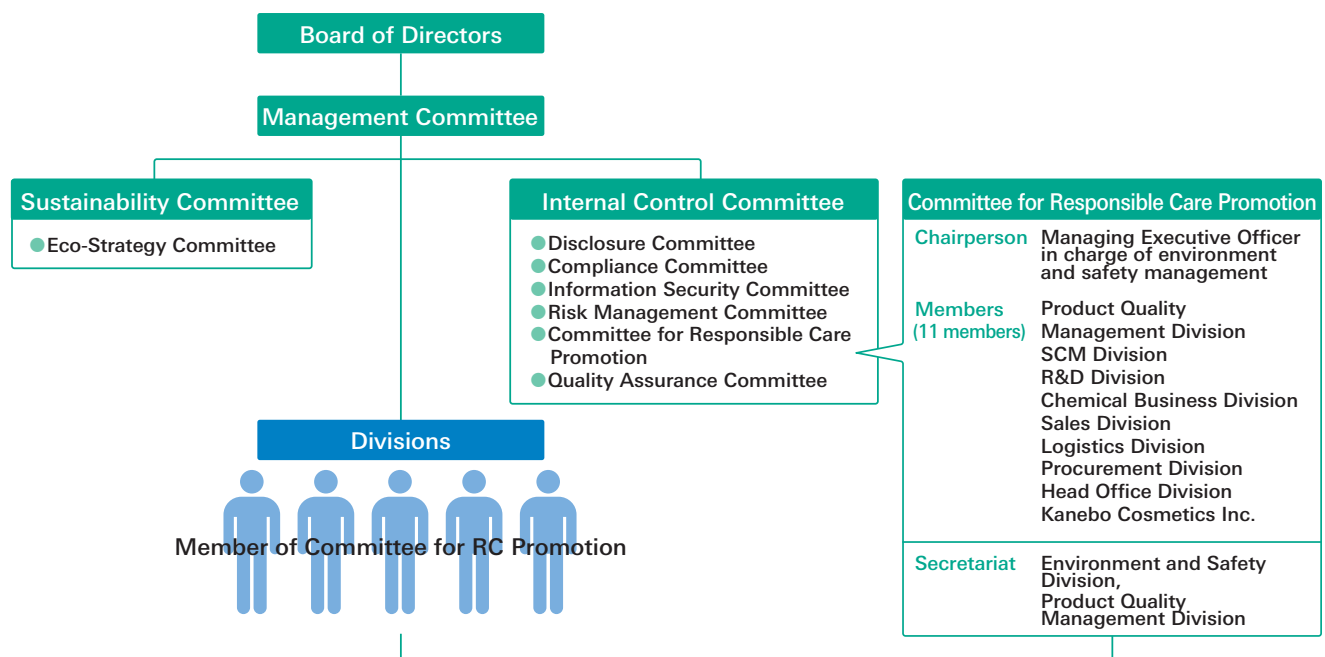
*1 Basic elements of RC Activities: Five objectives (environmental conservation, process safety and disaster prevention, occupational safety and health, chemical and product safety, distribution safety) and communication with society

*2 The activities are being further activated through integrated management with the unification in 2014 of three Head Office divisions (from 10 to 8 divisions).

➔Kao Responsible Care Policy

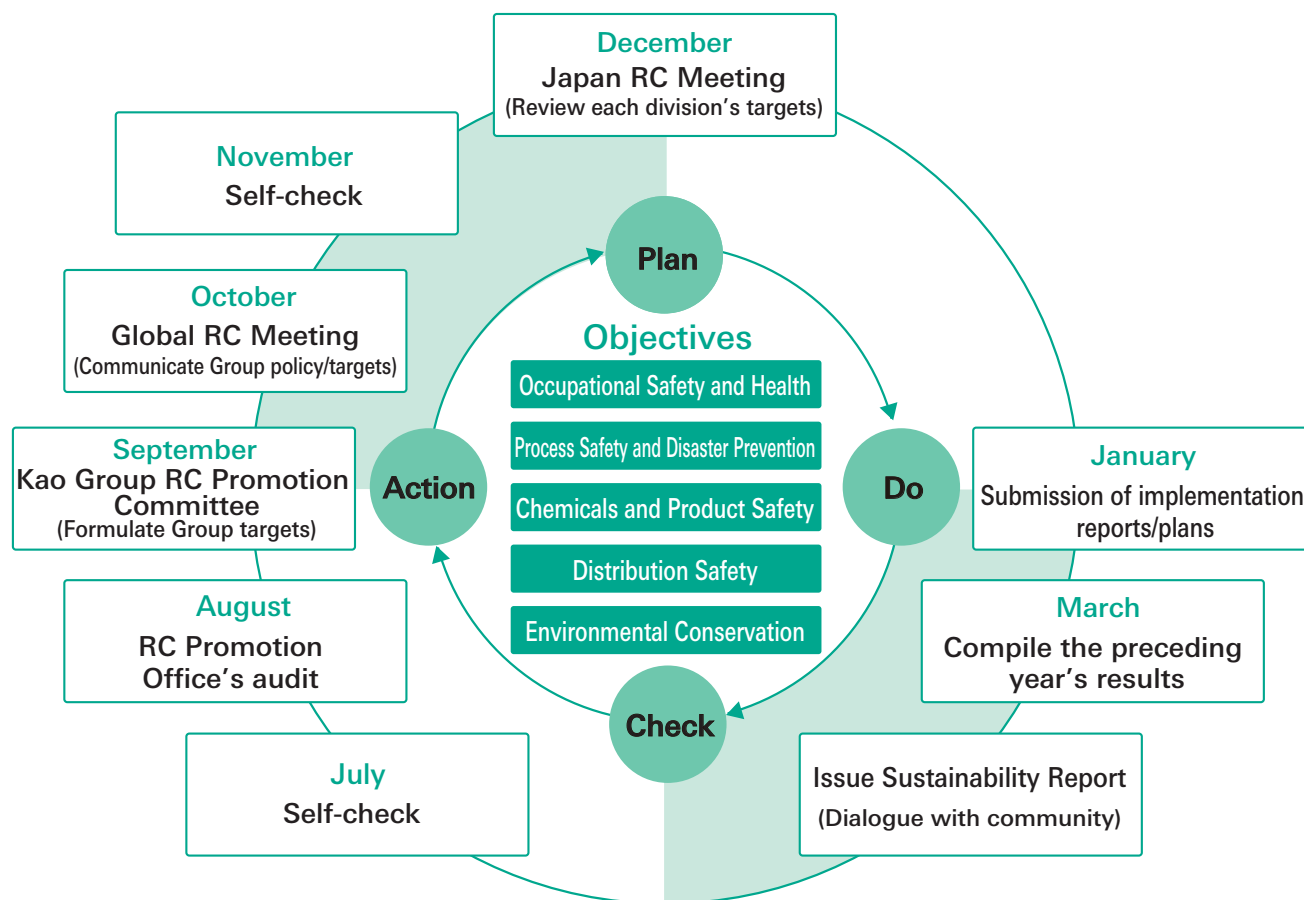
http://www.kao.com/jp/en/corp_csr/eco_activities_05_00.html

RC promotion system



Responsible Care Activities [14,DMA]

Annual cycle of RC Activities



Topics

President signs revised version of RC Global Charter

Responsible Care is a global initiative practiced in more than 60 countries worldwide. The International Council of Chemical Associations (ICCA) has established the Responsible Care Global Charter to promote the initiative, which was revised in 2014. Since adopting Responsible Care in 1995, Kao has promoted environmental and safety activities in the Kao Group as a whole. President Sawada recently signed the revised Global Charter and reaffirmed Kao's commitment to and practice of RC activities. The revised Global Charter explains companies' societal roles, obligations and importance of accountability by listing specific environmental and safety standards of conduct in ways that are easy to understand for a range of stakeholders including international groups and NGOs.



Responsible Care Activities [14,DMA]

Annual cycle of RC activities

Global

At the Kao Group RC Promotion Committee held in September, members plan initiatives to clarify the course of action and strengthen the management system, and deliberate the Kao Group's mid-term targets as well as the following year's activity targets based on the results of the RC Promotion Office's audit conducted in August.

At the Japan RC Meeting held in December, based on these activity targets, 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.



Kao Group RC Promotion Committee

The Global RC Meeting held in December in Tokyo from 2014 to schedule annual activities corresponding to global developments saw the participation of 13 members from nine countries engaged in the environment and safety. The RC Promotion Office explained the Kao Group targets decided in September and the 2015 targets, and requested each country to devise their respective targets and plan for 2015.

Representatives from each country presented the status of their RC activities and shared information. Going forward, the Global RC Meeting is scheduled to be held every year around October.



Global RC Meeting

Utilization of environmental and safety database

Global

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 GHG 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, GHG emissions, soot and dust emissions, water use, wastewater amounts, wastewater concentration measurements, soil and groundwater measurements, amounts of handling, release and transfer of PRTR materials, waste generated, discharged, and final disposed of waste, occupational accident statistics, and traffic accident statistics.

Responsible Care Activities [14,DMA]

Conducting RC Promotion Office's audits

Kao Group in Japan

At Kao, individual divisions in charge of RC promotion conduct self-check in July, and the RC 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 Kao Group RC Promotion Committee held each September and help formulate the next year's activity targets.

In addition to the plan's progress and achievement of numerical targets, in 2014 Kao conducted an audit switching to a new, detailed check sheet based on the RC Code of the Japan Chemical Industry Association, which includes the status of compliance with legal requirements and standards.

In the past, each division achieved close-to-perfect results, but a variety of issues were pointed out based on the new check sheet. Specifically, risk assessment and legal requirements were identified, and deficiencies in procedures and standards to promote education and training or recording methods were seen. Some of these have been incorporated in the 2015 improvement plan.

The nine countries outside Japan that participated in the Global RC Meeting were sent the same check sheet and their responses have been received. Kao Group companies outside Japan are scheduled to conduct official audits starting in 2015.

Results of audits by RC Promotion Office (2014)

| | Production & Engineering | R&D | Business Units | Corporate | Affiliates* |
|--|--------------------------|------|----------------|-----------|-------------|
| No. of questions | 147 | 130 | 308 | 168 | 342 |
| No. of items requiring continued observation | 2 | 5 | 8 | 13 | 19 |
| Average evaluation score (5-point scale) | 4.84 | 4.89 | 4.11 | 4.33 | 4.26 |

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

Implementing continuous RC education

Kao Group in Japan

The RC 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 2014, the RC Promotion Office held 21 RC training sessions for employees, with the participation of a total of 289 people.

Results of RC Promotion Office education (2014)

| | Production & Engineering | R&D | Business Units | Corporate | Affiliates | Total |
|--------------------------|--------------------------|-----|----------------|-----------|------------|-------|
| No. of training sessions | 6 | 1 | 2 | 9 | 3 | 21 |
| No. of participants | 107 | 13 | 9 | 140 | 20 | 289 |

*For Kao Group in Japan

➡ Certification Status of ISO and Other Standards
http://www.kao.com/jp/en/corp_csr/eco_activities_02_11.html

Responsible Care Activities [14,DMA]

Topics

Kao awarded by Japan Chemical Industry Association

As part of independent efforts to promote safety and hygiene in the chemical industry, each year the Japan Chemical Industry Association (JCIA) presents awards to worksites that conduct outstanding safety activities and serve as a model for the industry. The Tochigi Plant was highly evaluated for its safety activities promoted through concerted employee efforts that have achieved consecutive accident-free operations for 22.61 million hours (11 years) and was awarded the 38th Safety Award Grand Prize.

In addition, Kao Customer Marketing's community-directed communication activities were recognized, and the company received the 8th Responsible Care Outstanding Prize awarded by JCIA.

Moreover, Kao Corporation was awarded the 46th Special Technology Prize from JCIA in recognition of the h-CLAT alternative skin sensitization test method jointly developed with Shiseido Co., Ltd.



Awards ceremony in May 2014

Recognition by Outside Organizations

SRI indexes and evaluations

Global

SRI indexes

Kao was selected for inclusion in the 2014 Dow Jones Sustainability World Index, among the world's most renowned socially responsible investment (SRI) indices. At the same time, Kao was the only Japanese corporation also selected as an Industry Group Leader. Kao continues to be included in a number of other world-leading indexes as well.



- ➡ 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 Gold Class award in its 2015 sustainability rating as well as an Industry Mover in 2015.



Recognition by Outside Organizations

Recognition by outside organizations in 2014

Global

Major external corporate recognition and commendations in 2014 are listed below.

Recognition by outside organizations from January through December 2014

| Date of award | Awarded division | Award name and description | Organization |
|---------------|--|---|---|
| 2014/03 | Kao Corporation | Kao was selected as one of the World's Most Ethical Companies in 2014 in recognition of ethical excellence in corporate ethics, governance, social responsibility, citizenship activities, and corporate culture. | Ethisphere Institute |
| 2014/04 | Kao Customer Marketing Co., Ltd. (CMK) | CMK received a letter of appreciation from the Minister of Health, Labour and Welfare for providing emergency relief supplies through the Japan Association of Chain Drug Stores (JACDS) to disaster-affected regions after the Great East Japan Earthquake. | Ministry of Health, Labour and Welfare (Japan) |
| 2014/04 | Wakayama Plant | The Wakayama Plant received the 2 nd Urban Green Award for excellent conservation of black pine and other trees on plant grounds serving as a protection against salt wind as well as active educational efforts to promote environmental conservation. | Organization for Landscape and Urban Green Infrastructure |
| 2014/04 | Kao Corporation | Kao received the Japan Federation of Printing Industries Chairman's Prize at the 53 rd Japan Packaging Competition for the powder laundry detergent <i>Attack Highly Active Bio EX</i> refill pack for its ease of use, reduced environmental impact and excellent UD attributes. | Japan Federation of Printing Industries |
| 2014/05 | Kao Corporation | Kao received the 38 th Kinoshita Prize for the <i>Attack Highly Active Bio EX</i> refill pack for proposing a new refill system, ease of use leveraging new materials, reduced environmental impact and excellent UD attributes. | Japan Packaging Institute |
| 2014/05 | Tochigi Plant | The Tochigi Plant was awarded the Grand Prize at the 38 th Annual Safety Awards for being a model plant in voluntarily promoting outstanding safety activities in the chemicals industry. | Japan Chemical Industry Association |
| 2014/05 | Kao Customer Marketing Co., Ltd. (CMK) | CMK was awarded the 8 th Responsible Care Outstanding Prize for the "eco together" environmental communication activities aimed at conserving water and electricity and reducing waste together with consumers, stores and local governments. | Japan Chemical Industry Association |
| 2014/05 | Kao Corporation | Kao received the 46 th Special Technology Prize from JCIA in recognition of the h-CLAT alternative skin sensitization test method jointly developed with Shiseido Co., Ltd. | Japan Chemical Industry Association |
| 2014/06 | Kao Corporation | Kao received the Award of Excellence at the 9 th Commendation on Instructional Materials for Consumer Education Awards for the home economics educational resource "A Comfortable, Environmentally Conscious Life" that contributes to consumer education and can be used in educational settings. | National Institute on Consumer Education |
| 2014/06 | Kao Corporation | Kao received the Certificate of Commendation from the Minister of Internal Affairs and Communications on Japan's 64 th annual Radio Day for its efforts to expand use of closed captioning television commercial. | Ministry of Internal Affairs and Communications (Japan) |
| 2014/06 | Kao Corporation | Kao received the 21 st Japan Geriatrics Society Best Paper Award for a research paper jointly written with the Tokyo Metropolitan Institute of Gerontology and the National Center for Geriatrics and Gerontology. | The Japan Geriatrics Society |
| 2014/08 | Kao Corporation | Six Kao products received the Japan Star Award and other awards in the Japan Packaging Contest 2014 for their excellent manufacturing quality attaining environmental considerations, convenience and safety. | Japan Packaging Institute |
| 2014/08 | Kao Industrial (Thailand) | Kao Industrial (Thailand) received the IEAT (Industrial Estate Authority of Thailand) Waste Management Award, Gold Level, for its waste management activities. | Industrial Estate Authority of Thailand |
| 2014/10 | Kao Corporation | Kao received the Japan Soft Drink Research Award at the 24 th Japan Soft Drink Research Presentations and General Meeting for its research on coffee containing chlorogenic acids, which shows efficacy in reducing visceral fat in overweight subjects. | Japan Soft Drink Association |
| 2014/10 | Kao Corporation | Kao Corporation as a whole was designated as a Leading Climate Disclosure Company at the 2014 CDP Japanese briefing for its environmental conservation activities and stance on information disclosure to stakeholders. | CDP |
| 2014/11 | Kao Corporation | Kao was selected as one of the Top 100 Global Innovators of 2014 for being a business-leading company protecting original inventions through intellectual property rights. | Thomson Reuters |
| 2014/11 | Kao Corporation | Kao received the Award of Excellence in the Corporate HR Department Section at the HR Awards organized by iQ Co., Ltd. (Nihon no Jinjibu) for its progressive efforts related to supporting balance between work and child-care. | iQ Co., Ltd. (Nihon no Jinjibu) |
| 2014/12 | Kao Corporation | Kao was named to the Asia IP Elite list for the 2 nd consecutive year as an Asian company with an excellent intellectual asset strategy. | Intellectual Asset Management (IAM) |
| 2014/12 | Kao Corporation | Kao participated in the Kyoto Environmental Festival 2014. In a contest where visitors select the 5 best booth designs, its booth won Grand Prize for its entertaining and interesting learning activities about the environment. | Kyo to Chikyu no Kyosei Fumin Kaigi (Kyoto Prefectural People's Association for the Coexistence with the Earth) |

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 a star ★ for the period from January 1, 2014 to December 31, 2014 (the “Indicators”) included in its Sustainability Report 2015 found under www.kao.co.jp/corp/sustainability-reports/en/ (the “Report”) for the fiscal year ended December 31, 2014.

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 Toyohashi Plant and Fatty Chemical (Malaysia) Sdn. Bhd. 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 29, 2015

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 mainly engaged in 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 (ISO 26000) Working Group (March 2005–May 2009). He has co-authored numerous books including *CSR Management and SRI* (Kinzai, 2004), *Businesses That Grow with Global Warming* (Toyo Keizai Inc., 2007), *Introduction to Environmental Management* (Nikkei Publishing Inc., 2009), and *Ten New Things to Know about Environmental Management: From Carbon Risk to Natural Capital* (Nikkei Publishing Inc., 2015).

The Kao Group aims for both “profitable growth” and “contributing to the sustainability of the world.” The five consecutive years of growth in sales and income achieved in fiscal 2014 speak to the former, and my interest as such turns to the latter target. For the second straight year, I have read the sustainability report that emphasizes Kao’s three key areas and was able to see how its efforts to “contribute to the sustainability of the world” have been further improved and expanded.

Specifically, 1) commitment to zero deforestation in palm oil procurement and setting of the goal of “purchasing only sustainably sourced palm oil that is traceable to the plantation for use in Kao Group consumer products by 2020,” 2) expansion of the management of chemical substances contained in products in the supply chain, 3) introduction of the Kao Anti-Bribery Guidelines and expansion of the Guidelines for Avoiding Conflicts of Interest to overseas Kao Group companies, 4) adoption of the Kao Human Rights Policy based on the UN Guiding Principles on Business and Human Rights, and 5) the Procurement Division’s participation in SEDEX, an organization promoting sharing of ethical supply chain data. Each of these efforts is positively evaluated from the standpoint of mitigating the negative impacts of high-priority issues directly connected to business. In addition, I would like to see the descriptions of new progress not merely listed beside previous efforts, but disclosed in a more dynamic and inventive format.

Meanwhile, I took great interest in reading about the examples of technological development, product development, and product improvements published in the Topics column from the standpoint of the positive impact brought by business. In future reports, these examples would be even more persuasive if they were accompanied by an explanation of the strategy and process that connects them to “profitable growth.”

The Kao Group has set an “overseas sales ratio of 30% or more” as one of its goals in its mid-term plan K15 with the final year of fiscal 2015. Kao also aims to contribute to resolving social issues around the world

through innovative products and services as part of its efforts to “contribute to the sustainability of the world.” Compared with the previous year’s report, there seems to be more disclosure concerning the overseas Kao Group and global efforts, but it felt a little difficult to grasp what kind of social issues the Kao Group feels a sense of crisis toward from a worldwide perspective.

Last year, the United Nations Environment Programme released a report titled “UNEP Year Book 2014: Emerging Issues in Our Global Environment 2014.” It calls attention to areas such as excess nitrogen in the environment, combating (re)emerging infectious diseases, and plastic debris in the ocean, which are becoming serious, new environmental problems and are areas where the Kao Group may be able to make contributions to resolving issues. Furthermore, at the United Nations General Assembly to be held this September, discussions on the post-2015 development agenda and Sustainable Development Goals are expected to take place, with the world’s social issues being redefined. I would like the Kao Group to be one of the companies most sensitive to sustainability in the world, and I would like to see Kao also make progressive efforts toward resolving new issues facing the earth and society.

Lastly, regarding the problem of Kanebo Cosmetics products containing “Rhododenol,” I approve of the disclosure of the response to the people who have experienced symptoms and efforts to prevent a reoccurrence. I expect to see appropriate information disclosure 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 | P3 |
| 2 | Description of key impacts, risks, and opportunities | •CEO Message •Kao Sustainability Statement •Risk management | P3 P13 P111 |

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's businesses | P10 |
| 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 | •Principal locations and business development | P12 |
| 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 | P86 |
| 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 •Information security •Risk management •Responsible Care Activities | P13 P110 P111 P113 |
| 15 | List of externally developed economic, environmental and social charters, principles, or other initiatives to which the organization subscribes or which it endorses | •Principal locations and business development •Recognition by Outside Organizations | P12 P118 |
| 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 | P2 P13 |
| 19 | List of all the material Aspects identified in the process for defining report content | •Three Key Areas and Target Fields | P14 |
| 20 | For each material Aspect, report the Aspect Boundary within the organization | •Editorial Policy | P2 |
| 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 | •Non-financial highlights | P9 |
| 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 | •Stakeholder communication | P19 |
| 25 | Report the basis for identification and selection of stakeholders with whom to engage | •Kao Sustainability Statement | P13 |
| 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 | P13 P121 |
| 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 | P13 |

REPORT PROFILE

| Indicator | Description | Relevant Sections in Reports | |
|-------------------|---|--|--------------------|
| | | Website | PDF |
| 28 | Reporting period (such as fiscal or calendar year) for information provided | •Editorial Policy | P2 |
| 29 | Date of most recent previous report (if any) | •Editorial Policy | P2 |
| 30 | Reporting cycle (such as annual, biennial) | •Editorial Policy | P2 |
| 31 | Contact point for questions regarding the report or its contents | — | Back cover |
| 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 •Independent Assurance Report •GRI G4 Guidelines Content Index | P2 P120 P122 |
| 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 | P2 P120 |

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 | P101 |

| | | | |
|--|---|--|--------------|
| 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 | P13 |
| 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 | P13 |
| 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 | P101 |
| 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 | P101 |
| 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 | P101 |
| 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: • Cross-board membership • Cross-shareholding with suppliers and other stakeholders • Existence of controlling shareholder • Related party disclosures | •Corporate governance •Compliance | P101 P106 |
| 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 | P13 P101 |
| 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 | P101 P111 |
| 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 | P111 |
| 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 | P13 |
| Role of the Highest Governance Body in the Evaluation of Social, Environmental and Social Performance | | | |
| 49 | Process for communicating critical concerns to the highest governance body | •Risk management | P111 |
| 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 | P101 |
| 52 | Process for determining remuneration | •Corporate governance | P101 |
| 53 | How stakeholders' views are sought and taken into account regarding remuneration | •Corporate governance | P101 |
| 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 | <ul style="list-style-type: none"> •Kao Sustainability Statement •Culture | P13 P76 |
| 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 | <ul style="list-style-type: none"> •Compliance | P106 |
| 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 | <ul style="list-style-type: none"> •Compliance | P106 |

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 b. Report how the organization manages the material Aspect or its impacts c. Report the evaluation of the management approach, including <ul style="list-style-type: none"> •The mechanisms for evaluating the effectiveness of the management approach •The results of the evaluation of the management approach •Any related adjustments to the management approach Include all DMAs for General Aspects and Specific Aspects | <ul style="list-style-type: none"> •Kao Sustainability Statement •Conservation •Community •Culture •Responsible Care Activities •Compliance | P13 P20 P46 P76 P113 P106 |

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) •Financial highlights | — P8 |
| EC2 | Financial implications and other risks and opportunities for the organization’s activities due to climate change | •Reducing environmental impacts of business activities | P20-39 |
| EC3 | Coverage of the organization’s defined benefit plan obligations | •Investor Relations on the Kao website (external link) | — |
| EC4 | Financial assistance received from government | — | — |
| 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 •Engaging with local communities through partnerships | P40-45 P66-75 |
| 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 •Product lifecycle and environmental impact | P34 P36 |
| EN2 | Percentage of materials used that are recycled input materials | •Other environmental impacts •Product lifecycle and environmental impact | P32 P36 |
| ASPECT: ENERGY | | | |
| EN3 | Energy consumption within the organization | •Non-financial highlights •Highlights: Reducing CO2 emissions across the product lifecycle •Product lifecycle and environmental impact | P9 P20 P36 |
| EN4 | Energy consumption outside of the organization | — | — |
| EN5 | Energy intensity | •Highlights: Reducing CO2 emissions across the product lifecycle | P20 |
| EN6 | Reduction of energy consumption | •Highlights: Reducing CO2 emissions across the product lifecycle | P20 |
| EN7 | Reductions in energy requirements of products and services | •Highlights: Reducing CO2 emissions across the product lifecycle | P20 |
| 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 | P28 |
| 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) | •Highlights: Reducing CO2 emissions across the product lifecycle | P20 |
| EN16 | Energy indirect greenhouse gas (GHG) emissions (Scope 2) | •Highlights: Reducing CO2 emissions across the product lifecycle | P20 |
| EN17 | Other indirect greenhouse gas (GHG) emissions (Scope 3) | •Product lifecycle and environmental impact | P36 |
| EN18 | Greenhouse gas (GHG) emissions intensity | •Highlights: Reducing CO2 emissions across the product lifecycle | P20 |
| EN19 | Reduction of greenhouse gas (GHG) emissions | •Highlights: Reducing CO2 emissions across the product lifecycle | P20 |
| EN20 | Emissions of ozone-depleting substances (ODS) | — | — |
| EN21 | NOx, SOx, and other significant air emissions | •Other environmental impacts | P32 |
| ASPECT: EFFLUENTS AND WASTE | | | |
| EN22 | Total water discharge by quality and destination | •Highlights: Measures for water resources conservation •Other environmental impacts | P22 P32 |
| EN23 | Total weight of waste by type and disposal method | •Other environmental impacts | P32 |
| EN24 | Total number and volume of significant spills | Not applicable | Not applicable |
| 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 | •Reducing environmental impacts of business activities | P20-39 |

| | | | |
|---|---|--|----------------|
| 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 | <ul style="list-style-type: none"> •Highlights: Reducing CO₂ emissions across the product lifecycle •Product lifecycle and environmental impact | P20 P36 |
| ASPECT: OVERALL | | | |
| EN31 | Total environmental protection expenditures and investments by type | •Environmental accounting | P38 |
| 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 | P86 |
| 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 | P90 |
| 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 | P96 |
| 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 | P83 |
| LA11 | Percentage of employees receiving regular performance and career development reviews, by gender and by employee category | — | — |
| 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 | P86 |
| 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 | | | |
| 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 | •Promoting Integrity | P76 |
| 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 | P48 |
| 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 | P57 |
| 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 |

ISO 26000 Content Index

| Core subjects and issues | | Pages of the Sustainability Report 2015 | |
|--------------------------|--|---|---|
| | | Website | PDF |
| 6.2 | Organizational governance | <ul style="list-style-type: none"> •CEO Message •Kao Sustainability Statement •Governance •Environmental communication •Communication with consumers •Communication with corporate customers •Partnering with our suppliers •Human capital development •Promoting Diversity & Inclusion and respecting human rights •Engaging with local communities through partnerships | P3 P13 P101 P41 P57 P62 P79 P83 P86 P66-75 |
| 6.3 | Human rights | <ul style="list-style-type: none"> •Highlights: Human rights initiatives •Kao Business Conduct Guidelines (external link) | P78 — |
| 6.3.3 | Due diligence | <ul style="list-style-type: none"> •Kao Sustainability Statement •Compliance •Promoting Diversity & Inclusion and respecting human rights •Partnering with our suppliers •Highlights: Human rights initiatives | P13 P106 P86 P79 P78 |
| 6.3.4 | Human rights risk situations | <ul style="list-style-type: none"> •Promoting Diversity & Inclusion and respecting human rights | P86 |
| 6.3.5 | Avoidance of complicity | <ul style="list-style-type: none"> •Promoting Diversity & Inclusion and respecting human rights •Partnering with our suppliers | P86 P79 |
| 6.3.6 | Resolving grievances | <ul style="list-style-type: none"> •Compliance •Communication with consumers | P106 P57 |
| 6.3.7 | Discrimination and vulnerable groups | <ul style="list-style-type: none"> •Promoting Diversity & Inclusion and respecting human rights •Engaging with local communities through partnerships | P86 P66-75 |
| 6.3.8 | Civil and political rights | <ul style="list-style-type: none"> •Compliance •Promoting dialogue with employees | P106 P89 |
| 6.3.9 | Economic, social, and cultural rights | <ul style="list-style-type: none"> •Compliance •Promoting Diversity & Inclusion and respecting human rights •Engaging with local communities through partnerships | P106 P86 P66-75 |
| 6.3.10 | Fundamental principles and rights at work | <ul style="list-style-type: none"> •Compliance •Promoting Diversity & Inclusion and respecting human rights | P106 P86 |
| 6.4 | Labour practices | | |
| 6.4.3 | Employment and employment relationships | <ul style="list-style-type: none"> •Compliance •Promoting Diversity & Inclusion and respecting human rights | P106 P86 |
| 6.4.4 | Conditions of work and social protection | <ul style="list-style-type: none"> •Promoting dialogue with employees | P89 |
| 6.4.5 | Social dialogue | <ul style="list-style-type: none"> •Promoting dialogue with employees | P89 |
| 6.4.6 | Health and safety at work | <ul style="list-style-type: none"> •Occupational safety and health, process safety and disaster prevention •Responsible Care Activities | P96 P113 |
| 6.4.7 | Human development and training in the workplaces | <ul style="list-style-type: none"> •Human capital development | P83 |
| 6.5 | The environment | | |
| 6.5.3 | Prevention of pollution | <ul style="list-style-type: none"> •Kao Sustainability Statement •Other environmental impacts •Sound management of chemicals | P13 P32 P24 |
| 6.5.4 | Sustainable resource use | <ul style="list-style-type: none"> •Kao Sustainability Statement •Measures for biodiversity conservation •Partnering with our suppliers | P13 P28 P79 |
| 6.5.5 | Climate change mitigation and adaptation | <ul style="list-style-type: none"> •Kao Sustainability Statement •Reducing environmental impacts of business activities | P13 P20-39 |

| | | | |
|------------|---|---|--|
| 6.5.6 | Protection of the environment, biodiversity and restoration of natural habitats | <ul style="list-style-type: none"> •Kao Sustainability Statement •Measures for biodiversity conservation •Partnering with our suppliers | P13 P28 P79 |
| 6.6 | Fair operating practices | | |
| 6.6.3 | Anti-corruption | <ul style="list-style-type: none"> •Promoting Integrity •Corporate governance •Compliance | P76 P101 P106 |
| 6.6.4 | Responsible political involvement | •Compliance | P106 |
| 6.6.5 | Fair competition | <ul style="list-style-type: none"> •Promoting Integrity •Corporate governance •Compliance | P76 P101 P106 |
| 6.6.6 | Promoting social responsibility in the value chain | <ul style="list-style-type: none"> •Corporate governance •Compliance •Communication with corporate customers •Partnering with our suppliers | P101 P106 P62 P79 |
| 6.6.7 | Respect for property rights | •Compliance | P106 |
| 6.7 | Consumer issues | | |
| 6.7.3 | Fair marketing, factual and unbiased information and fair contractual practices | <ul style="list-style-type: none"> •Communication with consumers •Communication with corporate customers •Partnering with our suppliers | P57 P62 P79 |
| 6.7.4 | Protecting consumers' health and safety | <ul style="list-style-type: none"> •Communication with consumers •Product quality management | P57 P48 |
| 6.7.5 | Sustainable consumption | <ul style="list-style-type: none"> •Conservation •Environmentally-conscious containers and packaging | P20 P34 |
| 6.7.6 | Consumer service, support, and complaint and dispute resolution | <ul style="list-style-type: none"> •Communication with consumers •Product quality management | P57 P48 |
| 6.7.7 | Consumer data protection and privacy | •Compliance | P106 |
| 6.7.8 | Access to essential services | •Communication with consumers | P57 |
| 6.7.9 | Education and awareness | <ul style="list-style-type: none"> •Communication with consumers •Product quality management •Environmental communication •Engaging with local communities through partnerships | P57 P48 P41 P66-75 |
| 6.8 | Community involvement and development | | |
| 6.8.3 | Community involvement | <ul style="list-style-type: none"> •Kao Sustainability Statement •Conservation •Community •Culture •Responsible Care Activities •Environmental communication •Measures for biodiversity conservation •Engaging with communities through business •Engaging with local communities through partnerships | P13 P20 P46 P76 P113 P41 P28 P46-65 P66-75 |
| 6.8.4 | Education and culture | <ul style="list-style-type: none"> •Community •Engaging with local communities through partnerships •Measures for biodiversity conservation | P46 P66-75 P28 |
| 6.8.5 | Employment creation and skills development | •Communication with corporate customers | P62 |
| 6.8.6 | Technology development and access | <ul style="list-style-type: none"> •Reducing environmental impacts of business activities •Engaging with communities through business •Environmental communication | P20-39 P46-65 P41 |
| 6.8.7 | Wealth and income creation | <ul style="list-style-type: none"> •Community •Culture •Engaging with local communities through partnerships | P46 P76 P66-75 |
| 6.8.8 | Health | <ul style="list-style-type: none"> •Community •Engaging with local communities through partnerships | P46 P66-75 |
| 6.8.9 | Social investment | <ul style="list-style-type: none"> •Community •Culture •Engaging with local communities through partnerships | P46 P76 P66-75 |



Enriching lives, in harmony with nature.

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