



Kao Sustainability Report 2015

Highlights

Enriching lives,
in harmony with nature.

Kao

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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 booklet, Kao Sustainability Report 2015 Highlights, introduces examples of activities in each of the three key areas of Conservation, Community and Culture that represent material issues for the Kao Group.
- The Kao Sustainability Report 2015 (HTML and PDF versions) available online introduces various Kao Group initiatives in the three key areas of Conservation, Community and Culture, Kao's management structure and detailed environmental and social performance data.

Kao Sustainability Report 2015

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

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. Exceptions to this have been clearly stated in the text.

In this report, "Kao" means the Kao Group. The names of individual organizations are stated when necessary to identify the scope.

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. Figures calculated based on a data period other than the above are noted as such.

Some qualitative information includes activities performed in fiscal 2015.



Michitaka Sawada
President and Chief Executive Officer

CEO Message

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.

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

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

production of oil from algae.

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

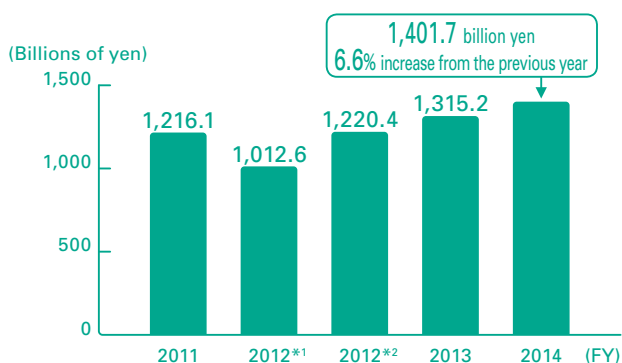
While verifying individual customers skin problems and skin conditions, we offer advice on recommended products, how to use them, and how to care for skin. For customers with concerns about the use of cosmetics, we also provide a "skin and cosmetics compatibility check" that customers can do on their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

⑤ Continual safety inspections after market launch

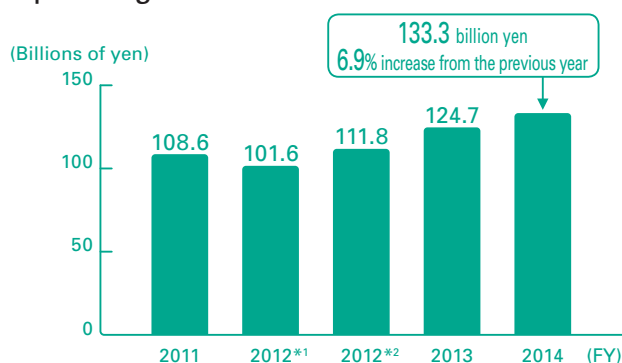
The details of every report received from customers and medical institutions are verified individually and used in safety inspections. At stores we listen intently to our customers. Opinions and requests from customers are used in improvement activities.

Financial Highlights (consolidated)

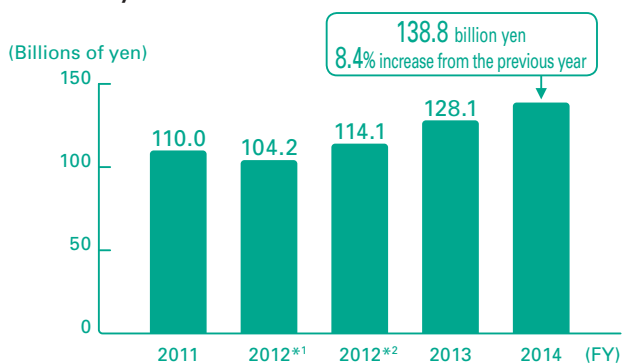
Net sales



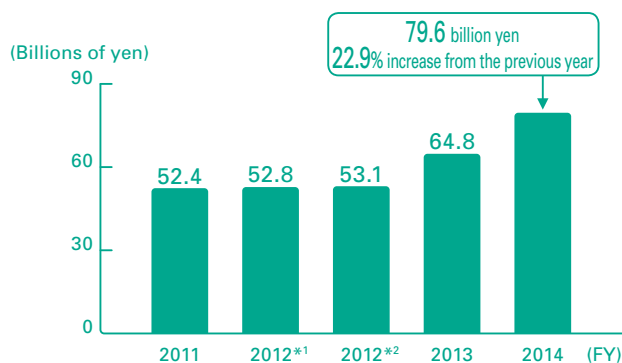
Operating income



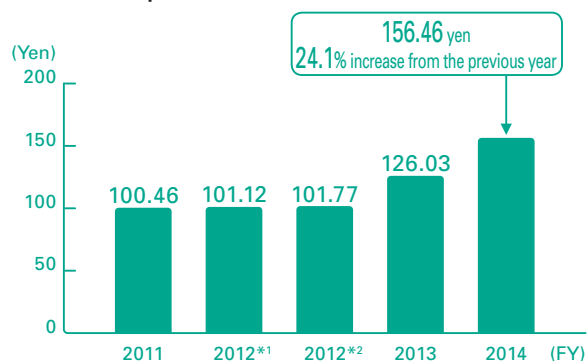
Ordinary income



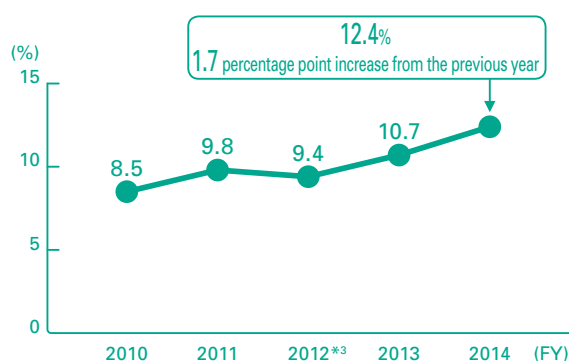
Net income



Net income per share



ROE



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

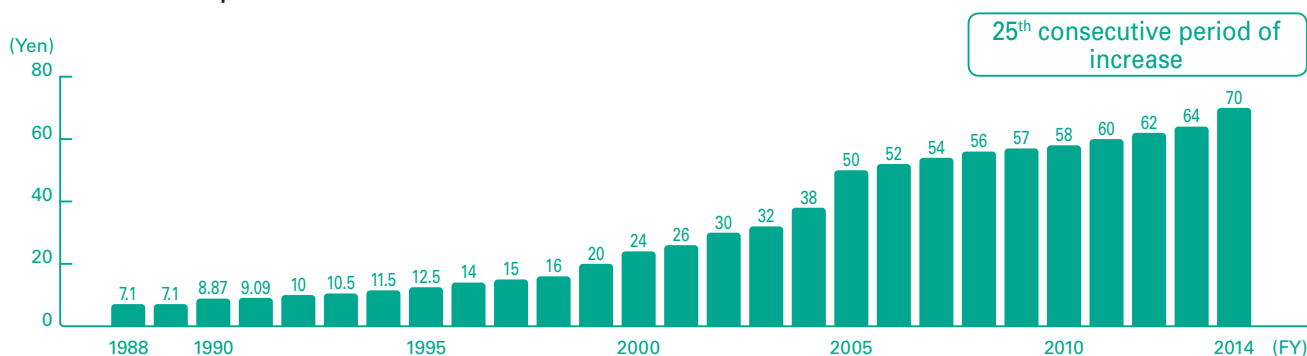
2. The Kao Group's fiscal year end changed from March 31 to December 31 from the year ended December 31, 2012.

*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



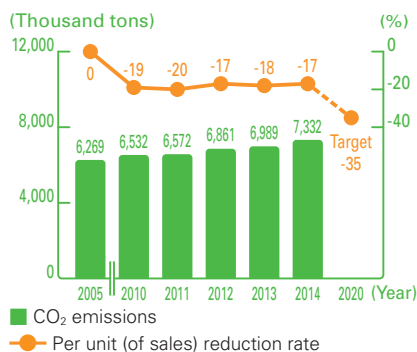
*Impacts of share splits are retroactively reflected.

Non-financial Highlights

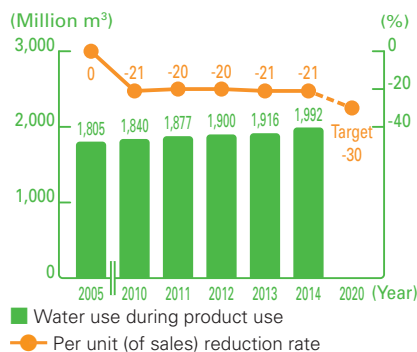
Kao is conducting a range of activities in the three key areas based on the Kao Sustainability Statement. Following are results for some of Kao's representative activities. For details of activities, please see the Kao Sustainability Report available on the Kao website (http://www.kao.com/jp/en/corp_csr/reports.html).

Conservation Reducing environmental impacts across the product lifecycle

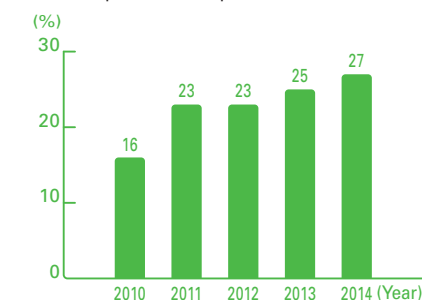
CO₂ emissions across the product lifecycle (Kao Group in Japan)*¹



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

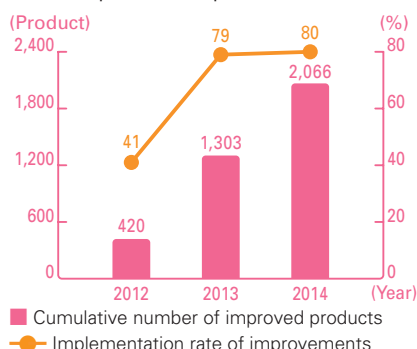


Percentage of sales from products displaying the "eco together" logo (consumer products in Japan)*³

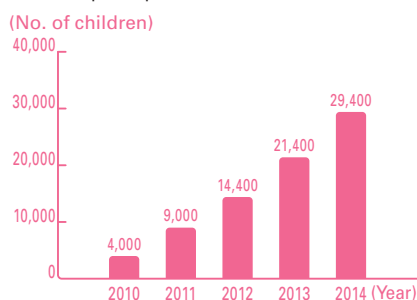


Community Offering products and communication to contribute to resolving social issues with consideration for the diversity of consumers

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

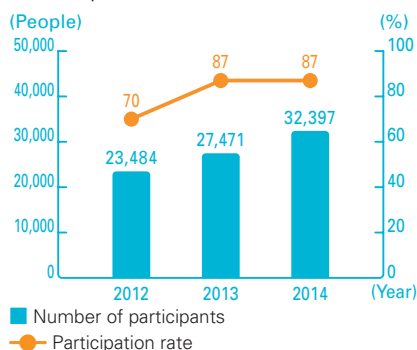


Cumulative number of children who have taken hand washing lessons (Kao Group in Japan)

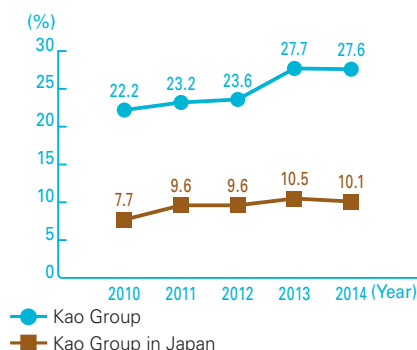


Culture Promoting Integrity including communicating the Business Conduct Guidelines to all Group employees and Diversity and Inclusion

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.

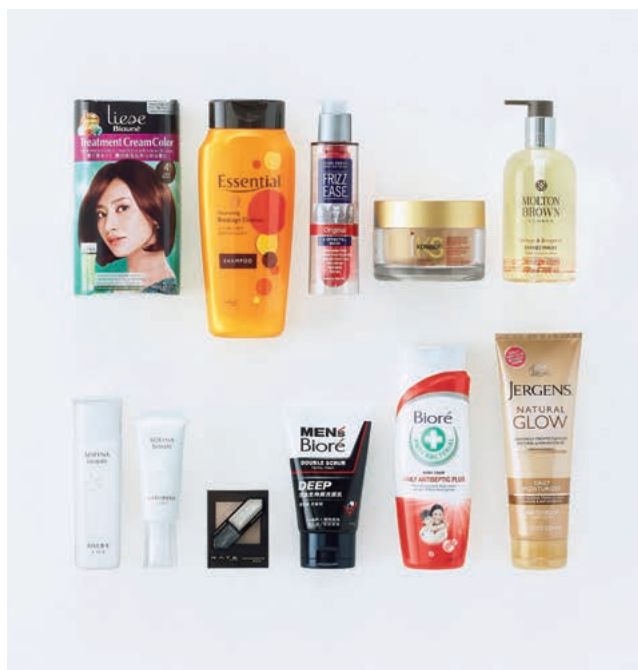
*2 Water use during product use is defined as the amount of water during product use stage mainly of individual consumer products in Japan, multiplied by their annual sales quantity. Some data entries through 2005 have been retroactively modified.

*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

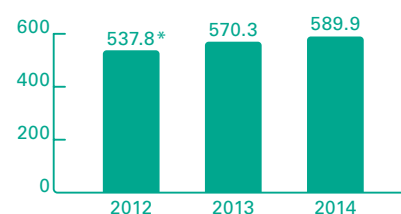


Beauty Care Business

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

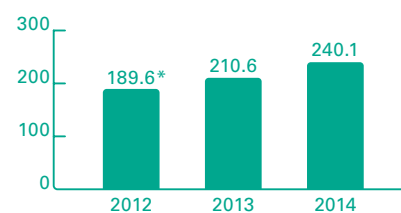


Human Health Care Business

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.

Consumer Products Business

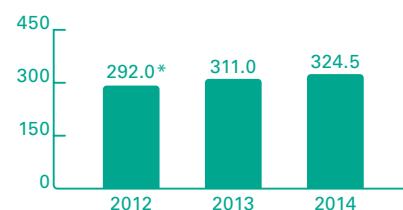


Fabric and Home Care Business

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, *Haite* 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.

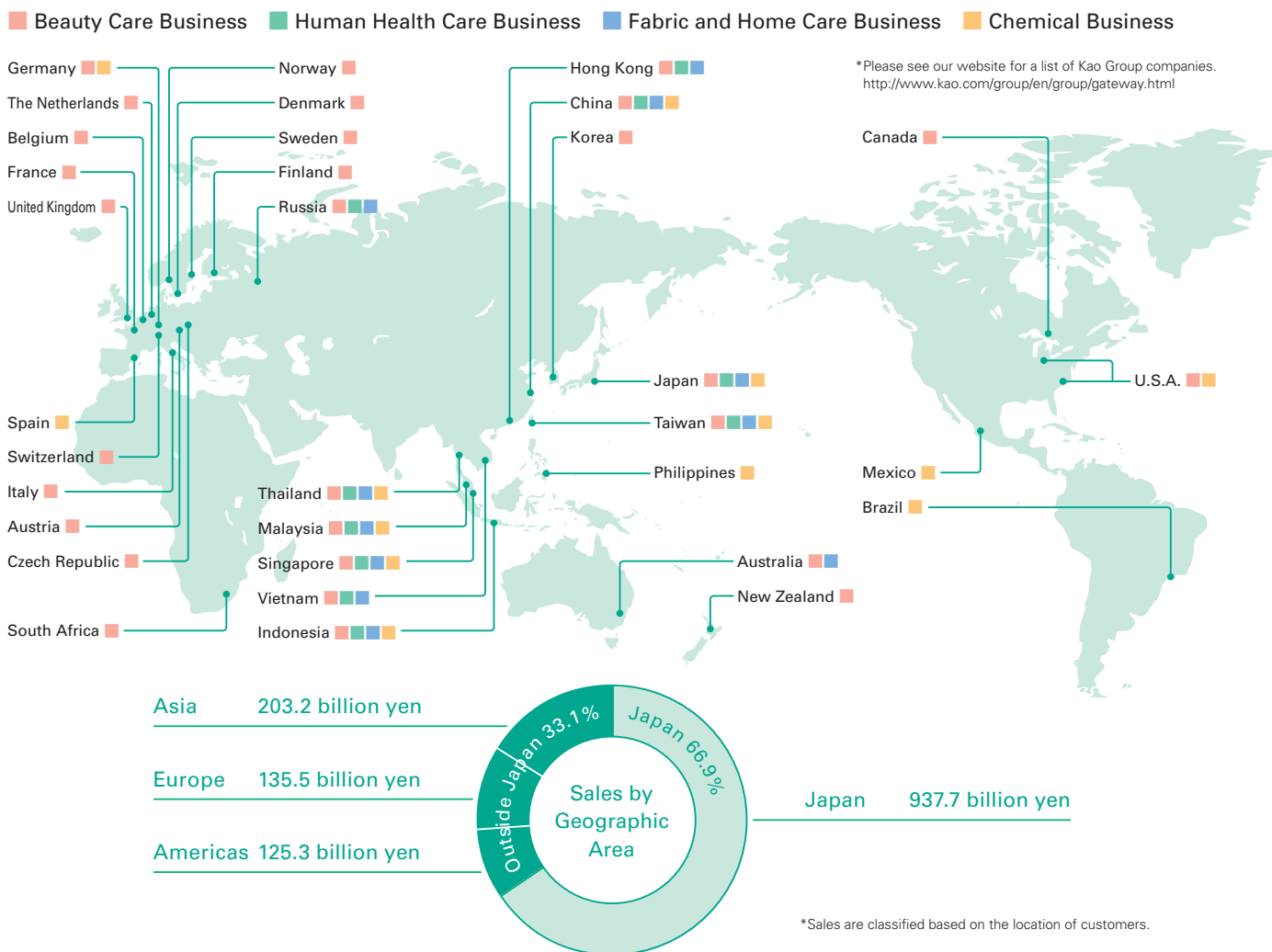
Our Chemical Business supplies products to business customers around the world—both outside the Group, and internally to the Consumer Products Business. Kao's Chemical Business is contributing to the creation of new value.

Segment Sales
(Billions of yen)

Note: Includes internal sales between businesses.



Principal Locations and Business Development



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

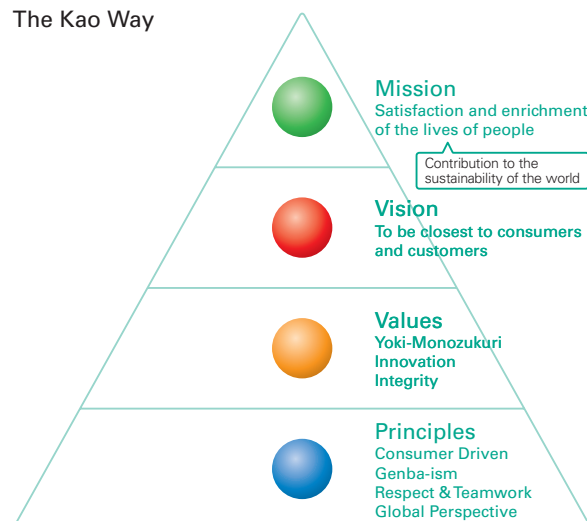
The Kao Group developed the “Kao Sustainability Statement” to represent its approach to sustainability and announced it both inside and outside the group in July 2013. The Statement defines the ways in which Kao aims to contribute to a sustainable society through business activities, including the three 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's mission is to strive for the wholehearted satisfaction
and enrichment of the lives of people globally and to contribute to the sustainability of the society.

By developing innovative products and services,
we work to conserve the environment and foster well-being in the communities
we serve now and in the future.

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

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

Three Key Areas and Target Fields

Conservation

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

● Reducing environmental impacts of our business activities

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

● Environmental activities in partnership with stakeholders

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

Community

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

● Engaging with communities through business

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

● Engaging with local communities through partnerships

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

Culture

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

● Integrity

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

● Diversity & Inclusion

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

Gaining Employee Understanding and Support

To develop activities based on the Kao Sustainability Statement, all Group members need to fully understand the thinking behind it. 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.



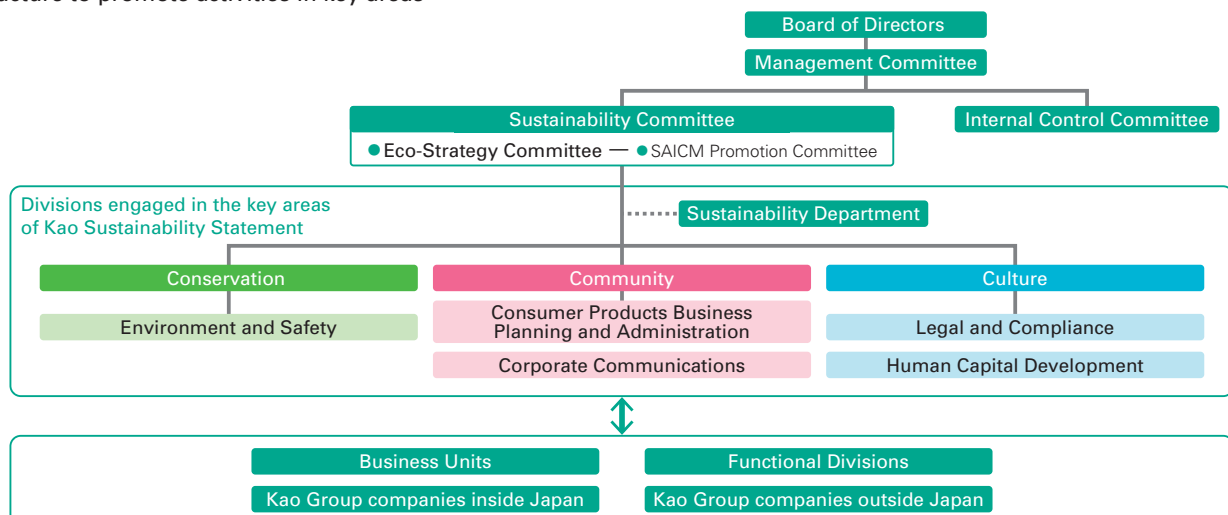
Articles in our in-house magazine *KAO FAMILY*

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



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	<p><CO₂> 35% CO₂ reduction in consumer products by 2020 (across the product lifecycle, per unit of sales in Japan, relative to 2005)</p>	<ul style="list-style-type: none"> ● Expand and improve water-saving products ● Expand and improve refill products ● Expand introduction of bioplastics in packaging 	<ul style="list-style-type: none"> ● Launched improved <i>CuCute</i> ● Launched refill pack for <i>Attack Highly Penetrate Reset Power</i> ● Launched <i>CuCute Premium Clear</i> for dishwashers 	<ul style="list-style-type: none"> ● Expand water-saving products ● Expand refill products ● Expand introduction of bioplastics in packaging
	Promote energy-saving activities at production sites, offices and in distribution	<p><Production></p> <ul style="list-style-type: none"> ● Increase use of highly energy-efficient facilities (high-efficiency cogeneration, heat recovery) <p><Distribution></p> <ul style="list-style-type: none"> ● Increase use of shared delivery with other companies and direct shipments from plants <p><All></p> <ul style="list-style-type: none"> ● Increase use of LED lighting at plants and logistics centers 	<p>17% reduction</p> <ul style="list-style-type: none"> ● 18% reduction in emissions from Kao Group (in Japan, relative to 1990) <p><Production></p> <ul style="list-style-type: none"> ● 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) <p><Distribution></p> <ul style="list-style-type: none"> ● Opened new routes with modal shift ● Shared delivery with other companies and direct shipments from plants <p><All></p> <ul style="list-style-type: none"> ● Switch from fluorescent to LED lights 	<p><Production></p> <ul style="list-style-type: none"> ● Reduce steam loss through steam traps (all plants) ● Improve efficiency of heat-source equipment including chillers <p><Distribution></p> <ul style="list-style-type: none"> ● Introduce energy-saving air conditioning systems ● Open new routes with modal shift ● Shared delivery with other companies and direct shipments from plants <p><All></p> <ul style="list-style-type: none"> ● 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)	<ul style="list-style-type: none"> ● Expand water-saving products 	<p>21% reduction</p> <ul style="list-style-type: none"> ● Launched improved <i>CuCute</i> ● Launched <i>CuCute Premium Clear</i> for dishwashers 	<ul style="list-style-type: none"> ● Expand water-saving products
Medium-term Objectives of the Kao Environmental Statement	<Chemical Substances>	<ul style="list-style-type: none"> ● 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 	<ul style="list-style-type: none"> ● 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 PRTR 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). 	<ul style="list-style-type: none"> ● 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>	<ul style="list-style-type: none"> ● Promote switch from Book and Claim system*⁶ to Mass Balance system*⁷ for certified palm oil ● Expand RSPO SCCS certified factories outside Japan 	<ul style="list-style-type: none"> ● 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) 	<ul style="list-style-type: none"> ● 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	<ul style="list-style-type: none"> ● Promote activities at Wakayama, Sumida, etc. ● Conduct evaluations on biodiversity conservation at other plants in Japan 	<ul style="list-style-type: none"> ● 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 	<ul style="list-style-type: none"> ● 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

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)

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 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 -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 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 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

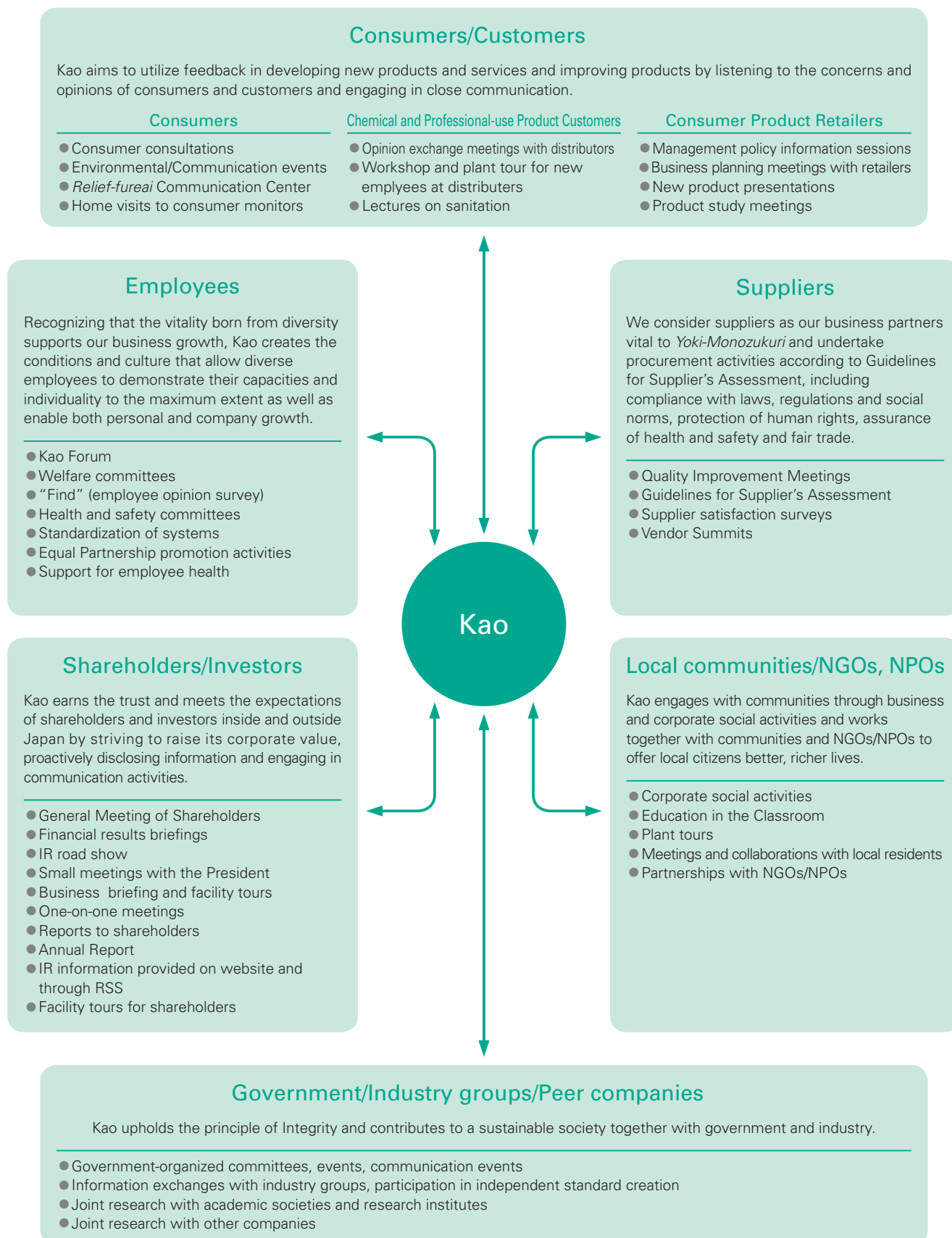
Culture

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

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 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.

➔ P7 Non-financial Highlights > CO₂ emissions across the product lifecycle (Kao Group in Japan)

Kao Group in Japan

Initiatives at plants and offices

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.

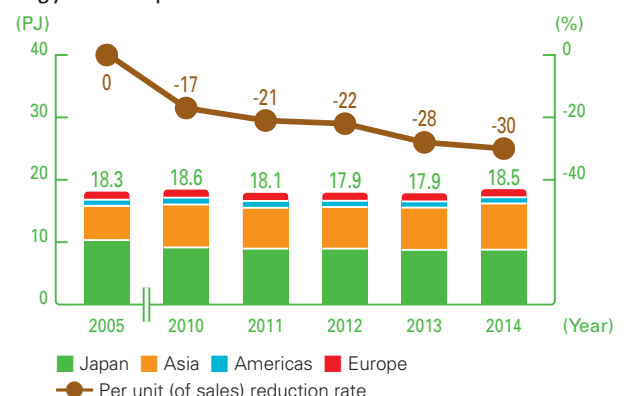
Kao Paper Manufacturing Fuji is participating in the Carbon Dioxide Reduction Potential Diagnosis Project conducted by the Ministry of the Environment in Japan. In the project, various technologies with the potential to reduce energy consumption are being introduced based on proposals by experts.

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

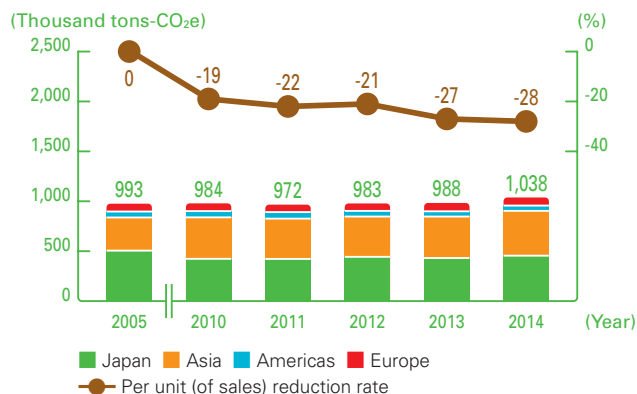


* Boundary: All Kao Group production sites, as well as non-production sites within Japan (including commercial vehicles)

*Heat pump system

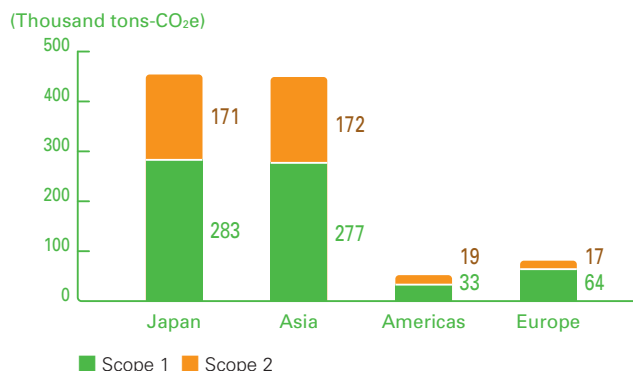
Technology that, through the compression and expansion of refrigerant, collects heat from the air or other source using a small amount of energy and converts it to a larger amount of energy for use

GHG emissions



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

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.



REGNO GR-XI

Measures for water resources conservation

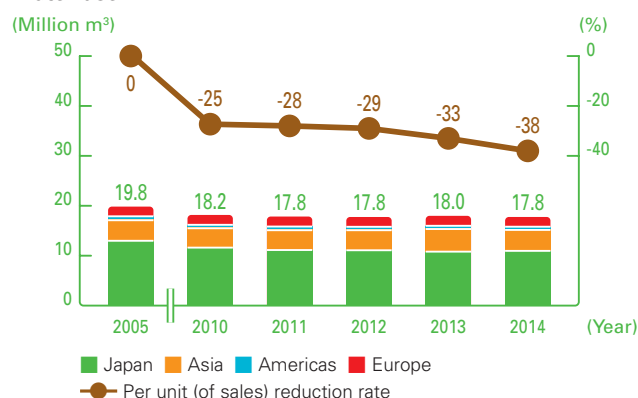
Kao's business activities are closely associated with water. Therefore, Kao is working to use water effectively through "3R" efforts (Reduce, Reuse, Recycle) to minimize the environmental impacts of wastewater and create a system to assess these impacts.

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



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.

➡ P7 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.

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

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.

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.

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

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.

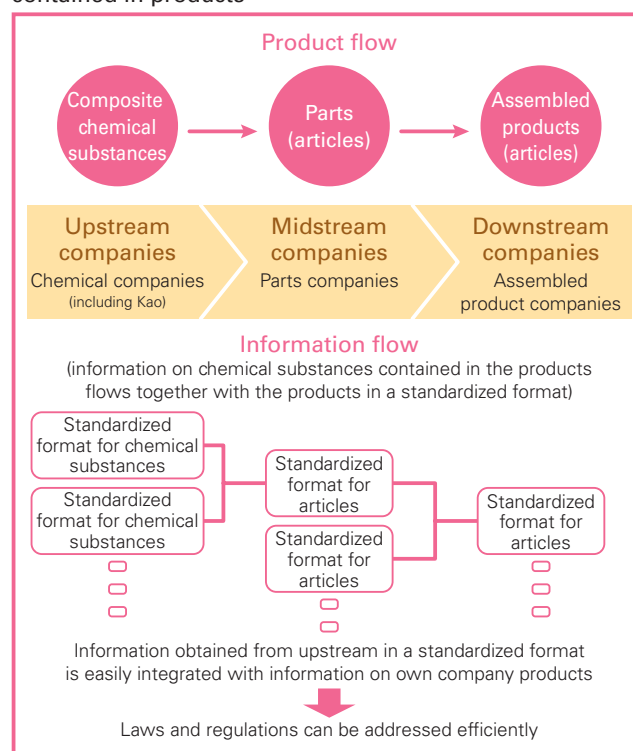
Kao, as one of founding members of JAMP, proactively shares chemical products information on the regulated chemical substances contained in products using MSDSplus, a standardized information transmission form for chemical substances. At the same time, Kao established an organization in divisions involved 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

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 education programs. 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 tearai 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.

➡ P7 Non-financial Highlights > Cumulative number of children who have taken hand washing lessons (Kao Group in Japan)



House cleaning lesson



Hand washing lesson

Engaging with local communities through partnerships

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

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.

➔ P7 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

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

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

Global

Global

Efforts toward human rights due diligence

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

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.

Topics

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.



Kao

Enriching lives, in harmony with nature.

Kao Corporation

14-10, Nihonbashi Kayabacho 1-chome
Chuo-ku, Tokyo 103-8210, Japan
<http://www.kao.com>

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