



# Kao Sustainability Report 2016

Enriching lives,  
in harmony with nature.

**Kao**

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# Editorial Policy

## Editorial policy

- The Kao Group developed the Kao Sustainability Statement in July 2013 as its global policy on sustainability. The Kao Sustainability Statement clearly defines Kao's policy of contributing to the resolution of global issues through the Kao Group's business activities as well as the key areas of these activities.
- This report (HTML and PDF versions) introduces the Kao Group's various activities along with detailed performance data in each of the three key areas of Conservation, Community and Culture that represent material issues for the Kao Group.
- In addition to independent assurance to enhance the credibility of reporting regarding environmental, occupational health and safety data, we also publish third-party opinion from an outside expert to provide objective evaluations of the report.
- The Kao Sustainability Report 2016 Highlights is also published as a booklet that summarizes representative efforts excerpted from this report.



## Scope of reporting

In general, we report the activities of the Kao Group (Kao Corporation, its subsidiaries and affiliates as of December 31, 2015). Environmental and social performance data covers Kao Corporation and its subsidiaries. Some data pertaining to employees, such as occupational health and safety data, covers Kao Corporation, its subsidiaries and Nivea-Kao Company Limited.

Exceptions to this have been clearly stated in the text.

In this report, "Kao" means the Kao Group. We have stated the names of individual organizations covered if it is necessary to identify the scope.

## Organizations covered

➡ List of Kao Group companies  
<http://www.kao.com/group/en/group/gateway.html>

## Period covered

Fiscal 2015 (January 1, 2015–December 31, 2015).

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

Some qualitative information includes those of the activities performed in fiscal 2016.

## Independent assurance

We have had our reports independently assured since 2003. KPMG AZSA Sustainability Co., Ltd. provides independent assurance for this report covering activities of 2015. Indicators on which assurance is provided are marked with a star (★).

## Issuing period

Previous report issued in August 2015

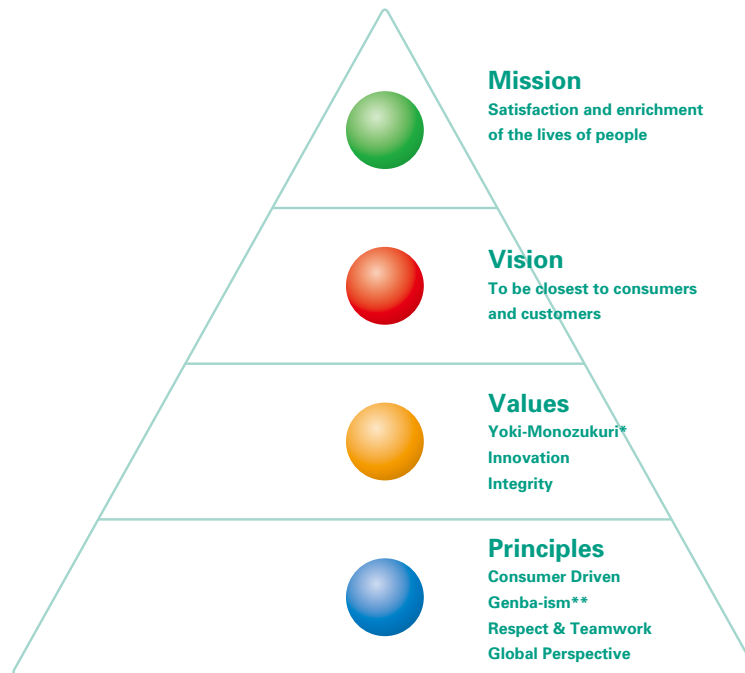
Next report scheduled for issue in June 2017

## Guidelines referenced

- GRI G4 Sustainability Reporting Guidelines
- Environmental Reporting Guidelines (2012) and Environmental Accounting Guidelines (2005) by the Ministry of the Environment of Japan
- Environmental Accounting Guidelines for Chemical Companies (November 2003) by the Japan Chemical Industry Association
- ISO 26000 (guidance on social responsibility)



# 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." This core concept distinguishes Kao from all others.

\*\* *Genba* literally means "actual spot." At Kao, *Genba-ism* defines the importance of observing things "on-site," in the actual location and environment, both internally and externally, in order to maximize our understanding of the business and optimize our performance.


The "Kao Way" embodies our corporate philosophy, and is the foundation of the business activities of the Kao Group. As our cornerstone, the "Kao Way" provides consistency to Group activities from the formulation of mid- to long-term business plans to each business decision that we make every day. Accordingly, it acts as a guiding principle for all of our members, bringing together the growth of our company and that of our individual members. As such, it is an essential element in making the work we do more rewarding and instilling in us a sense of purpose.

Kao Group companies and members share the "Kao Way" not merely as a manual or set of rules but as a foundation from which we are able to determine both the value of our work and the concerns that we face.

## Mission

Our mission is to strive for the wholehearted satisfaction and enrichment of the lives of people globally and to contribute to the sustainability of the world, with products and brands of excellent value that are created from the consumer's and customer's perspective. This commitment is embraced by all members of the Kao Group as we work together with passion to share joy with consumers and customers in our core domains of cleanliness, beauty, health and chemicals.

## CEO Message



The Kao Group's  
*Yoki-Monozukuri* is evolving  
to make even greater contributions  
to a sustainable society.

**Aiming for both “profitable growth”  
and “contributions to the sustainability  
of the world”**

In 2015, the world reached agreement on two important frameworks aimed at sustainability. One is the Paris Agreement adopted at the 21<sup>st</sup> Conference of the Parties (COP21) to the United Nations Framework Convention on Climate Change, and the other is the United Nations Sustainable Development Goals (SDGs). An international framework to fight global warming from 2020, the Paris Agreement aims to keep the rise in the average global temperature below 2°C. The UN SDGs target global-scale problems, such as poverty, that need to be addressed by the international community. Recognizing the importance of taking action to realize a sustainable society, both industrialized and developing countries have reached agreement on adopting

these frameworks.

Based on the Kao Sustainability Statement, the Kao Group seeks to achieve both “profitable growth” and “contributions to the sustainability of the world.” We are helping to tackle social issues through environmentally friendly products that help to conserve water and electricity, and also help to improve health and sanitation. At the same time, 2015 was the final year of the Kao Group Mid-term Plan 2015 (K15), and we achieved all of its targets.

***Yoki-Monozukuri* since our founding**

In 1890, our founder Tomiro Nagase launched Kao Soap with the wish to contribute to people’s cleanliness and comfort. Since then, we at the Kao Group have conducted business activities aiming to enrich the lives of people around the world through *Yoki-Monozukuri* values in our corporate philosophy,

the Kao Way. As times have changed, our *Yoki-Monozukuri* has also gradually changed to include additional perspectives such as global environmental conservation and a variety of other social issues. The culmination of these changes and additions has brought us to where we are today. In the 2009 Kao Environmental Statement, we pledged to actively undertake environmental initiatives, working together with consumers, business partners and other stakeholders under the theme of “eco together.” Then in 2013, we released the Kao Sustainability Statement, which defines the three key areas of Conservation, Community and Culture, and also clarifies our approach to environmental conservation and the tackling of social issues through development of innovative products and services.

### Contributions to a sustainable society in three key areas

In the area of Conservation, we are working to reduce environmental impacts throughout the entire product lifecycle, from raw material procurement, manufacture, distribution, sales, usage, waste disposal and recycling. Because the environmental impacts of products used in the home are especially large during the usage stage, we are developing and offering products that contribute to reducing CO<sub>2</sub> emissions and the amount of water consumed during use.

The driver for this product creation is our research and development capability, which seeks to identify the essence of everything we examine. The Kao Group's R&D divisions conduct fundamental technology research to thoroughly investigate the essential aspects of human beings and substances in a range of scientific fields. We then integrate and mobilize the in-depth research results in each field in our product development research, to offer unique Kao products with new value and to create products that can contribute to solving social issues.

In the area of Community, we offer products that contribute to solving various issues facing society in relation to sanitation, health and aging. In addition to offering products, we also conduct educational activities, for example to teach hygienic habits. We are actively undertaking initiatives to nurture the next generation, such as fun lessons to teach children proper hand washing techniques.

In the area of Culture, we are conducting sound business activities founded on integrity together with our employees and business partners. This culture of integrity has earned recognition from outside groups. The Ethisphere Institute, a U.S. think tank specializing in ethical business practices, has

placed Kao on its World's Most Ethical Companies List every year since it began the list in 2007. This year marks Kao's 10<sup>th</sup> straight appearance.

We are also continuing initiatives to promote employee diversity, including support for women's career advancement. We are working to develop our human capital based on the belief that people have infinite potential and that their capacities are drawn out through taking on challenges. We will promote HR development and appointments according to people's desires and capacities, and strive to create a corporate culture in which diverse employees can readily make contributions.

### Earning the trust of global society

At Kao, we continuously deepen *Yoki-Monozukuri*, make contributions to solving social issues, and strive to offer new value. At the same time, we conduct fair business activities in accordance with guidelines and standards shared in the international community.

In 2005, we declared our support for the United Nations Global Compact, which are ten principles across the four areas of human rights, labor, the environment and anti-corruption. The impact of corporate activities on human rights is an issue that has received greater attention in the international community in recent years. On that front, we adopted and released the Kao Human Rights Policy in June 2015, based on the United Nations Guiding Principles on Business and Human Rights.

In the area of corporate governance, we are continuing to implement various reforms in order to rapidly realize efficient, sound, fair and highly transparent management. In July 2015, we systematically organized our corporate governance activities and described the implementation status of each principle stated in the Corporate Governance Code established by the Tokyo Stock Exchange.

We at the Kao Group will work closely with various stakeholders to realize the Kao Way's Mission “to strive for the wholehearted satisfaction and enrichment of the lives of people globally,” as we contribute to the creation of a sustainable society.



**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"

**Regarding Kanebo Cosmetics products that contained the quasi-drug ingredient "Rhododenol," we at the Kao Group offer our sincerest sympathies for the trouble and worry caused to customers who have experienced vitiligo-like symptoms and everyone else who has been affected.**

**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.

Upon learning of these cases, Kanebo Cosmetics began a voluntary recall on July 4, 2013.

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. As of April 30, 2016, the number of people confirmed to have vitiligo-like symptoms was 19,584 in total. Of these people, 11,872 have made a complete or almost

complete recovery (based on examinations by doctors or reports from the customers themselves). Settlements have been reached with 15,350 people, and a total of 702,497 products have been collected.

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 with groups including the Japanese Dermatological Association and the Ministry of Health, Labour and Welfare. Kanebo Cosmetics has provided grant funding totaling 60 million yen to the Fund for Research into Vitiligo-like Symptoms Experienced by Some Users of Products Containing Rhododenol for eight projects over its two years of operation from January 23, 2014 to March 31, 2016. The findings of research conducted by the Japanese Dermatological Association, research groups and many research institutes, including treatment methods, have been published and incorporated in the FAQ published on the Japanese Dermatological Association's website (revised August 7, 2015). We will continue to fully cooperate with development of treatment methods at research institutes.

## Web

FAQ page, Japanese Dermatological Association website  
[https://www.dermatol.or.jp/modules/public/index.php?content\\_id=5](https://www.dermatol.or.jp/modules/public/index.php?content_id=5)  
 (Japanese)

#### 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. A dedicated team of about 400 staff assigned to each region of Japan is visiting customers on an ongoing basis and providing information on treatment and skin condition checks. The team also provides special coverage make-up and make-up advice for customers at their request.

#### 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. Liquid, concealer, and powder type foundations, BB cream, color powder, and loose powder are available, depending on the location and size of the area to cover. As individual skin condition varies, customers are asked to first see their dermatologist about using special coverage make-up products. After receiving the dermatologist's consent, Kanebo Cosmetics staff visit the customer to confirm the skin condition and provide information and products based on symptoms and usage needs. Kanebo Cosmetics has published and provides the Skincare Advice Book, and staff also provide daily skin care advice tailored to customer needs.





### 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 continued to exist over a large area of the face from December 2014, and since July 2015 has been working to contact all other customers who have not yet recovered. 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 from late May 2014 to December 2015 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 management 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

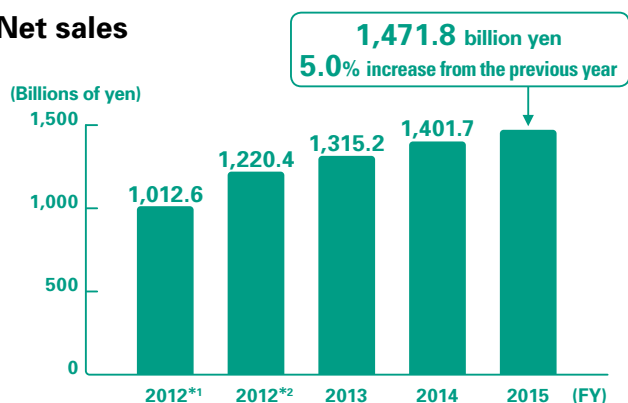
While verifying individual customers skin problems and skin conditions, we offer advice on recommended products, how to use them, and how to care for skin. For customers with concerns about the use of cosmetics, we also provide a "skin and cosmetics compatibility check" that customers can do on their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

#### ⑤ Continual safety inspections after market launch

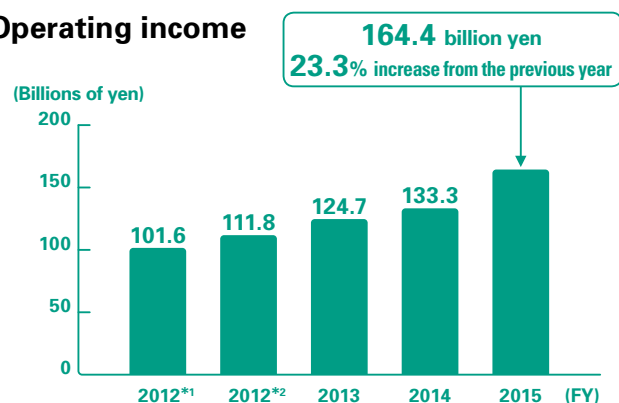
The details of every report received from customers and medical institutions are verified individually and used in safety inspections. At stores we listen intently to our customers. Opinions and requests from customers are used in improvement activities.

# Financial highlights (consolidated)

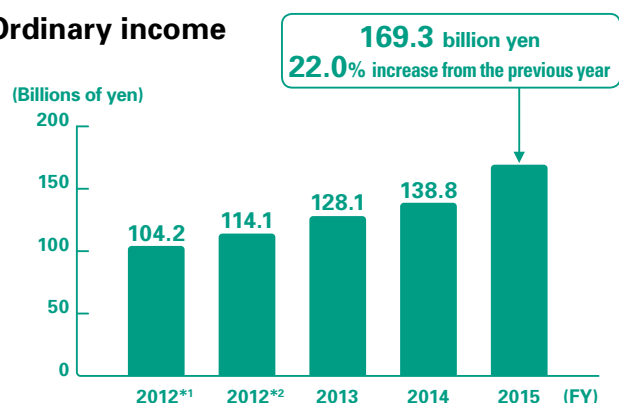
## Net sales



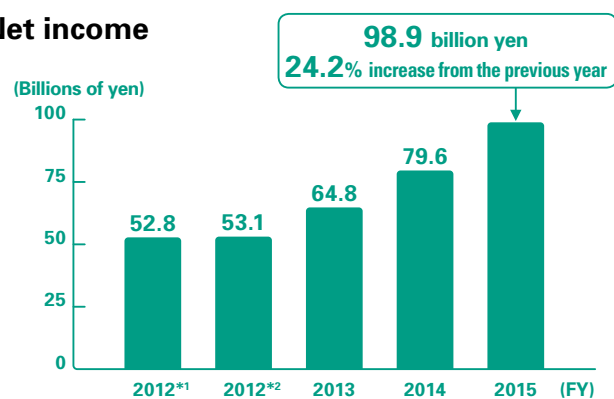
## Operating income



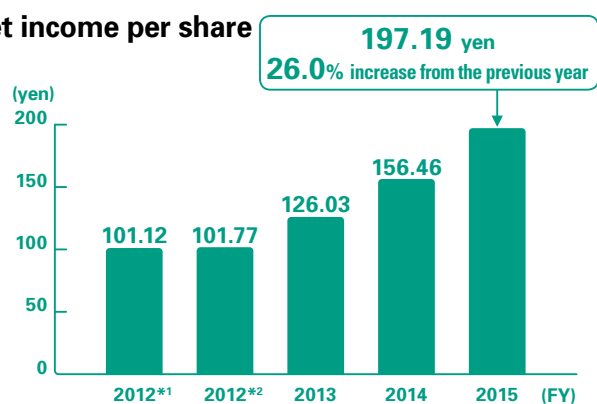
## Ordinary income



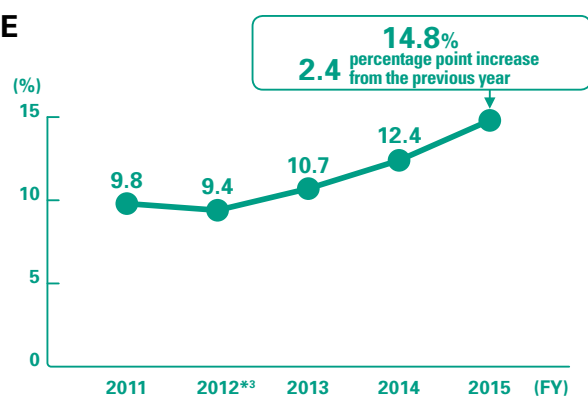
## Net income



## Net income per share



## ROE



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

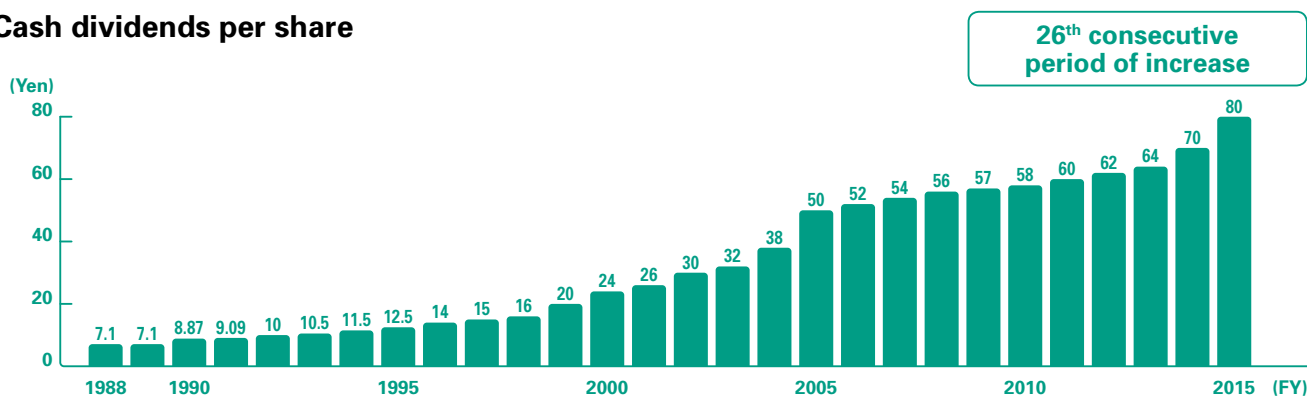
2. The Kao Group's fiscal year end changed from March 31 to December 31 from the year ended December 31, 2012.

\*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 FY 2012 is for the transitional period associated with the change in fiscal year end.

## Cash dividends per share



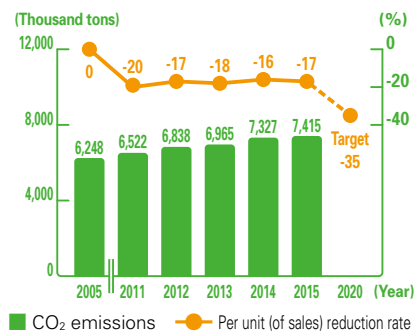
\*Impacts of share splits are retroactively reflected.

# Non-financial highlights

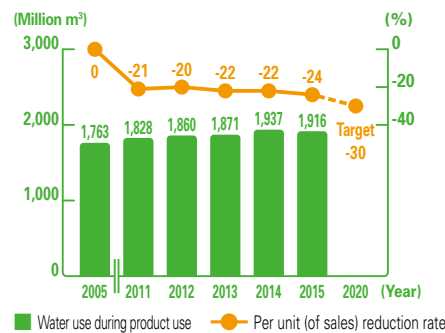
Based on the Kao Sustainability Statement, Kao is conducting a range of activities in three key areas. The following are results for some of Kao's representative activities. For details of activities, please see the Kao Sustainability Report 2016 available on the Kao website ([http://www.kao.com/jp/en/corp\\_csr/reports.html](http://www.kao.com/jp/en/corp_csr/reports.html)).

## Conservation Reducing environmental impacts across the product lifecycle

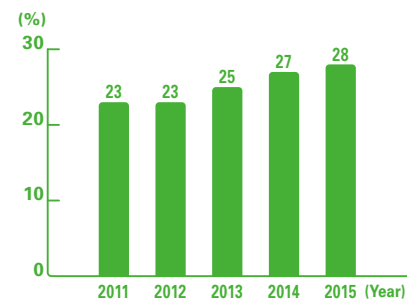
### CO<sub>2</sub> emissions across the product lifecycle★ (Kao Group in Japan)\*1



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

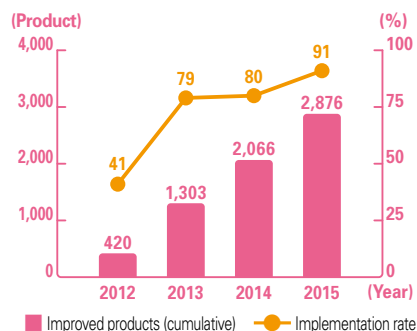


### Percentage of sales from products displaying the "eco together" logo (consumer products in Japan)\*3

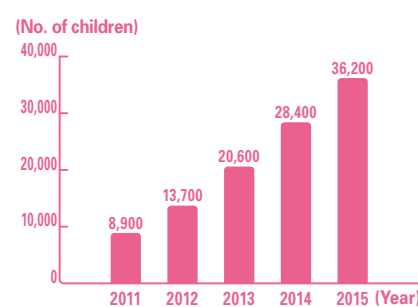


## Community Offering products and communication to contribute to resolving social issues with consideration for the diversity of consumers

### Products improved with UD considerations and implementation rate (cumulative, consumer products in Japan)\*4



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

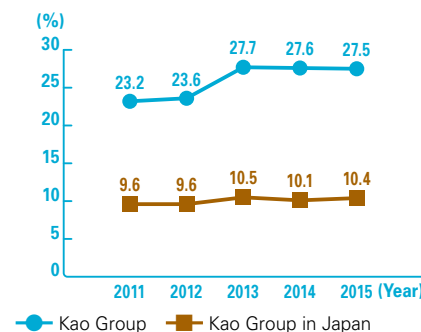


## Culture Promoting Integrity including communicating the Business Conduct Guidelines (BCG) to all Group employees and Diversity and Inclusion

### Number of annual BCG refresher test takers and participation rate (Kao Group)



### Percentage of female managers



\*1 CO<sub>2</sub> 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 CO<sub>2</sub> 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](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 products such as facial and body cleansers, and hair care such as shampoos and conditioners.



### 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.



### 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.

## Chemical Business



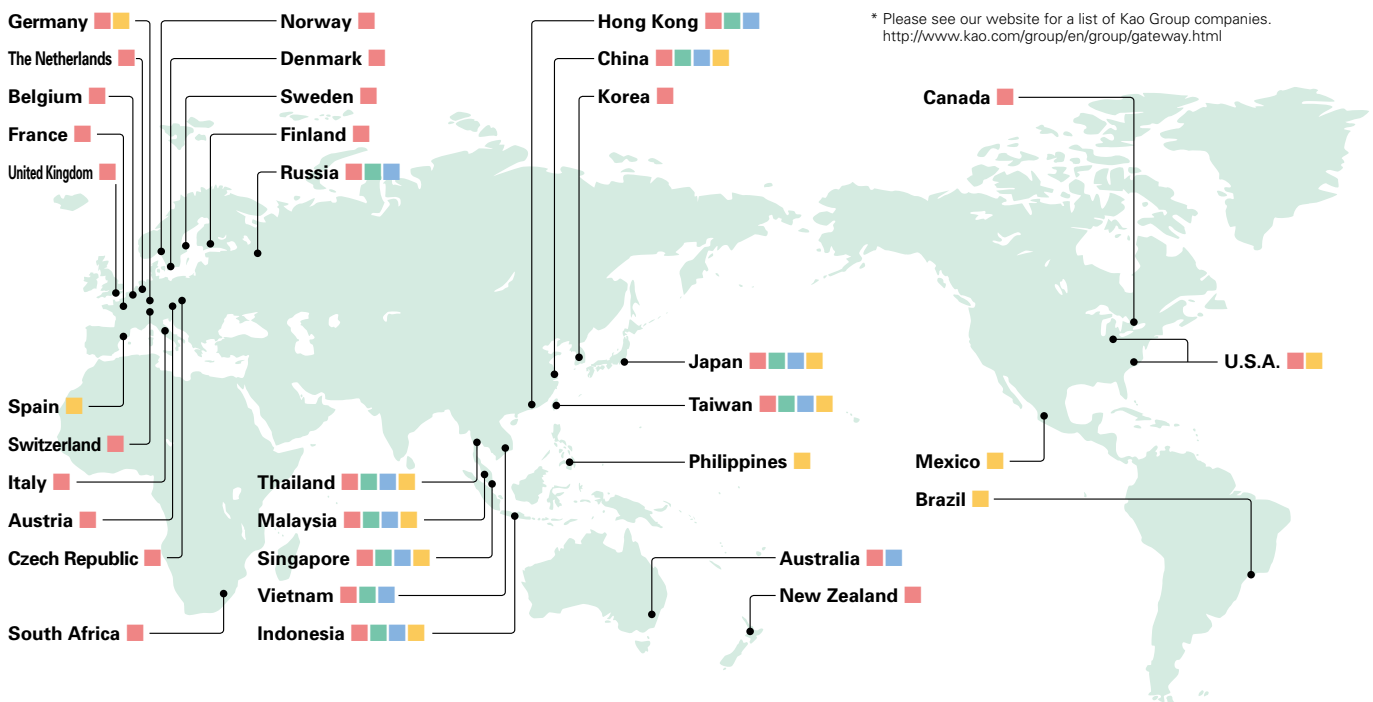
### Chemical Business

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.

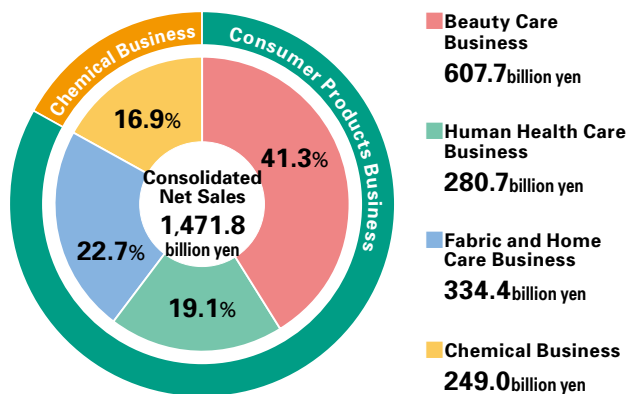


# Principal locations and business development

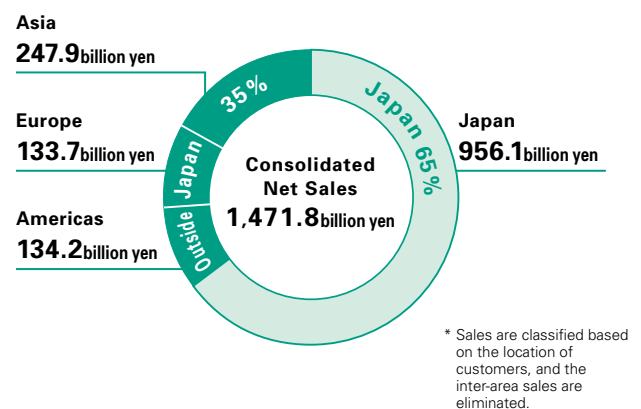
Beauty Care Business Human Health Care Business Fabric and Home Care Business Chemical Business



## Net sales by segment (Year ended December 31, 2015)



## Net sales by geographic area (Year ended December 31, 2015)



## 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 anti-corruption. These principles were initially defined at the 1999 Davos World Economic Forum. Kao has participated in the Global Compact since 2005.



4-0024-07-100-00

### 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

MEMBER OF  
**Dow Jones Sustainability Indices**  
 In Collaboration with RobecoSAM

### 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, social and environmental criteria. Kao has been listed in DJSI World for two consecutive years.



FTSE4Good

### 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 eight years.

# Kao Sustainability Statement

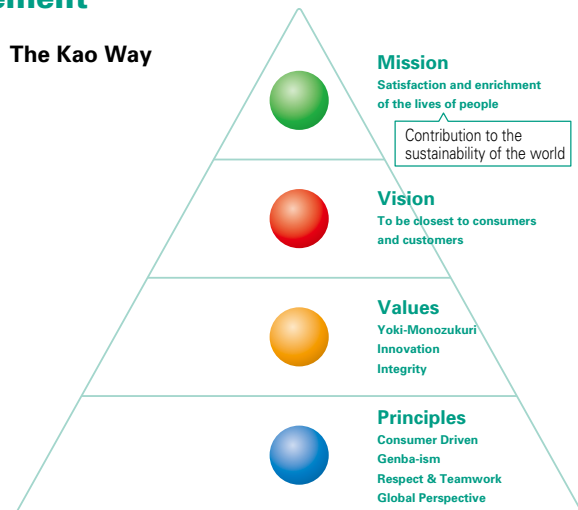
The Kao Group developed the Kao Sustainability Statement to represent its approach to sustainability and announced it both inside and outside the group in July 2013. The Statement defines the ways in which Kao aims to contribute to a sustainable society through business activities, including the three 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 our corporate philosophy, the Kao Way. In the Kao Way, we define *Yoki-Monozukuri* as "a strong commitment by all members to provide products and brands of excellent value for consumer satisfaction." Our mission as defined in the Kao Way is "to strive for the wholehearted satisfaction and enrichment of the lives of people globally and to contribute to the sustainability of the world." As members of the Kao Group, in order to fulfill this mission, we commit fully to working together to share joy with consumers and customers through products and brands of value, contributing to clean, beautiful and healthy living and, in the chemical business, contributing to the development of industries.

Based on the Kao Way, the Kao Sustainability Statement communicates our approach to building a sustainable society and the key areas in which we must focus our efforts.

### 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.

### 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 right.

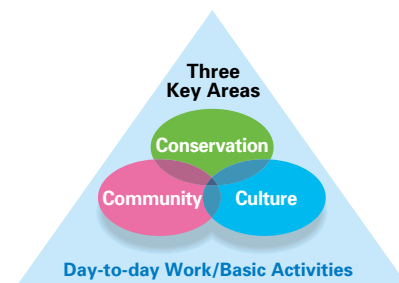
#### 4. Determining the material issues

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

### Five perspectives

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

### Kao Sustainability Statement



## Kao Sustainability Statement

### Kao Sustainability Statement

**Kao's mission is to strive for the wholehearted satisfaction  
and enrichment of the lives of people globally and to contribute to the sustainability of the society.**

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

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

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

### Three Key Areas and Target Fields

#### Conservation

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

##### Reducing environmental impacts of our business activities

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

##### Environmental activities in partnership with stakeholders

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

#### Community

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

##### Engaging with communities through business

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

##### Engaging with local communities through partnerships

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

#### Culture

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

##### Integrity

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

##### Diversity & Inclusion

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

## Kao Sustainability Statement

### Gaining employee understanding and support

To develop activities based on the Kao Sustainability Statement, all Group members need to fully understand the thinking behind it. We have been conducting educational activities for employees using various approaches since July 2013, when we 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. The sessions cover the background to developing the Kao Sustainability Statement and include specific examples of activities in each key area and time for exchanging opinions. In 2015, we held 11 briefing sessions at Kao Group worksites in Japan, mainly at production sites. One session was also held at a Kao Group outside Japan.



Informational materials (in English)

#### Web-based communications

We publish information on the company Intranet system to aid understanding of the Kao Sustainability Statement.

Each month, we release on the Intranet a Sustainability Essay written by leaders from each division about their thinking toward sustainability. We also release Sustainability Tips, which introduces social trends and initiatives by Kao and other companies in an easy-to-understand format.

In 2015, these efforts were expanded to the Kao Group outside Japan so that by the end of the year, the same information that is available in Japanese could be shared by all Group companies using the Intranet.

#### Education through online learning

An e-learning program was held for all employees with Internet access in the Kao Group in Japan to facilitate their understanding of the thinking behind Kao's approach to sustainability. The curriculum included the social background of demands for sustainability, the Kao Sustainability Statement and specific examples of activities. About 90% of the eligible 16,000 employees participated in the e-learning program.



An e-learning program

#### Internal publications

Our in-house magazine for all Kao Group members, *KAO FAMILY*, is published four times a year in both English and Japanese. It features a series of articles aimed at deepening employees' understanding of the Kao Sustainability Statement.

A special feature in the October 2013 issue just after the Statement was announced described the background to developing the Statement as well as details of its content. Articles published in 2014 and 2015 introduced examples of specific activities in the three key areas. The magazine will continue to feature articles on Kao's sustainability activities in 2016.



Articles in our in-house magazine *KAO FAMILY*



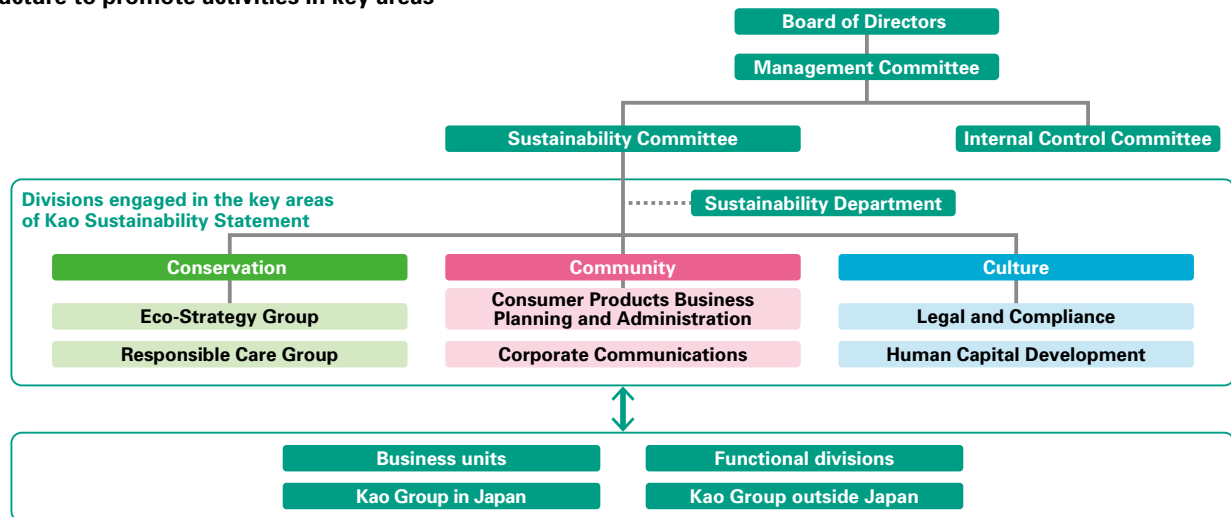
## Kao Sustainability Statement

### 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 (Plan, Do, Check, and Act) cycle and manage Group-wide activities.

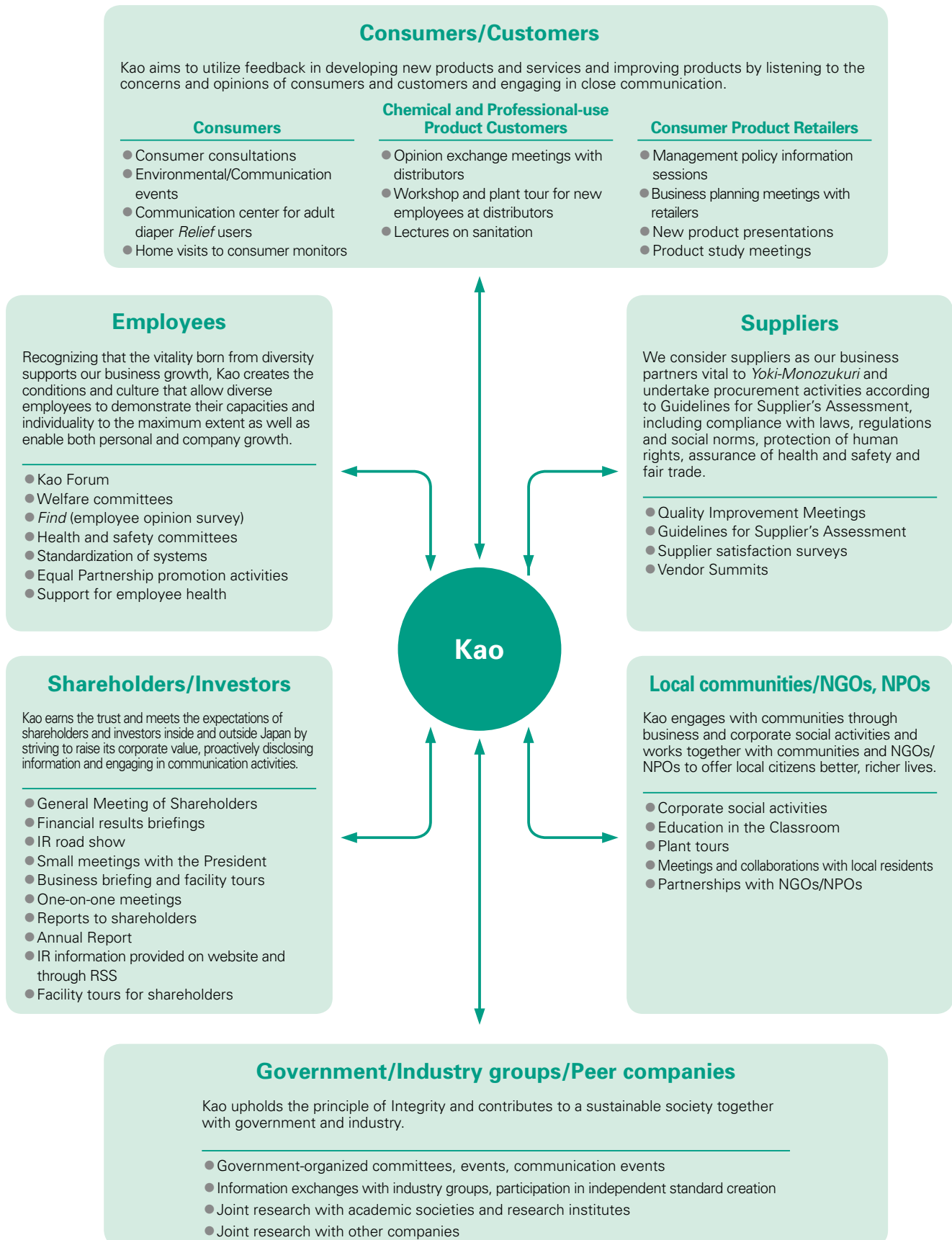
#### Structure to promote activities in key areas



## Kao Sustainability Statement

### Stakeholder communication

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



## Kao Sustainability Statement

## 2015 Results &amp; 2016 Targets

## Conservation

## Material issue: ● Reducing environmental impacts of our business activities

Target issues	Activities	2015 targets	2015 results	2016 targets
Medium-term Objectives of the Kao Environmental Statement	<p>Develop environmentally conscious products</p> <ul style="list-style-type: none"> <li>● Expand water-saving products</li> <li>● Promote product downsizing, concentrated formulas and 4R's*1 for packaging</li> </ul> <p>Promote energy-saving activities at production sites, offices and in distribution</p>	<ul style="list-style-type: none"> <li>● Expand and improve water-saving products</li> <li>● Expand and improve refill products</li> <li>● Expand introduction of bioplastics in packaging</li> </ul>	<ul style="list-style-type: none"> <li>● Launched improved <i>Bath Magiclean</i></li> <li>● Launched refill pack for <i>Attack Antibacterial EX Super Clear Gel</i></li> <li>● Expanded refill products for <i>CuCute</i>, skin care products</li> <li>● Used 30% bioplastic in <i>Merit Shampoo</i> and <i>Conditioner</i> bottles</li> </ul>	<ul style="list-style-type: none"> <li>● Expand and improve water-saving products</li> <li>● Expand and improve refill products</li> <li>● Expand introduction of bioplastics in containers</li> </ul>
		<p>&lt;Production&gt;</p> <ul style="list-style-type: none"> <li>● Reduce steam loss through use of steam traps (all sites)</li> <li>● Improve efficiency of heat-source equipment including refrigeration equipment</li> </ul> <p>&lt;Distribution&gt;</p> <ul style="list-style-type: none"> <li>● Introduce energy-saving air conditioning facilities</li> <li>● Develop new routes with modal shift</li> <li>● Shared delivery with other companies and direct shipments from plants</li> </ul> <p>&lt;All&gt;</p> <ul style="list-style-type: none"> <li>● Convert from fluorescent to LED lighting</li> </ul>	<p>17% reduction</p> <p>&lt;Production&gt;</p> <ul style="list-style-type: none"> <li>● Improved efficiency of heat-source equipment including refrigeration equipment through changes in set temperature of chilled water in intermediate seasons and winter (Wakayama)</li> <li>● Converted from fluorescent to LED lighting (ongoing)</li> </ul> <p>&lt;Distribution&gt;</p> <ul style="list-style-type: none"> <li>● Introduced energy-saving air conditioning facilities (2 LCs)</li> <li>● Opened 2 new routes with modal shift</li> <li>● Shared delivery with other companies and direct shipments from plants (shared use of rail containers with 1 business partner, shared use of freight transportation. Shipped directly from plants to 1 business partner)</li> <li>● Completed switch to LED lighting at logistics centers</li> </ul>	<p>&lt;Production&gt;</p> <ul style="list-style-type: none"> <li>● Switch to LED lighting from mercury-containing and fluorescent lighting (ongoing)</li> <li>● Introduce power with low-GHG emission coefficient (Kawasaki, Kashima)</li> </ul> <p>&lt;Distribution&gt;</p> <ul style="list-style-type: none"> <li>● Develop energy-saving air conditioning systems</li> <li>● Open new routes with modal shift</li> <li>● Reduce the number of vehicles through rail transport</li> <li>● Expand shared delivery with other companies and direct shipments from plants</li> <li>● Promote recycling of logistics materials</li> </ul> <p>&lt;Office&gt;</p> <ul style="list-style-type: none"> <li>● Introduce power with low-GHG emission coefficient (Kayabacho)</li> </ul>
	<p>&lt;Water&gt;</p> <p>30% reduction in water use during product use by 2020 (per unit of sales in Japan, relative to 2005)</p>	<p>Expand water-saving products</p>	<p>24% reduction</p> <ul style="list-style-type: none"> <li>● Launched improved <i>Bath Magiclean</i></li> <li>● Expanded <i>CuCute</i> and <i>Attack Neo</i></li> </ul>	<p>Expand water-saving products</p>
	<p>&lt;Chemical Substances&gt;</p> <p>Appropriately manage chemical substances throughout their lifecycles in accordance with SAICM*2</p>	<ul style="list-style-type: none"> <li>● Conduct risk assessments and preparation of risk assessment reports on priority assessment substances*3 according to the medium-term plan</li> <li>● Establish a fundamental base for a chemical substances lifecycle management system</li> <li>● Plan and implement risk mitigation measures at handling sites based on chemical substance risk assessments</li> <li>● Study hazardous labeling according to GHS at production sites</li> <li>● Publicly release deliverables for SAICM activities</li> <li>● Study two-way communication methods with stakeholders</li> </ul>	<ul style="list-style-type: none"> <li>● Conducted risk assessments and prepared risk assessment reports on priority assessment substances*3 in 2015 according to the medium-term plan, and prepared Safety Summaries</li> <li>● Studied re-establishing the SDS system introduced in 2000</li> <li>● Completed risk assessments at sites that handle PRTR substances, VOC substances and poisonous and deleterious substances, and implementation of risk mitigation measures is ongoing</li> <li>● Conducted trial hazardous labeling according to GHS at some plants according to plan</li> <li>● Publicly released the status of SAICM progress activities and SAICM deliverables (Safety Summaries, etc.) on the Kao and Kao Chemical website in May 2015, and also publicly released on the Kao Group website in October and on the Kao Chemical Corporation Shanghai website in December</li> <li>● Continuing to release GPS Safety Summaries*4 for chemical products (12 summaries released, and 89 cumulative*5 for the Kao Group)</li> <li>● Studied ways to utilize communication with local residents conducted at plants in Japan</li> </ul>	<ul style="list-style-type: none"> <li>● Conduct risk assessments and prepare risk assessment reports on priority assessment substances*3 according to the medium-term plan (ongoing)</li> <li>● Establish a fundamental base for a chemical substances lifecycle management system (ongoing)</li> <li>● Propose and implement risk mitigation measures at handling sites based on chemical substance risk assessments (ongoing)</li> <li>● Begin hazardous labeling according to GHS at production sites</li> <li>● Disclose SAICM activities and deliverables to the public (ongoing)</li> <li>● Study two-way communication with stakeholders (ongoing)</li> </ul>
<Biodiversity>	<p>Expand use of certified raw materials</p>	<ul style="list-style-type: none"> <li>● RSPM certified oil purchasing</li> <li>Total of palm oil, palm kernel oil and derivatives: 40 kt</li> <li>● No. of RSPM SCCS certified plants 2015: 15 companies, 18 plants</li> </ul>	<ul style="list-style-type: none"> <li>● Percentage of RSPM certified oil purchases using the Mass Balance system*6</li> <li>2014: 88% 2015: 28%</li> <li>● RSPM certified oil purchasing</li> <li>2014: 5.2 kt of palm oil, 17.9 kt of palm kernel oil</li> <li>2015: 5 kt of palm oil, 12.5 kt of palm kernel oil, 6.7 kt of derivatives</li> <li>● RSPM SCCS certified plants</li> <li>2014: 9 companies, 12 plants (of them, 9 outside Japan)</li> <li>2015: 16 companies, 19 plants (of them, 16 outside Japan)</li> </ul>	<ul style="list-style-type: none"> <li>● RSPM certified oil purchasing</li> <li>Total of palm oil, palm kernel oil and derivatives: 40 kt</li> <li>● RSPM SCCS certified plants</li> <li>2016: 20 companies, 25 plants</li> </ul>
	<p>Promote biodiversity conservation activities at business sites</p>	<ul style="list-style-type: none"> <li>● Promote activities at Wakayama and at other sites in Japan</li> <li>● Survey the current situation at sites outside Japan</li> </ul>	<ul style="list-style-type: none"> <li>● Kashima Plant received Association for Business Innovation in Harmony with Nature and Community (ABINC) certification (a first for plants in Japan)</li> <li>● Kashima Plant received the Environment Minister's Prize in the fourth Contest for Corporate Activities on Biodiversity</li> <li>● Held a field observation at the Employees' Forest at Kashima Plant for the Eco-College, sponsored by the Ibaraki Prefectural Environmental Management Association</li> <li>● Held a forest foraging and wreath-making workshop in the protective pine grove of the Wakayama Plant, sponsored by the Wakayama City Children's Museum</li> <li>● Conducted educational activities at plants outside Japan</li> </ul>	<ul style="list-style-type: none"> <li>● Promote activities at sites in Japan</li> <li>● Survey the current situation at sites outside Japan</li> </ul>

## Kao Sustainability Statement

### Conservation

#### Material issue: ● Environmental activities in partnership with stakeholders

Target issues	Activities	2015 targets	2015 results	2016 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"> <li>● Distributed “eco together” diaries to 515 schools</li> <li>● Conducted guest lectures on the environment at 43 schools</li> <li>● 71 schools visited the Eco-Lab Museum</li> <li>● Provided subsidies to 52 groups in the Kao Creating Forests for Everyone program</li> <li>● Provided 9 teacher fellowships in the Kao Earthwatch Teachers’ Fellowship</li> <li>● 167 incidents of communication at business partners and local government events</li> <li>● Received 12,456 entries in the Kao International Environment Painting Contest for Children</li> <li>● Received visitors in the event of Nationwide Cleanliness and Water-saving Initiatives (conducted jointly with Chinese government)</li> </ul>	Promote communication at diverse contact points including schools, plant tours and stores, and partner with government bodies, NGOs, etc.

\*1 4R's: Reduce, Renewable, Reuse, Recycle

\*2 SAICM: Strategic Approach to International Chemicals Management

\*3 Priority assessment substances: 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 substances highlighting the chemicals’ risk as a reference for the general public, in line with the Global Product Strategy advocated by the ICCA (International Council of Chemical Associations).

\*5 Progression rate of 59% for target disclosure summaries of 150 by 2020

\*6 Mass Balance system: Certification system allows for mixing of RSPO certified and non-certified palm oil

### Community

#### Material issue: ● Engaging with communities through business

Target issues	Activities	2015 targets	2015 results	2016 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"> <li>● Continue product improvements with UD considerations</li> <li>● Continue awareness-raising activities (lectures, etc.)</li> <li>● Activities for the next step toward full-scale broadcasting of TV commercials with captions (Aim for trial broadcasts in programs sponsored by multiple companies)</li> </ul>	<ul style="list-style-type: none"> <li>● Implementation rate of products with UD considerations: 91%</li> <li>● Conducted UD awareness-raising activities for employees (13 Workshops for Promoting Empathy with Elderly People)</li> <li>● External activities promoting Kao's UD efforts (16 lectures, 4 events)</li> <li>● 2 product information sessions for cancer patients</li> <li>● UD lessons for elementary school students (7 schools)</li> <li>● Ongoing activities to prepare for full-scale broadcasting of TV commercials with captions (Ongoing simultaneous trial broadcasts with 2 TV stations, information-sharing with other companies and related groups)</li> </ul>	<ul style="list-style-type: none"> <li>● Continue product improvements with UD considerations</li> <li>● Continue awareness-raising activities (UD lessons for elementary schools, lectures, seminars, etc.)</li> <li>● Activities for the next step toward full-scale broadcasting of TV commercials with captions (Aim for trial broadcasts in programs sponsored by multiple companies, approaches to captioning promotion council, etc.)</li> </ul>
	Help prevent and treat obesity and Lifestyle-related Diseases	<ul style="list-style-type: none"> <li>● Sponsor walking events (Target participation in Japan: 100,000 people)</li> <li>● Target QUPiO participation in Japan: 60 companies</li> </ul>	<ul style="list-style-type: none"> <li>● Sponsored walking events with 150,000 participants in Japan</li> <li>● QUPiO participation in Japan: 69 participating companies, 2.5 million QUPiO users</li> </ul>	<ul style="list-style-type: none"> <li>● Sponsor walking events (Target participation in Japan: 100,000 people)</li> <li>● Target QUPiO participation in Japan: 60 companies</li> </ul>
	Promote baby health in consideration of local living environments and habits	<ul style="list-style-type: none"> <li>● Expand local production and country development for disposable baby diapers</li> <li>● Conduct educational activities and provide product samples at childbirth and parenting classes (Japan: 680,000 people)</li> <li>● Distribute samples of <i>Merries Tape Diaper</i> for newborns &amp; size S (Japan: 1.21 million samples)</li> </ul>	<ul style="list-style-type: none"> <li>● Developed disposable baby diapers in Asia (Indonesia)</li> <li>● Conducted educational activities and provided product samples at childbirth and parenting classes (Japan: 680,000 people, Asia: 3.66 million people)</li> <li>● Distributed samples of <i>Merries Tape Diaper</i> for newborns &amp; size S (Japan: 1.81 million samples, Asia: 3.66 million samples)</li> </ul>	<ul style="list-style-type: none"> <li>● Expand local production and country development for disposable baby diapers</li> <li>● Conduct educational activities and provide product samples at childbirth and parenting classes (Japan: 780,000 people, Asia: 3.70 million people)</li> <li>● Distribute samples of <i>Merries Tape Diaper</i> for newborns &amp; size S (Japan: 2.01 million samples, Asia: 3.70 million samples)</li> </ul>
	Improve hygiene through hand washing education	<ul style="list-style-type: none"> <li>● Educational activities by visiting preschools and elementary schools to give lessons (160 preschools, 100 elementary schools in Japan)</li> <li>● Distribute samples for hand washing education (Japan: 540,000 samples for preschool and elementary school students, etc.; Asia total: 78,000 elementary school children in Taiwan, Thailand, Indonesia)</li> </ul>	<ul style="list-style-type: none"> <li>● Educational activities by visiting preschools and elementary schools to give lessons (160 preschools, 111 elementary schools in Japan)</li> <li>● Distributed samples for hand washing education (Japan: 370,000 samples for preschool and elementary school students, etc.; 30,000 samples for seniors; Asia total: 9,000 elementary school students in Taiwan, Thailand)</li> </ul>	<ul style="list-style-type: none"> <li>● Educational activities by visiting preschools and elementary schools to give lessons (160 preschools, 120 elementary schools in Japan)</li> <li>● Distribute samples for hand washing education (Japan: 370,000 samples for preschool and elementary school students, etc.; 30,000 samples for seniors; Asia total: 9,400 elementary school students in Taiwan, Thailand, Indonesia)</li> </ul>
	Expand well-rounded education on beginning menstruation to realize greater comfort in daily life	<ul style="list-style-type: none"> <li>● Provide educational materials and educational activities on beginning menstruation (Japan: 6,000 schools, 480,000 kits; Asia total: 482,000 kits in Taiwan, Thailand, Indonesia)</li> </ul>	<ul style="list-style-type: none"> <li>● Provided educational materials and educational activities on beginning menstruation (Japan: 6,300 schools, 460,000 kits; Asia total: 499,000 kits in Taiwan, Thailand, Indonesia)</li> </ul>	<ul style="list-style-type: none"> <li>● Provide educational materials and educational activities on beginning menstruation (Japan: 6,400 schools, 480,000 kits; Asia total: 664,000 kits in Taiwan, Thailand, Indonesia)</li> </ul>

## Kao Sustainability Statement

### Community

#### Material issue: ● Engaging with local communities through partnerships

Target issues	Activities	2015 targets	2015 results	2016 targets
Invigorate corporate citizenship activities	Encourage employees to volunteer in corporate citizenship activities in each global region	<ul style="list-style-type: none"> <li>Propose activities that nurture the spirit of volunteering</li> </ul>	<ul style="list-style-type: none"> <li>Information on volunteering provided through the Intranet 31 times</li> <li>Publicized information internally and externally 122 times</li> </ul>	<ul style="list-style-type: none"> <li>Continue to propose activities that nurture the spirit of volunteering</li> </ul>

### Culture

#### Material issue: ● Integrity

Target issues	Activities	2015 targets	2015 results	2016 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"> <li>Introduce Anti-Bribery Guidelines and Guidelines for Avoiding Conflicts of Interest globally (regions where they have not been introduced)</li> <li>Plan and hold regular compliance training for the entire Kao Group               <ol style="list-style-type: none"> <li>Conduct the BCG refresher test held every year for all Kao Group employees⇒95% target participation rate</li> <li>Hold compliance training for Kao Group managers in Japan⇒70% target participation rate for 2<sup>nd</sup> round of training starting in 2015</li> <li>Hold Integrity Workshops for Group company employees outside Japan⇒85% target cumulative participation rate since 2009</li> </ol> </li> <li>Study BCG revisions to be made in 2016 (Create local language versions of BCG Casebook issued in 2014, Study BCG revisions for 2016)</li> <li>Verify validity and appropriateness of current compliance promotion activities</li> </ul>	<ul style="list-style-type: none"> <li>Completed introducing Anti-Bribery Guidelines and Guidelines for Avoiding Conflicts of Interest globally</li> <li>Planned and held regular compliance training for the entire Kao Group               <ol style="list-style-type: none"> <li>Conducted the BCG refresher test held every year for all Kao Group employees ⇒96% participation rate</li> <li>Held compliance training for Kao Group managers in Japan ⇒74% participation rate since 2015</li> <li>Held Integrity Workshops for Group company employees outside Japan ⇒85% cumulative participation rate since 2009</li> </ol> </li> <li>Studied BCG revisions to be made in 2016 ⇒Create BCG Casebook in local languages ⇒Submitted BCG revision proposal to the Compliance Committee</li> <li>Conducted the Listening to Employees' Opinions Activity and third-party verification by an accounting consulting company ⇒Held Compliance Awareness Month in October (displayed posters with a message from the Committee Chair, Executives communicated messages to the divisions they are responsible for, held a vote for the compliance logo, etc.) ⇒Reviewed the criteria for selecting distributors to prevent bribery</li> </ul>	<ul style="list-style-type: none"> <li>Plan and hold regular compliance training for the entire Kao Group               <ol style="list-style-type: none"> <li>Conduct the BCG refresher test held every year for all Kao Group employees ⇒95% target participation rate</li> <li>Hold compliance training for Kao Group managers in Japan ⇒100% target participation rate for 2<sup>nd</sup> round of training starting in 2015</li> <li>Hold Integrity Workshops for Group company employees outside Japan ⇒90% target cumulative participation rate since 2009</li> </ol> </li> <li>Revise the BCG</li> <li>Study and implement self-checks related to compliance activities at divisions and Group companies</li> <li>Conduct survey on compliance awareness in Japan</li> <li>Hold Compliance Awareness Month globally</li> </ul>
Promote sustainable procurement	Give more consideration to the environment and human rights in procurement	<ul style="list-style-type: none"> <li>Conduct procurement based on Guidelines for Supplier's Assessment and Guidelines for Sustainable Procurement of Raw Materials</li> <li>Achieve 2015 targets in Guidelines for Sustainable Procurement of Raw Materials (traceability back to mill)</li> <li>Conduct education for 100% of employees transferring into Procurement Division</li> </ul>	<ul style="list-style-type: none"> <li>Completed traceability back to the mill for palm oil and palm kernel oil used in consumer products</li> <li>Conducted procurement based on Guidelines for Supplier's Assessment</li> </ul>	<ul style="list-style-type: none"> <li>Conduct procurement based on Guidelines for Supplier's Assessment and Guidelines for Sustainable Procurement of Raw Materials</li> <li>Conduct education for 100% of employees transferring into Procurement Division</li> </ul>

### Culture

#### Material issue: ● Diversity & Inclusion

Target issues	Activities	2015 targets	2015 results	2016 targets
Promote Diversity & Inclusion	Strengthen management training of diverse employees	<ul style="list-style-type: none"> <li>Propose and implement action plan</li> </ul>	<ul style="list-style-type: none"> <li>Planned D&amp;I promotion plan in line with actual conditions at each organization</li> <li>Made proposals to advance the participation of women and seniors in the Kao Group in Japan through HR utilization projects ⇒Introduced leave of absence for accompanying spouse on international assignment (Kao) ⇒Revised the work style system (revised the flex time system and introduced hourly leave system) (Kao) ⇒Expanded content of career trainings for young employees (Kao CMK) ⇒Extended period to use shortened working hours for Beauty staff/adjusted store shifts (Kao CMK) ⇒Created system for Beauty staff re-employed after compulsory retirement to support Beauty staff who work reduced hours</li> <li>Percentage of women managers 27.5% (Group-wide) and 10.4% (Kao Group in Japan)</li> </ul>	<ul style="list-style-type: none"> <li>Implement D&amp;I promotion plan in each organization</li> <li>Gain understanding of issues for Kao Group outside Japan</li> <li>Address the Act to Advance Women's Success in Their Working Life</li> </ul>



# Conservation

## Kao's recognition of social issues

In December 2015, the 196 countries and regions participating in the 21<sup>st</sup> Conference of the Parties (COP21) reached the Paris Agreement, which aims to limit the rise in global average temperature to less than 2°C. The impacts of global warming include more frequent occurrences of extreme weather, rising sea levels, ecosystem changes, and increased risk of infectious diseases. The international community, including both developed and developing countries, must urgently address this issue.

Many other issues affecting the global environment are also increasing in severity, including water shortages due to rising populations and economic development, and loss of biodiversity due to deforestation and other causes.

## Kao's approach

In the Kao Environmental Statement released in 2009, we committed to partnering with various stakeholders to reduce environmental impacts across the product lifecycle and are conducting initiatives related to this. In the product lifecycle, the usage stage accounts for a very large portion of the environmental impacts, and we are therefore developing and offering products that contribute to reducing CO<sub>2</sub> emissions and the amount of water consumed during use.

As a manufacturer that handles chemical products that can cause environmental damage, we are striving to properly manage chemical substances according to the Strategic Approach to International Chemicals Management (SAICM) and advancing initiatives aimed at goals such as conserving biodiversity in raw materials procurement and other processes.



# Reducing CO<sub>2</sub> emissions across the product lifecycle



Kao is using innovative technologies to develop products with low CO<sub>2</sub> emissions across the product lifecycle. We are also actively promoting initiatives aimed at realizing zero deforestation, and working with policymakers to contribute to limiting the rise in the average global temperature to less than 2°C by reducing CO<sub>2</sub> emissions that cause global warming.

## Lifecycle assessments

Based on a product development policy of ensuring the safety and high quality of products while reducing environmental impacts, Kao conducts Life Cycle Assessments on the environmental impacts of products lifecycle from raw materials procurement, manufacture, distribution, sales, usage, waste disposal and recycling. Looking at a breakdown of the 7.42 million tons of CO<sub>2</sub> emissions generated from Kao products across their lifecycle, a much larger volume of CO<sub>2</sub> are emitted

at stages other than development, production, sales and distribution, where Kao's efforts alone are able to achieve reductions. Therefore, to reduce CO<sub>2</sub> emissions at these other stages, we are conducting "eco together" activities with various stakeholders comprised of consumers, business partners, and society.

### Ratio of CO<sub>2</sub> emissions at each stage of Kao products' lifecycle



\* 2015 results

➡p.33 Highlights: Culture > Responding to the hopes and expectations of the global community > Sustainable procurement of raw materials

## CO<sub>2</sub> emissions reductions in development, manufacture and sales

Global

We are conducting initiatives to reduce CO<sub>2</sub> emissions at research laboratories, plants, logistics centers and offices in the areas of improving energy usage efficiency and using energy with low environmental impacts.

To improve energy usage efficiency, we are introducing energy-saving facilities, precisely controlling boilers for efficient operation, and effectively using steam heat. These facilities and technologies are producing results, while we are also quickly sharing relevant information among multiple plants.

We are advancing initiatives to use fuel with low environmental impacts, such as natural gas at plants, a leading form of low-carbon energy. We have no plants that use coal. We are also advancing activities aimed at eliminating use of fossil fuels. For example, our plants that do not use large amounts of steam have aimed not to use any fossil fuels.

In addition, we are continuing other daily efforts including practicing fuel-efficient driving techniques by using hybrid vehicles and telematics data to reduce CO<sub>2</sub> emissions generated from the company cars used by our sales companies.



Fatty Chemical (Malaysia) plant working to effectively use steam heat

## Reducing CO<sub>2</sub> emissions across the product lifecycle



We are also working to reduce our indirect CO<sub>2</sub> emissions from the use of electricity.

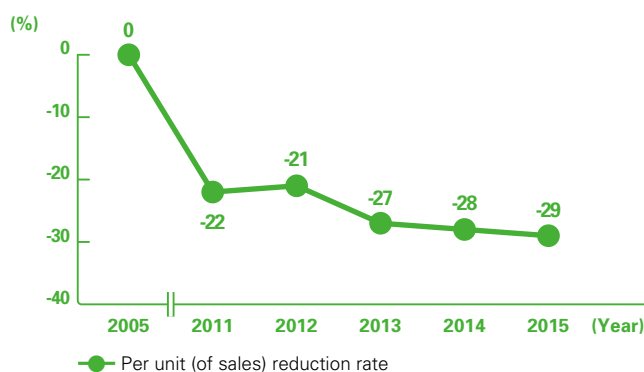
To improve electricity usage efficiency, in 2015 we announced a policy of switching mercury-containing lighting and general-purpose fluorescent lighting to LED lighting at plants, logistics centers and offices. In Japan alone, this represents a switch of about 90,000 mercury-containing and general-purpose fluorescent lights. We are also reducing CO<sub>2</sub> emissions at all plants and worksites by switching to all LED lighting.

In order to use electricity with low environmental impacts, Kao Germany and Kao Manufacturing Germany have been obtaining 100% of their electricity from renewable sources since 2014. In Japan, we plan to give consideration to CO<sub>2</sub> emissions in determining electricity vendors. In addition, we have introduced solar photovoltaic power generation at sites including Wakayama Research Laboratory and Atsugi Logistics Center, which produced 493 MWh of electricity in 2015. We will continue to install solar photovoltaic power generation systems at newly built facilities.



Solar photovoltaic power generation system installed at Wakayama Research Laboratories

### CO<sub>2</sub> emissions



\* Boundary: Through 2014, all Kao Group production sites as well as non-production sites within Japan. 2015 includes some non-production sites outside Japan as well.

## CO<sub>2</sub> emissions reductions during distribution

Global

In the distribution stage, we separate our activities into shipping of products from plants to logistics centers and delivery of products from logistics centers to stores.

In product shipping, our activities include building logistics centers in appropriate locations to shorten the transportation distance, using larger containers to efficiently ship goods by truck by shipping larger volumes at once, improving loading efficiency by making beneficial use of space in truck beds, and modal shift to switch to transportation methods with lower environmental impacts (switching from truck to rail and ship transport). In 2015, the Japanese Ministry of Land, Infrastructure, Transport, and Tourism recognized our Wakayama Plant's efforts to shift to marine transport by awarding the plant "Eco-Ship Mark" certification. Marine shipping is able to keep CO<sub>2</sub> emissions down to about one-fifth of truck transport.

In product delivery, we are reducing the number of delivery shipments by revising ordering methods and frequency through "eco together" activities conducted together with stores. We are also using safety recorders to improve fuel efficiency. Product packaging taking into consideration higher efficiency of product shipping from plants and ease of restocking products at stores is also being done as needed.



Truck loading a container of products onto a ferry

# 33% reduction

CO<sub>2</sub> reduction rate in the distribution stage (Japan)  
(per unit of sales, 2005 baseline)



## Reducing CO<sub>2</sub> emissions across the product lifecycle



### CO<sub>2</sub> reductions during product use

The usage stage of the product lifecycle, which is when customers are using our products, accounts for the largest volume of CO<sub>2</sub> emissions, at 50%. This fact is particularly noticeable for products that use hot water during use. For example, about 90% of the total CO<sub>2</sub> emissions across the product lifecycle for shampoo are from the CO<sub>2</sub> emissions to provide tap water and the CO<sub>2</sub> emissions from fuel to heat it.

Therefore, we are proposing water-saving products as an approach to reduce the volume of CO<sub>2</sub> emissions during the usage stage. If the amount of water use can be reduced with water-saving products, this will reduce the CO<sub>2</sub> emissions generated from the energy used to provide tap water and heat water.

To increase the use of water-saving products, we are engaging in “eco together” activities with society. These include environmental lessons taught at elementary schools, educational activities at business partners and local governments, and the Nationwide Cleanliness and Water-saving Initiatives conducted jointly with the State Environmental Protection Administration of China. Meanwhile, Wakayama Plant operates the Kao Eco-Lab Museum, where visitors can experience Kao's latest eco-technologies.



Water-saving laundry detergents available in 7 countries and regions

### Products to help save water in the usage stage

In the home, laundry detergent is responsible for a large amount of water use. In 2009, we launched the concentrated liquid laundry detergent *Attack Neo* as a product that not only saves water but also electricity and time by employing new cleansing technology that requires only one laundry rinse cycle. In 2013, we launched *Ultra Attack Neo*, which uses new cleansing agents. *Ultra Attack Neo* makes high-performance, high-speed washing possible by thoroughly removing dirt and odors in just five minutes of washing time. We are also making water-saving detergents available in seven countries and regions including China, Australia and Singapore.

For dishwashing, which uses a lot of hot water, we are also developing technologies that deliver this strong cleansing power and lower environmental impacts. We launched an improved *CuCute* dish detergent in 2014 that offers enhanced cleansing ability and faster rinsing. In the bathroom, where a lot of water is also used, in 2010 we launched *Merit Shampoo*, which rinses away using about 20% less water than the previous product. In August 2015, we launched an improved *Bath Magiclean* bathroom cleaning liquid featuring enhanced cleansing power and easier rinsing.



Products that save water in the usage stage

### Reducing environmental impacts beyond the product lifecycle

Revising and improving product features from other approaches besides saving water also creates products with reduced environmental impacts. The *Essential Free & Smooth Shampoo* we launched in 2014 coats the cuticle on the hair's surface with a thin coat to reduce tangles and shorten drying time by allowing the heated air to pass through the hair easier. This results in shortened dryer use and contributes to reduced environmental impacts beyond the CO<sub>2</sub> emissions from the product lifecycle.



Research on detergent technologies to reduce environmental impacts

# 24% reduction

Water usage during product use  
(per unit of sales, 2005 baseline)

## Reducing CO<sub>2</sub> emissions across the product lifecycle



### CO<sub>2</sub> reductions during disposal and recycling

The disposal and recycling stage accounts for 15% of the CO<sub>2</sub> emissions volume of Kao products, which is 2.5 times more CO<sub>2</sub> than during the production stage. In other words, this CO<sub>2</sub> is emitted after customers have used the products. Most of this CO<sub>2</sub> is generated by incinerating product packaging. Our Package Development Research Center is cooperating with suppliers and other partners to develop packaging and packaging with low environmental impacts. We are working to develop these technologies from the perspective of the 4R's of Reduce, Renewable, Reuse and Recycle.

In the area of reduce, we employ thinner bottles, based on a policy of making products lighter. For some products, we make them even more compact by increasing the concentration. In the area of renewable, we are introducing renewable plant-based raw materials such as polylactic acid and bio-polyethylene. In the area of reuse, we are developing reusable and refillable products so that bottles and other product packaging can be used again and again. And in the area of recycle, we are introducing and utilizing recycled materials including paper and resin.



Examples of the 243 refill products available in Japan

# 84%

Proportion of refill product sales quantities for Kao products (unit basis)

#### Topic

### Environmental improvement activities at Pilipinas Kao

Pilipinas Kao in Philippine received permission from the Philippine Economic Zone Authority (PEZA) in 2001 to produce higher alcohol and industrial chemical products using coconut oil and other raw materials. PEZA is a government organization that provides operational support to companies in regions declared Special Export and Economic Zones by the Philippine president. Started in 1995 to attract foreign investment, there are currently 300 Special Economic Zones with 3,500 participating companies.

Pilipinas Kao proactively undertakes environmental improvement activities, and in 2014 reduced its total CO<sub>2</sub> emissions by about 5%. It did this by reducing the fuel used in its boiler facilities by 15% year on year and by reducing electricity usage at facilities by 26%. As part of its CSR activities, it is conducting environmental protection projects including planting mangrove trees and conducting beach cleanup campaigns.

In recognition of these activities, Pilipinas Kao received the PEZA Environmental Performance Award from the Philippine government in April 2015.



Receiving the trophy awarded by the Philippine government from former President Benigno Aquino



Pilipinas Kao Environment and Safety Team



# Contribution to safeguarding regional biodiversity



The business activities of Kao are being benefited by biodiversity.

We strive to reduce the impacts of our business activities on biodiversity and conserve biodiversity in consideration of the local ecosystems.

## Green Conservation including Employees' Forest at Kashima Plant

Japan

We are working to conserve biodiversity based on the Kao Basic Policies on Conservation of Biodiversity established in 2011.

Kashima Plant was the first plant in the Kao Group to obtain SCCS certification (see p. 33) for making products using palm oil that cleared RSPO requirements. The plant is also actively taking steps to incorporate biodiversity considerations into its land use.

Kashima Plant is built on reclaimed land and is subject to a range of laws and regulations as well as local, municipal, and prefectural pollution prevention agreements. Amid these circumstances, the first plant manager had a vision to make Kashima Plant the plant with the most natural greenery in the Kao Group and engaged in grass-roots greenery conservation over many years.

There is also a forest called the Employees' Forest at Kashima Plant. All employees who work at the plant are given the opportunity to select a tree from a list of trees mainly indigenous to the area and then plant their tree. This tree planting has continued for 35 years since the plant began operations, resulting in 143 varieties of trees being planted by about 800 employees. The forest has cultivated an environment rich in biodiversity that attracts animals such as shrike, pheasant, and the butterfly *Hestina japonica*. Watching their tree in the forest grow along with their career at the company has also become a source of motivation for employees.

In recent years, we have conducted a greenery area evaluation based on guidelines developed by JBIB\*<sup>1</sup> (Japan Business Initiative for Conservation and Sustainable Use of Biodiversity) to determine the level of contribution of the forest to regional biodiversity. We also revised our land use guidelines and activities.

Based on these guidelines, we obtained ABINC\*<sup>2</sup> (Association for Business Innovation in harmony with Nature and Community) certification in February 2015. This was its first certification of a factory. In October 2015, we received the Environment Minister's Prize in the fourth Contest for Corporate Activities on Biodiversity.

### The Employees' Forest as a venue for social interaction

The Employees' Forest serves as a venue for raising the environmental and health awareness of employees as well as for social interaction. For example, the Employees' Forest is regularly opened to employees and retired employees for exchanges involving weeding and tending the area around the trees that the employees planted.



Employees' Forest rich in biodiversity



Forest planted mainly with trees indigenous to the area



Environment Minister's Prize in the Contest for Corporate Activities on Biodiversity

\*1 JBIB (Japan Business Initiative for Conservation and Sustainable Use of Biodiversity)  
An organization of numerous enterprises from many different industries committed to biodiversity conservation, founded in 2008.

\*2 ABINC (Association for Business Innovation in harmony with Nature and Community)  
A general incorporated association founded for the purpose of creating systems for people to live in harmony with living things and promotion of science- and technology-based inspections and commercialization.

# Community

## Kao's recognition of social issues

The United Nations adopted new international targets called the Sustainable Development Goals (SDGs) to replace the Millennium Development Goals, which reached their deadline at the end of 2015. The SDGs seek to realize 17 goals and 169 targets by 2030 to reduce disparity in poverty, hunger, inequality and other aspects and achieve sustainable development for the future in areas including the global environment, sanitation, health and gender equality.

Meanwhile, various initiatives are needed in Japan, where the population is aging at one of the fastest rates in the world, including improving the quality of life of seniors and maintaining and improving health.

## Kao's approach

Since our founding, our mission has been to contribute to the wholehearted satisfaction and enrichment of the lives of people globally. For social issues such as the environment, sanitation, health, and aging in particular, we are supporting people to live healthy lives through products and services that incorporate technologies we have cultivated. We conduct detailed research on the culture and needs of each region to offer products that satisfy people's diverse needs as well as propose new lifestyle options. In addition to offering products, we are conducting social activities in partnership with communities and NPOs, such as hand washing educational activities to teach children hygienic habits.





# Raising awareness of the importance of good hygiene habits



**Making a positive contribution towards helping people to enjoy clean, healthy lifestyles is the starting point for Kao's business activities. Cleanliness means more than just getting rid of dirt, because developing living habits that embody an awareness of sanitation issues can help people to live healthily every day. Kao does more than provide products; it helps to spread good hygiene habits throughout society and contributes to public health.**

## Implementing hand washing lessons in collaboration with schools

Global

Every year, a large number of Kao Group employees visit elementary schools to give lessons on hand washing to children in the younger grades. During the lesson, the children learn how to wash their hands properly in a fun way while singing Kao's original hand washing song and actually practice washing their hands; instructors check the children's hands after they have been washed, and if any places have been missed, the children are encouraged to do better next time. Kao has been pleased to hear reports from the schools that "The children enjoy singing and washing their hands so much that it takes them quite some time to come back to the classroom." Since the program was first launched in 2009, a total of around 37,000 expert little hand washers have been trained.

**8,000** children at **111** schools

The number of elementary school students who received Kao's hand washing lessons in 2015



Kao employee helps children to understand the importance of proper hand washing

## Cleanliness Exhibition in Taiwan

Outside Japan

Kao (Taiwan) established a "home" in Taipei Children Amusement Park during the Christmas season 2015, encouraging kids to "clean your home to welcome Santa." A total of 5,500 people visited the amusement park, where they were able to experience the joy of cleanliness in a fun and enjoyable way, cleaning the floor together with cartoon characters and then washing their hands after getting them dirty doing the cleaning.



Experiencing the joy of cleanliness while having fun

## Efforts to encourage good hand washing habits in Thailand

Outside Japan

When Bangkok was affected by serious flooding in 2011, Kao Commercial (Thailand) Co., Ltd. donated products to the affected districts, and made a contribution towards improving hygiene in these areas. Since then, Kao Commercial (Thailand) has conducted activities aimed at combating the spread of infectious disease on an ongoing basis.

The company arranges hand washing lessons at schools in various parts of Thailand, at which proper hand washing technique is demonstrated and a hand washing song (in Thai) is taught, so that children can learn good hand washing habits in a fun and enjoyable way. When the children go home after school, they are able to show other family members what they have learned, thereby helping to spread good hand washing habits even further.



Showing the steps for effective hand washing in an easy-to-understand way

# Supporting people to live healthily



The products and services that Kao provides help people to maximize their own ability to maintain their health, and to live healthy lives every day. Kao also works with individual experts, NGOs, government agencies etc. to provide support for people's health in conjunction with society as a whole.

## Supporting local government authorities' health promotion initiatives

Japan

Kao has been providing several types of support for the Career Health Prefecture—Oita 21 project, a health promotion initiative launched by Oita Prefectural Government.

In September 2015, at the request of Oita Prefectural Government, Kao initiated a unique program to help improve the health of 1,000 employees at 25 companies located within Oita Prefecture through the use of pedometers. In October 2015, during "Let's All Try to Extend Our Healthy Lifespan Month," Kao held seminars on the themes of "Pay Attention to Your Visceral Fat to Extend Your Healthy Lifespan" and "Measuring, Knowing and Reducing Your Visceral Fat Level" with support from Oita Prefectural Government and the Japan Obesity Prevention Healthy Society. These seminars were accompanied by the holding of visceral fat measurement events; a total of 509 people participated over a period of three days. One participant noted that "I had been worrying about my visceral fat level, so it was good to have the opportunity to find out how high it was."



Helping to publicize Oita Prefectural Government's health initiatives through retailers of Kao's *Healthya* brand products

## Providing support for women's health through the Pink Ribbon Campaign

Global

The Pink Ribbon Campaign is a global movement aimed at raising awareness of the importance of early detection of breast cancer. If breast cancer is detected early, then the survival rate is significantly higher, so it is very important to get regular check-ups. In Japan, although the number of people suffering from breast cancer is rising, the percentage of people who get check-ups is low, and the number of people dying from breast cancer is rising steadily.

### Providing useful information at cosmetics counters in Japan

Every year, in October–November, Kao implements the Pink Ribbon Campaign, distributing leaflets to customers at the cosmetics advice counters (for the Kao *Sofina*, *Est* and Kanebo Cosmetics brands) in cosmetics retailers that are visited by large numbers of female customers; the leaflets explain the importance of early detection of breast cancer, and introduce methods that people can use for self-checking, etc. In 2015, Kao also distributed a special illustrated sheet that can be stuck on the bathroom wall, which shows people how to perform self-checking while in the bath; many of Kao's customers have used this sheet.

### Spreading the Pink Ribbon Campaign

With participation by Kanebo Cosmetics China starting in 2015, the Pink Ribbon Campaign has now spread to eight different countries and regions. Kao employees in other countries also support Pink Ribbon activities; for example, staff members at Kao USA have been collaborating on awareness-raising activities organized by the Susan G. Komen® foundation.



Distributing leaflets at a Kanebo cosmetic counter



Kao USA staff members taking part in a breast cancer awareness-raising activity

# 7.2 million leaflets

Number of breast cancer awareness leaflets distributed in the Kao Group's Pink Ribbon Campaign

# Monozukuri from a Universal Design perspective



Kao's universal design facilitates enriching lives for the consumer through *Yoki-Monozukuri*. While promoting the development of "User-friendly products" that are easy and straightforward to use for as many people as possible, we also aim to contribute to "Social inclusion" through our products, fostering the relationships between individuals, and between individuals and society.

## New packaging that makes refilling easy for everyone

Japan

As a manufacturer that provides products which a very large number of households use every day, Kao has been working to make its product packaging easier to use. With the aging of the population, an increase in dual-career families, and rising environmental consciousness, consumers have increasingly been expressing a desire for product packaging that are easy to use and environmentally friendly.

In 2015, Kao developed a new type of refill packaging for products such as particularly viscous shampoos etc. The refill packaging cap fits neatly inside the mouth of the regular bottle, making it less likely that the contents will leak out while refilling; the refill packaging's wide mouth ensures that the liquid content flows in smoothly, and the refill packaging is made from thin film which can be folded easily to squeeze out the last drops of content. Shampoo caps have notches in the top so that consumers can tell distinguish between shampoo and conditioner just by touching the cap. The new type of refill packaging is also slimmer and more compact than the old type, while still having the

same volume of content, and, in addition, the CO<sub>2</sub> emissions per packaging are about 3% lower than with traditional refill packaging, making this a more environmentally friendly packaging.



New refill packaging

## Adoption of tactile identification cue for Kao's body soap containers

Japan

The indented notch that Kao started adding to its shampoo containers in 1991 as a form of tactile identification cue was recognized in both the Japanese Industrial Standards (JIS) and ISO as an accessible packaging design. Today, almost all shampoo bottles sold in Japan have this kind of notch on them. Two decades on, a major industry organization had been receiving comments from visually impaired people to the effect that they would also appreciate it if it was easier to identify body soap containers; Kao joined a tactile identification strategy formulation working group established by the industry organization, and in May 2014, as a result of this industry organization led initiative, the relevant JIS were revised to add provision for a "Line Type Tactile Cue" for body soap containers. Starting with the new *Bioré-u* containers that were launched in April 2015, Kao is continuing to introduce tactile cues on our body soap products.



A body soap packaging featuring Line Type Tactile Cues

### Topic

## Kao receives a letter of thanks from the Japan Federation of the Blind and the Japan Braille Library

In November 2015, Kao received a letter of thanks from the Japan Federation of the Blind and the Japan Braille Library appreciating Kao's part in the formulation of a new tactile identification standard for body soap products and for being the first company to adopt this new standard for its own products. The letter of thanks commended Kao for "making changes to Kao products which, while seemingly small, are very much appreciated," in relation to the expansion of the idea of Universal Design through the tactile identification cues for Kao's shampoo and conditioner products.



With the Director of the Japan Braille Library (right)



# Culture

## Kao's recognition of social issues

Corporate activities are globalizing and the value chain is also expanding globally. With this, environmental and social issues are arising in relationships with business partners in various regions. Environmental destruction in areas such as rainforests that produce raw materials and human rights problems experienced by workers have been reported.

Companies are expected to recognize their scope of influence, uphold laws and regulations not only within their own company but across the entire value chain, and conduct corporate activities responsibly with respect to preserving the global environment and the safety and human rights of employees and workers.

## Kao's approach

To practice the Kao Way, our corporate philosophy, we have established the Kao Business Conduct Guidelines (BCG) as our code of conduct and are working to deepen understanding of them among all Kao Group employees around the world. We position the principle of Integrity, meaning to act in compliance with laws and ethics as well as to conduct fair and honest business activities, as the starting point of compliance. We have also established policies and guidelines on and clearly defined our approach to respecting the human rights of stakeholders and to achieving the sustainable procurement of raw materials, and are conducting initiatives to this end together with our suppliers and other business partners.



The 4<sup>th</sup> Global TCR (Transformation for Cost Reduction) Meeting at Lufthansa Seeheim

# Striving to maintain sound business practices



**Kao aims to win the trust of the global community as a whole by carrying out day-to-day operations based on its corporate culture of Integrity that has been passed down from the company's founder.**

## Integrity

Global

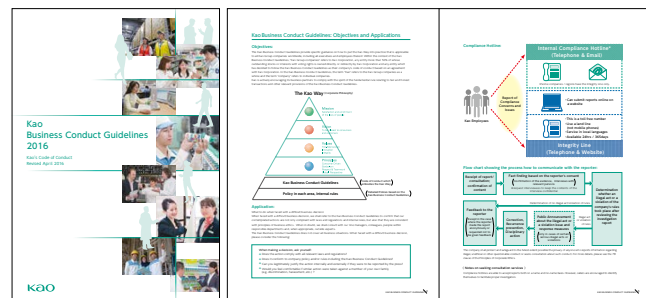
Kao's mission, as set out in the Kao Way (see p. 3) that constitutes Kao's basic corporate philosophy, is to strive for the wholehearted satisfaction and enrichment of the lives of people globally, and to contribute to the sustainability of the world, with products and brands of excellent value that are created from the consumer's and customer's perspective. One of Kao's core values is the principle of Integrity, which means to behave lawfully and ethically and conduct business activities fairly and honestly.

Kao regards Integrity as the starting point for compliance. The Kao Business Conduct Guidelines (BCG), which lays down an explicit code of conduct for the realization of the Kao Way, clearly enunciates Kao's goal of earning the respect and trust of all stakeholders as it strives, through fair, conscientious action based on the basic principles of "acting ethically" and "complying with the law," to be an ethical enterprise characterized by honesty and upright behavior.

# 10

 consecutive years of being named one of the World's Most Ethical Companies\*

\* The World's Most Ethical Companies® is an award given to companies selected by the U.S.-based Ethisphere Institute as embodying high ethical standards. Kao has become the only Japanese company, and the only company in the world in the fast-moving consumer goods (FMCG) industry and chemical industry, to be included among the ranks of the World's Most Ethical Companies® for 10 consecutive years.



The Kao Business Conduct Guidelines (BCG)

## Towards the realization of our corporate philosophy

Global

Kao's corporate philosophy, the Kao Way is a shared foundation that plays a vital role in enabling company employees with different backgrounds and skills to work together effectively towards the achievement of the same goals. In order to implement the Kao Way, since 2006 workshops have been held on an ongoing basis at Kao Group member companies both in and outside Japan to discuss how the Kao Way relates to individual workplaces and individual job roles. In 2014, a new workshop program, the Kao Way Dialogue, was launched that utilizes a dialogue format; within two years, by the end of 2015, this program had been implemented at 92% of Kao Group divisions within Japan. The program is also being rolled out at Kao Group's global business locations.

During the workshops, participants are encouraged to think about the essential aspects of their work from the perspective of the Kao Way, with a free and open exchange of views that helps to foster innovative new ways of working and high-quality work.



The Kao Way Dialogue in Shanghai

# 92%

**The percentage of Kao Group divisions in Japan where the Kao Way Dialogue program has already been implemented**



# Promoting Health and Productivity Management



**Dedicated to helping people in the areas of cleanliness, beauty, and health, Kao strives to enrich the lives of people. Kao believes that helping its employees and their families stay fit and healthy can help to ensure the successful future development of the company's operations.**

**Kao announced the Kao Group Health Declaration in 2008 and has been implementing Health and Productivity Management measures.**

## Encouraging employees to maintain and improve their own health

Japan

As a company, Kao aims to do more than just promote health management (which Kao sees as being only the least that a self-respecting business enterprise should do). Aiming to foster "employees with high health literacy," Kao has put in place a system to facilitate effective collaboration between the company itself, the Health Insurance Society, occupational health staff, and external experts. More specifically, Kao has been implementing the following Five Support Measures:

### 1. Measures to address lifestyle-related diseases

As lifestyle-related diseases can be prevented through ongoing efforts to develop healthy living habits, Kao's occupational health specialists provide support in this regard.

### 2. Measures to address mental health issues

When it comes to mental health issues, early diagnosis and early treatment are very important. Kao is putting in place a framework that helps strengthen awareness of the effectiveness of self-care, and facilitates the provision of support to those employees who need it by those around them.

### 3. Measures to support employees wanting to quit smoking

Kao has been providing support for employees who want to stop smoking in collaboration with the Kao Health Insurance Society, implementing support measures based around two core themes: (1) Creating an environment that makes it easier to stop smoking; (2) Providing support for those employees who have started to quit smoking.

### 4. Measures to support employees affected by cancer

As cancer is the biggest single cause of death, Kao is promoting checkups with respect to those types of cancer that are responsive to early diagnosis and early treatment.

### 5. Measures to support women's health

Kao is implementing measures to help safeguard women's health through seminars and campaigns focusing on health issues that are of particular significance for women, with the aim of helping female employees to enjoy healthy, active lives.



In-house Mini Exercise Class to help prevent lifestyle-related diseases



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

**8.8% reduction** In the number of male employees aged over 35 requiring Specific Health Guidance (compared to FY 2009)

#### Topic

### Kao is selected for inclusion in the Health & Productivity Stock list for the second year in a row

For the second consecutive year, Kao has been chosen for inclusion in the Health & Productivity Stock list compiled by Japan's Ministry of Economy, Trade and Industry (METI) and by the Tokyo Stock Exchange (TSE) as a listed company that has demonstrated outstanding performance in the area of Health and Productivity Management.\*

The Health & Productivity Stock selection initiative has been developed as a joint project by METI and the TSE as part of the strategy to foster the economic revitalization of Japan. Starting from 2015, the list is being compiled on an annual basis to provide recognition for those business enterprises that actively implement health and productivity management based on the application of a business management perspective to the management of employee health.

\* Health and Productivity Management is a registered trademark of the Workshop for the Management of Health on Company and Employee.



# Responding to the hopes and expectations of the global community



As a member of the global community, Kao endeavors to respond to society's needs while maintaining close communication with a wide range of stakeholders and meeting international principles and standards.

## Sustainable procurement of raw materials

Global

Kao has committed to zero deforestation in its procurement of palm oil, which constitutes an important raw material for the company, setting itself the target of purchasing only sustainably sourced palm oil that is traceable to the plantation for use in Kao Group consumer products by 2020.

In 2015, Kao completed confirmation of mills for all palm oil and palm kernel oil for use in Kao Group consumer products. However, as there are still some cases of derivative products purchased from external suppliers where the mill that produced the original raw material cannot be confirmed, Kao will continue to undertake further confirmation, and will also be purchasing RSPO\* certified materials as a supplementary measure.

Kao joined the RSPO to resolve issues relating to ecosystem destruction and human rights and other abuses. Kao began making adjustments to its supply chain, including commencing the purchasing of RSPO certified palm oil, in 2010. As of 2015, a total of 19 factories belonging to 16 individual companies have been certified for their manufacturing, processing and distribution under the RSPO SCCS (Supply Chain Certification System).



The fruit of the oil palm tree used to make palm oil and palm kernel oil

\*RSPO: Roundtable on Sustainable Palm Oil

## Human rights initiatives

Global

Kao's internal rules such as the Kao Business Conduct Guidelines include an explicit commitment to human rights, and Kao has taken practical measures to put this commitment into practice. To help ensure that respect for human rights is embodied in the entire process of *Yoki-Monozukuri*, in June 2015 Kao formulated a new Kao Human Rights Policy based on the United Nations Guiding Principles on Business and Human Rights.\*<sup>1</sup> The Kao Human Rights Policy specifies the need to respect international rules relating to human rights, to undertake surveys of human rights risks in relation to Kao's business activities, and to implement human rights due diligence\*<sup>2</sup> to mitigate and prevent such risks. Following the formulation of the Kao Human Rights Policy, departmental presentations and reports in internal newsletters have been used to spread awareness throughout the Kao Group. Kao has also been reviewing methods and systems to be used for the implementation of human rights due diligence starting from 2016.



Training to raise awareness of the Kao Human Rights Policy among employees

\*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 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](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](http://www.kao.com/jp/en/corp_info/compliance_01.html)



# Governance

**Kao endeavors to build and maintain a managerial framework and internal control system with the aim of continuously enhancing corporate value.**

**Kao also establishes organizations for the appropriate management of risks and crises that could have a negative impact on its management targets and business activities, and implements necessary countermeasures.**

## Corporate governance

Global

Kao's basic stance on measures related to corporate governance is to implement the necessary policies and fulfill its accountability by setting up and operating a management structure and internal control system in order to rapidly realize efficient, sound, fair and highly transparent management with the aim of continuously increasing corporate value and achieving the long-term targets and mid-term plan. This is positioned as one of its most important management tasks. Kao conducts annual reviews and implements appropriate measures while integrating social trends and responding to the requests of our shareholders and all other stakeholders.

Kao has introduced, within the framework of a "Company with an Audit & Supervisory Board," the Executive Officer system in order to separate the supervision function from the execution function. Following the conclusion of the 110<sup>th</sup> Annual General Meeting of Shareholders held in March 2016, Kao has: seven (7) members of the Board of Directors, including three (3) Outside Directors (seven (7) out of seven (7) are male); five (5) Audit & Supervisory Board Members, including three (3) Outside Audit & Supervisory Board Members (four (4) out of five (5) are male and one (1) is female); and twenty-seven (27) Executive Officers, including five (5) Executive Officers, with the title of Senior Managing Executive Officer or Managing Executive Officer and without concurrent positions in the Board of Directors (twenty-five (25) out of twenty-seven (27) are male and two (2) are female). All Outside Directors and all Outside Audit & Supervisory Board

Members maintain their neutrality, independent from the Company's management. In order to improve the transparency and other aspects of discussions in the Board of Directors, an Independent Outside Director has become the chairman of the Board after the 108<sup>th</sup> Annual General Meeting of Shareholders held in March 2014. The term of office for Directors and Executive Officers is one year.



The 110<sup>th</sup> Annual General Meeting of Shareholders held in March 2016

## Risk and crisis management

Global

Kao regards the potential negative impact on its management targets and business activities as a "risk" and the manifestation of such risk as a "crisis," and has established an organization for appropriate risk and crisis management.

Based on the policy and plan, departments and subsidiaries and affiliates appropriately manage risk by ascertaining and assessing risks and formulating and implementing necessary countermeasures.

With the aim of enhancing our ability to deal effectively with risk, in 2015 the most important corporate risks affecting the Kao Group were identified, and organizations were established for responding to corporate risks in order of priority. In regard to major risks, besides implementing activities to reduce risk, we have also strengthened the organization and our response for a crisis occurrence, assuming the manifestation of such risks.



Disaster drill at a Kao plant in Spain



## 2015 Activities

Conservation p.36

Community p.68

Culture p.99

Governance p.129

Responsible Care Activities p.140

Recognition by outside organizations p.145

Independent assurance report p.147

Third-party opinion p.148

GRI/ISO 26000 content index p.149

## 2020 initiatives based on the Kao Environmental Statement [EC2]

Kao released the Kao Environmental Statement in 2009. Kao has established and is promoting initiatives concerning CO<sub>2</sub>, water, chemical substances, biodiversity and other environmental impacts.

### Policies/structures

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

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

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

Based on this thinking, Kao recognizes the four areas of CO<sub>2</sub>, water, chemical substances and biodiversity as key environmental areas.

#### 2020 Medium-term Targets

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

➡For details of these activities, refer to  
p.17 Kao Sustainability Statement > 2015 Results & 2016 Targets  
(Conservation)

➡Kao Environmental Statement  
[http://www.kao.com/jp/en/corp\\_csr/eco\\_activities\\_03.html](http://www.kao.com/jp/en/corp_csr/eco_activities_03.html)

### 2015 results and future targets

Global

Continuing from the previous year, in 2015 we did not achieve our GHG emission reduction targets (all production and non-production sites and product transport) and waste generation. We will promote further efforts in 2016 aiming to achieve our targets.

#### CO<sub>2</sub>

Index	Relevant division	2015 targets	2015 results	2016 targets	2020 targets
Energy consumption <sup>*1</sup>	Kao Group All sites	30% reduction	31% reduction	31% reduction	35% reduction
GHG emissions <sup>*1</sup>		29% reduction	29% reduction	30% reduction	35% reduction
CO <sub>2</sub> emissions <sup>*1</sup>	Kao Group in Japan Entire product lifecycle <sup>*3</sup>	–	17% reduction	–	35% reduction
GHG emissions <sup>*2</sup>	Kao Group in Japan All sites + product distribution	22% reduction	17% reduction	–	–

#### Water

Index	Relevant division	2015 targets	2015 results	2016 targets	2020 targets
Water use <sup>*1</sup>	Kao Group All sites	36% reduction	43% reduction	37% reduction	40% reduction
	Kao Group in Japan During product use <sup>*3</sup>	–	24% reduction	–	30% reduction

## 2020 initiatives based on the Kao Environmental Statement [EC2]

### Biodiversity

Index	Relevant division	2015 targets	2015 results	2016 targets	2020 targets
Quantity of purchased RSPO certified oil (Palm oil, palm kernel oil and derivatives purchased by the Kao Group)	Kao Group	40,000 tons	24,000 tons	40,000 tons	120,000 tons
No. of RSPO SCCS certified plants	Kao Group All plants	15 companies, 18 plants	16 companies, 19 plants	20 companies, 25 plants	Kao Group All plants

### Other

Index	Relevant division	2015 targets	2015 results	2016 targets	2020 targets
Waste generation* <sup>1</sup>	Kao Group All sites	30% reduction	27% reduction	31% reduction	33% reduction
Final disposal ratio* <sup>4</sup>	Kao Group in Japan All sites	0.1% or lower	0.1%	0.1% or lower	0.1% or lower
Green procurement ratio* <sup>5</sup>	Kao Group in Japan All supplier plants	99%	97%	—	—

\*1 Per unit of sales, relative to 2005

\*2 Absolute quantity, relative to 1990

\*3 Mainly for consumer products sold in Japan

\*4 The percentage of landfilled waste among total waste and other unwanted materials generated

\*5 Ratio of relevant supplier plants implementing an environmental management system

# Reducing CO<sub>2</sub> emissions across the product lifecycle

## 【EC2,EN3,EN5-EN7,EN15,EN16,EN18,EN19,EN30,EN33】

**As the effects of climate change become more severe, mitigation and adaptation to climate change are urgently needed around the world. Kao is working together with business partners and customers across the product lifecycle to realize a low-carbon society.**

### 2015 activities

In 2015, while conducting various ongoing activities to reduce CO<sub>2</sub> emissions at each stage of the lifecycle that started in the past, we have also improved their scale and quality.

In the development, manufacture and sales stages, many plants replaced their facilities with Best Practicable Technology (BPT) including refrigeration equipment and compressors, effectively used steam, and introduced LED lighting. In the distribution stage, we have implemented modal shift and eco-driving techniques, and the Wakayama Plant obtained Eco-Ship Mark certification. In the usage, disposal and recycling stages, we promoted development of products with low CO<sub>2</sub> emissions.

### CO<sub>2</sub> reductions across the product lifecycle

Japan

Kao is conducting activities aimed at reducing CO<sub>2</sub> emissions in the product lifecycle by 35% by 2020 (consumer products in Japan per unit of sales, relative to 2005). In 2015, Kao reduced its CO<sub>2</sub> emissions by 17% (★).

Kao is conducting a range of initiatives across the product lifecycle, including improving energy efficiency at plants and

offices, using energy with low CO<sub>2</sub> emissions, shortening product distribution distances by optimizing production systems and logistics territories, and launching water-saving products and new refill packaging.

### Initiatives during materials procurement

Global

With cooperation from suppliers, Kao is striving to improve the accuracy of CO<sub>2</sub> data for materials. Kao began participating in the CDP Supply Chain Program in 2009 and is asking major suppliers to disclose information on and make reductions to greenhouse gas emissions.

➡p. 109 Culture > Partnering with our suppliers > Promoting the sustainable procurement of raw materials



## Reducing CO<sub>2</sub> emissions across the product lifecycle [EC2,EN3,EN5-EN7,EN15,EN16,EN18,EN19,EN30,EN33]

### Initiatives during development, manufacture and sales

Global

Along with grassroots energy-conservation activities in the course of daily work, Kao is actively introducing Best Practicable Technology (BPT) and developing activities across worksites to improve energy usage efficiency, including integrating offices, introducing office equipment with low environmental impacts, and switching company cars to hybrid vehicles.

Further, all plants with the necessary infrastructure use natural gas and are purchasing electricity with low CO<sub>2</sub> emissions.

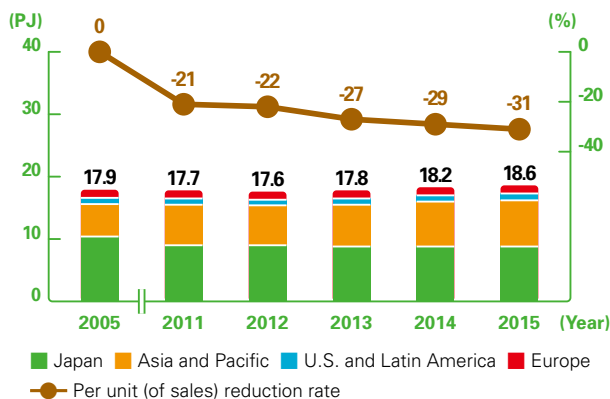
In the area of improving energy usage efficiency, in 2015, updating BPT equipment including refrigeration equipment and compressors and effective use of steam were advanced at many plants. Introduction of LED lighting at all worksites including logistics centers and offices was also promoted. In 2015 there were 227 instances of such energy-saving activities at plants and offices in Japan that also led to cost reductions. They have each resulted in an annual reduction in CO<sub>2</sub> emissions of about 3,600 tons, and about 140 million yen in annual cost reductions.

In terms of using energy sources with low CO<sub>2</sub> emissions, Kao Germany and Kao Manufacturing Germany switched all of its purchased electricity to renewable energy sources in 2014. Kao also installed solar photovoltaic panels, from which it generated 493 MWh of electricity and reduced CO<sub>2</sub> emissions by 249 tons.

The Kao Group in Japan is striving to reduce the volume of greenhouse gas leaks including hydrofluorocarbon leaks to comply with new regulations on fluorinated gas emissions management.

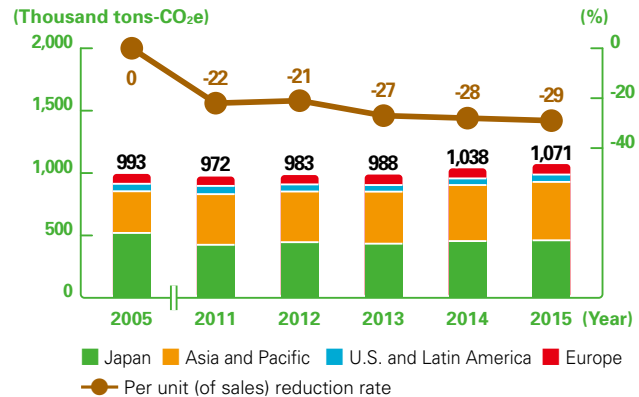
As a result of these initiatives, in 2015 the reduction rate of energy consumption improved two percentage points to 31%, while the reduction rate of GHG emissions improved one percentage point to 29%. These figures meet the respective target reduction rates of 30% and 29% (For Kao Group as a whole, per unit of sales, relative to 2005).

#### Energy consumption★



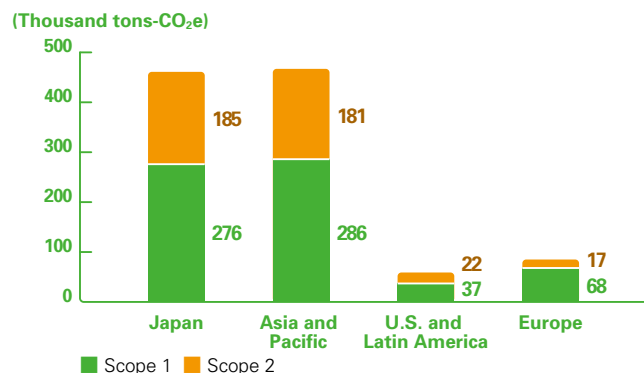
\* Boundary: All Kao Group worksites including company cars (excluding some non-production sites outside Japan)  
 \* Assurance provided for energy consumption figures.  
 \* Figures have been revised back to 2005 due to revisions of electricity coefficients.

#### GHG emissions★



\* Assurance provided for GHG emissions figures.

#### GHG emissions by scope and region★



\* Boundary: Through 2014, all Kao Group production sites as well as non-production sites within Japan (including company cars). 2015 includes some non-production sites outside Japan as well.  
 \* Gases included: The seven GHGs specified by the Kyoto Protocol (only CO<sub>2</sub> in the case of 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.  
 \* Emission factors  
 Scope 1: In principle, Kao uses the coefficients defined in the Act on Promotion of Global Warming Countermeasures.  
 Scope 2: In principle, Kao uses the coefficients specific to the laws and regulations of each country. When the specific coefficients are unavailable, Kao uses the coefficients released by the IEA.

#### Scope 1 emission volume trends★

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

	Japan	Asia Pacific	U.S. and Latin America	Europe	Total
2013	274	259	32	64	629
2014	283	277	33	64	657
2015	276	286	37	68	667

#### Scope 2 emission volume trends★

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

	Japan	Asia Pacific	U.S. and Latin America	Europe	Total
2013	160	158	20	19	357
2014	171	172	19	17	379
2015	185	181	22	17	405

## Reducing CO<sub>2</sub> emissions across the product lifecycle [EC2,EN3,EN5-EN7,EN15,EN16,EN18,EN19,EN30,EN33]

### Initiatives during distribution

Global

To lower the environmental impacts of distribution, Kao has been implementing a combination of production site optimization to shorten distribution distances, improvements in the loading volumes of transport vehicles, improvements in fuel efficiency through eco-driving techniques, and shifting from truck to rail and ship transport (modal shift), which are transportation methods with lower CO<sub>2</sub> emissions.

Activities to improve fuel efficiency through modal shift and eco-driving techniques also serve to prevent traffic accidents,

and are therefore positioned as priority activities to develop on an ongoing basis. In 2015, Wakayama Plant obtained Eco-Ship Mark certification.

Meanwhile in Japan, higher sales of light but bulky items as sanitary products, which have low distribution efficiency, caused shipment volumes to rise in 2015 and CO<sub>2</sub> emissions from distribution to increase by 3,000 tons.

➡p.22 Highlights: Conservation > Reducing CO<sub>2</sub> emissions across the product lifecycle > CO<sub>2</sub> emissions reductions during distribution

### Initiatives during product use

Global

Many of our products such as laundry detergents, dishwashing detergents and shampoos consume water during use. A large volume of CO<sub>2</sub> is also emitted from the energy consumed to treat tap and sewer water at facilities. In addition, products that use hot water in the usage stage, such as dishwashing

detergents and shampoos, also result in a large volume of CO<sub>2</sub> emitted to heat the water. Therefore, Kao is developing products that consume less water.

➡p. 41 Conservation > Measures for water resources conservation

### Initiatives during disposal and recycling

Global

Kao is adopting containers and packaging developed based on the 4Rs of Reduce, Renewable, Reuse, and Recycle, aiming to use containers and packaging with lower environmental impacts to reduce CO<sub>2</sub> emissions during product disposal.

➡p. 56 Conservation > Environmentally-conscious containers and packaging

# Measures for water resources conservation 【EN8,EN22】

**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.**

## 2015 activities

In 2015, we continued conducting activities that we have been promoting. In the production stage, we confirmed risk assessments related to water stress and confirmed the possibility of long-term use of water resources and the impacts of wastewater when establishing a new plant. To reduce the volume of water consumed during the usage stage, we have launched an improved version of *Bath Magiclean* bathroom cleanser featuring enhanced cleansing power and easier rinsing.

## Initiatives in development, manufacture and sales

Global

Kao uses water as a product ingredient as well as to clean and cool equipment in plants. We have set targets to reduce our water use and are working to reduce consumption and increase recycling based on the 3R's. In terms of reducing consumption, Pilipinas Kao in Philippines is continuing efforts from last year 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, Kao Chemical Corporation Shanghai, Fatty Chemical (Malaysia) and so on. Kao is also promoting recycling efforts to clean and reuse water at many plants, such as recovering steam after use and treating and reusing water that has been used in production processes.

As a result of these activities, our water usage volume in 2015 was 17.2 million m<sup>3</sup> (of which our water usage volume for production activities in regions where water stress is anticipated was 1.5 million m<sup>3</sup>). Our water use has improved five percentage points compared with the previous year to reach a 43% reduction, achieving our 36% reduction target (per unit of sales, relative to 2005).

In addition to internal information referencing the WRI\*<sup>1</sup> and WBCSD\*<sup>2</sup> assessment standards, Kao conducts regular risk assessments on water stress and did so again in 2015. No new risks were discovered. When opening new plants, Kao also verifies the long-term usage feasibility of water resources and the impact of wastewater.

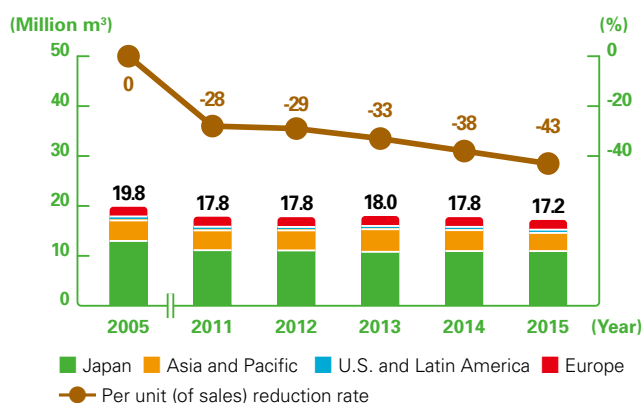
\*1 WRI (World Resources Institute)

A U.S.-based global research organization that researches problems related to natural resources and the environment and conducts activities together with government and private groups and environmental experts

\*2 WBCSD (World Business Council for Sustainable Development)

A global advocacy association comprised of about 200 international corporations that pursues sustainable development based on the three core areas of economic growth, environmental preservation, and social equity

### Water use★



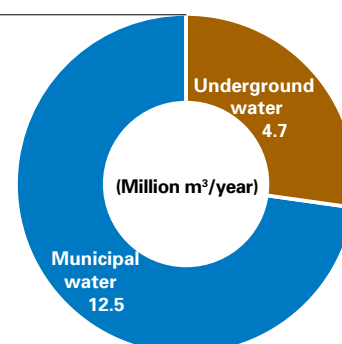
\* Boundary: Through 2014, all Kao Group production sites as well as non-production sites within Japan. 2015 includes some non-production sites outside Japan as well.

\* Water usage volume and water withdrawal are the same value.

\* Assurance provided for water withdrawal and water usage volume.

### Water withdrawal by water source

Surface water : 0  
 Discharged water from other organizations : 0  
 Produced/ process water : 0  
 Rainwater : 0  
 Brackish water/seawater : 0



## Measures for water resources conservation [EN8,EN22]

### Initiatives during product use

Global

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 2015, a 24% 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 new cleansing technology that requires only one laundry rinse cycle. The series continues to expand, and water-saving detergents have also been launched in other countries including China, Australia and Singapore.

Similar to laundry detergent, dishwashing detergent is also

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

For bath products, which use large amounts of water, the *Merit Shampoo* launched in 2010 reduces the amount of water needed for rinsing by about 20% compared with the original version. Kao is also educating consumers about eco-shampoo techniques to use less water when shampooing hair.

In August 2015, Kao launched an improved *Bath Magiclean* bathroom cleaning liquid featuring enhanced cleaning power and easier rinsing.

### Initiatives for discharged water after product use

Global

In product development, Kao incorporates considerations for impacts on the regional water environment of discharged water after product use. More specifically, Kao is conducting safety evaluation using river water and activated sludge used at wastewater treatment plants to investigate the biodegradability of raw materials that may be discharged into the environment and their impacts on common aquatic organisms. Through this investigation, Kao aims to use raw materials and develop chemical substances with reduced environmental impact.

In addition, in order to understand the current situation of water environments, we conduct our own field surveys on an ongoing basis, such as environmental monitoring of river

water. To respond to globalization, in countries outside Japan we are conducting monitoring and working with experts to develop mathematical models to predict the concentration of chemical substances in rivers, aiming to conduct business with consideration for the local environment.

Furthermore, Kao is a member of the Japan Soap and Detergent Association (JSDA). JSDA has been conducting environmental monitoring of four major surfactants in urban river systems (4 rivers 7 sites, 4 measurements/year) for the past 17 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.



# Sound management of chemicals

**Kao has been working actively to promote the sound management of chemicals in accordance with SAICM across the product lifecycle from development, production, and distribution to use and disposal, aiming to contribute to realization of a sustainable society.**

## 2015 activities

In line with the medium-term risk assessment plan, Kao compiled risk assessment reports for seven substances for which risk assessments were completed. At production sites in Japan, risk assessments for PRTR substances, VOC substances, and poisonous and deleterious substances have been completed.

SAICM promotion activities that Kao is conducting also began to be released on the website, and Safety Data Sheets, which summarize risk assessments in an easy-to-understand manner, have also been released.

## Policies/structures

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

\* SAICM (Strategic Approach to International Chemicals Management)

➡ For details, refer to SAICM Promotion Policy  
[http://www.kao.com/jp/en/corp\\_csr/eco\\_activities\\_03\\_05.html](http://www.kao.com/jp/en/corp_csr/eco_activities_03_05.html)

SAICM is global-scale landmark initiative to protect human health and environment. The goal of SAICM is "to ensure that, by 2020, the chemicals are used and produced in ways that minimize the significant adverse effects on human health and the environment, using transparent, science-based risk assessment procedures and risk management procedures, taking into account the precautionary approach."

Even by comparison with Japan's major chemical manufacturers, Kao has a large number of different chemical substances that it is required to manage; from the SAICM perspective, therefore, there are issues that Kao needs to address. With this in mind, in order to speed up specific activities for the achievement of the SAICM goals, the Group-wide SAICM Promotion Committee was established in 2012, with the Chemical Business Unit, R&D, SCM Division, Product Quality Management Division and Corporate Division playing leading roles.

The main focus of Kao's SAICM activities comprise three key issues that have been identified: (1) risk assessment and risk management of chemical substances, (2) lifecycle management of chemical substances, and (3) risk communication of chemical substances with stakeholders. Projects related to these three key SAICM issues have been established and are being implemented under the SAICM Promotion Committee.

Through these activities, the Kao Group is promoting strengthened chemical substance management and communicating the obtained deliverables to stakeholders to build the trust of customers and consumers.

### SAICM Promotion Committee activities

In 2015, Kao conducted activities concerning the following three priority issues in the promotion of SAICM.

- ① Conduct risk assessments and create risk assessment reports for Kao priority assessment substances in line with the chemical substances management medium-term plan; build the fundamental base of a lifecycle management system for chemical substances
- ② Plan and implement risk reduction measures at handling sites based on chemical substance risk assessments/Study display of hazardous labeling at production sites according to the Globally Harmonized System of Classification and Labelling of Chemicals (GHS)
- ③ Study of ways to publicly release the deliverables of SAICM activities and engage in two-way communication with stakeholders

The results of activities in 2015 are as follows:

- ① The risk assessment of Kao priority assessment substances scheduled for 2015 was completed according to the medium-term plan. The results of assessments done to date were compiled in a risk assessment report, and a safety summary presenting the contents in a manner easy to understand by a general audience was created. Meanwhile, we conducted a review of the fundamental base for a more advanced lifecycle management system for chemical substances based on the Comprehensive Management System for Chemical Substances, with a focus on re-establishing Safety Data Sheets (SDS) creation and management system. This development is scheduled to continue in 2016.
- ② Regarding risk assessments at production sites that handle chemical substances, a combination of risk assessment methods were employed, such as a qualitative risk assessment of worksites using the control banding method,<sup>\*1</sup> and the more detailed ECETOC TRA<sup>\*2</sup> also adopted for risk assessments in the EU's REACH regulation. The risk assessments at production sites that handle PRTR, VOC and toxic substances have been completed, and risk mitigation measures will be successively implemented. Display of hazardous labeling according to GHS at production sites has been introduced on a trial basis at some plants, and will be expanded to all plants.
- ③ SAICM-related information including seven Safety Data Sheets of Kao priority assessment substances began to be released publicly in May 2015 on the Kao and Kao Chemicals websites. This information was published on the Kao Group website in October and on the Kao Chemical Corporation Shanghai website in December.

## Sound management of chemicals

In 2015, we released 12 GPS safety summaries for Kao Chemicals products (cumulative total of 89).

➡Activities for safer use of chemicals (SAICM promotion activities)  
[http://www.kao.com/jp/en/corp\\_csr/eco\\_activities\\_06.html](http://www.kao.com/jp/en/corp_csr/eco_activities_06.html)

### \*1 Control banding method

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

### \*2 ECETOC TRA (European Centre for Ecotoxicology and Toxicology of Chemicals Targeted Risk Assessment)

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

## Management system

Kao created a chemical substance database in 2001, which gives and registers a Group-wide code (Master Index) to individual products and raw materials as well as each chemical substance contained in them. The database has been used in the Comprehensive Management System for Chemical Substances, which is able to verify information in an integrated manner, including safety and regulatory compliance and environmental impact assessments. This system is closely coordinated with both formula design in R&D and the ERP (Enterprise Resource Planning) system to ensure product design incorporating safety and environmental aspects as well as traceability of chemical substances from raw materials procurement to production and shipment. It is the backbone supporting Kao's *Yoki-Monozukuri*.

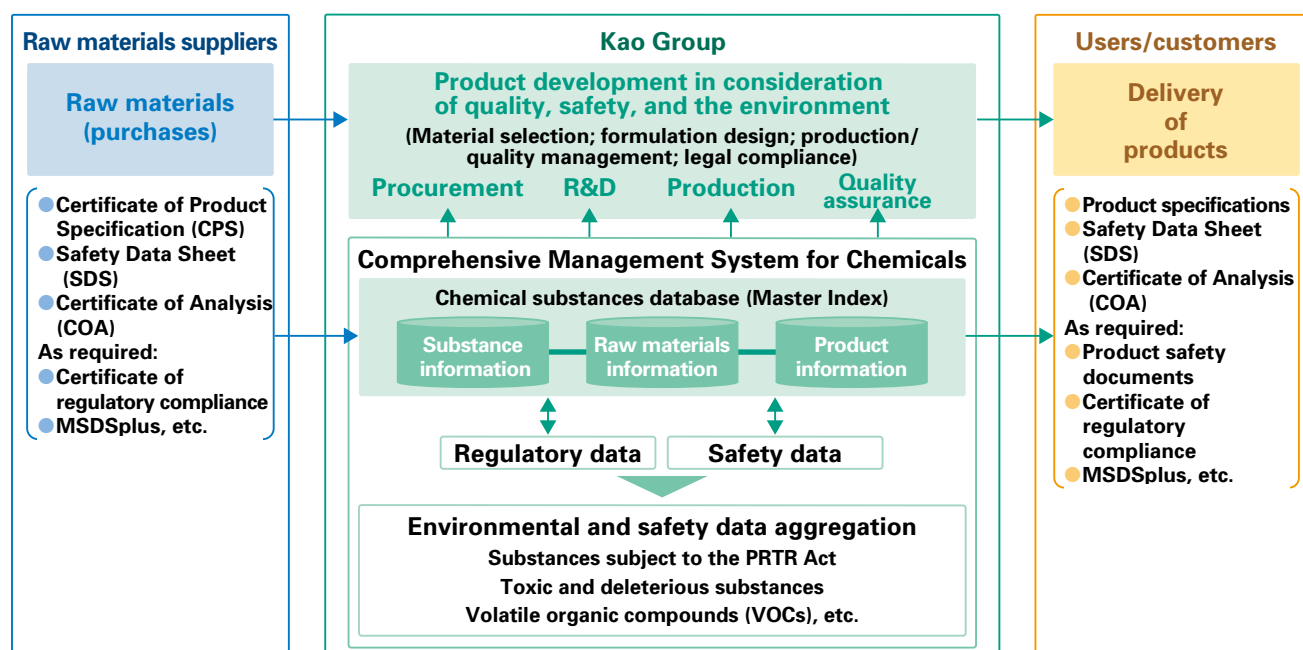
The Kao Group, which has both the Consumer Products Business and Chemical Business, handles a large number of chemical substances. In 2015, we completed the data transfer for raw materials handled by the Consumer Products Business

Companies in Europe and the Americas, and established conditions to be able to make visible and share chemical substance information for these raw materials by using one database. In addition to new raw materials registration and chemical products registration to the Master Index, data for registered substances were revised on a daily basis to maintain the most up-to-date information in the database. Using the information collected here, Kao has registered hazardous chemicals under Chinese regulations and complied with new registration regulations in Taiwan and South Korea.

➡For details, refer to p.45 Conservation > Sound management of chemicals > Global compliance with chemical regulations

Kao will continue to promote system development in a proactive manner to manage chemical substances and strengthen Group-wide compliance to meet the requirements of various legal and environmental regulations in an increasingly globalized and borderless world.

### Comprehensive Management System for Chemicals



## Sound management of chemicals

### Global compliance with chemical regulations

Global

The Kao Group is registering the chemical substances contained in Kao products manufactured outside Japan and Kao products directly and indirectly exported outside Japan based on the chemical regulation of the relevant country according to the quantities and hazards.

In the EU, Kao Chemicals Europe (KCE) and Kao Corporation worked closely together to complete registration of REACH\* Phase 1 substances (mainly substances of which 1,000 tons or more are manufactured and imported annually into the EU) and Phase 2 substances (100 tons or more manufactured and imported annually into the EU) by the 2013 deadline. We are systematically working to register the next step of Phase 3 substances (1 ton or more manufactured and imported annually into the EU) and have been selecting priority substances to register each year since 2014. We plan to complete all registrations of the required substances by the final deadline of May 31, 2018 without delay.

In Asia as well, some countries are creating and starting to implement new chemical regulations.

In China, in addition to a notification program for new chemical substances, the registration system for hazardous chemicals was substantially revised in 2012 to cover raw materials and chemical products imported into China as well as products manufactured locally. The Kao Group worked together with local Kao Group companies to create a registration system by 2013 and completed registration of the necessary

hazardous chemicals during 2015.

Taiwan and South Korea also started new chemical regulations in 2015. The Kao Group undertook preparations in cooperation with related divisions prior to implementation of the regulations. In Taiwan, we completed registration of all substances available in the market to the existing chemical substances list in 2015. In South Korea, we are making step-wise preparations in accordance with the new regulation for substances subject to registration that was publicly announced in 2015.

In 2016, Thailand and other countries in Southeast Asia are moving to create new chemical regulations. In Asia, we will work together with Kao Group companies while gathering the relevant information in a timely manner to facilitate compliance with local regulations.

\* REACH is an EU regulation that stands for Registration, Evaluation, Authorization and Restriction of Chemicals.

## Sound management of chemicals

### Reinforcement of information management of chemicals

Global

#### 1. GHS<sup>\*1</sup>-compliant SDS<sup>\*2</sup> and product labeling

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

For the Chemical Business, including Kao Japan and Asian affiliates, Kao has been managing GHS-compliant SDS and product labeling and integrated management using the Comprehensive Management System for Chemical Substances since 2008. In 2015, Kao implemented GHS labeling for products marketed in countries and regions which have introduced GHS (Japan, EU, Taiwan, South Korea, China, Singapore, Thailand, Indonesia, Vietnam and Malaysia). Kao has also issued SDS and created product labeling for GHS to comply with the EU's CLP Regulation for chemical substances and mixtures and the OSHA Hazard Communication Standard (HCS) in the United States, which went into force in June 2015.

#### 2. Providing and obtaining information regarding chemicals in products

With regards to the provision and acquisition of information regarding chemicals in products, as a founding member of the JAMP<sup>\*3</sup> consortium, Kao is actively promoting the provision and acquisition of information regarding chemicals through the use of the common MSDSplus<sup>\*4</sup>.

In 2015, revised versions of MSDSplus were issued in January (Substances List Ver. 4.030) and July (Substances List Ver. 4.040), and these have been distributed to customers via sales distributors as well as released on the corporate website. Similarly, Kao has produced English and Chinese versions of MSDSplus for products of Asian subsidiaries and released the most up-to-date versions on those subsidiaries' websites. To efficiently communicate MSDSplus information in the supply chain, Kao registered MSDSplus information on chemical products on JAMP-IT<sup>\*5</sup> in 2015 and is releasing and providing this information to customers. Kao also continues to provide information to and obtain new information from some sales distributors via JAMP-IT.

Regarding communication of information on chemical substances contained in products, the Japanese Ministry of Economy, Trade and Industry (METI) has been developing a new information communication scheme since 2013 that can be used by the entire supply chain. Kao is also participating in these activities. In October 2015, a data creation support tool for the new information communication scheme (chemSHERPA)<sup>\*6</sup> was released for use, and Kao continues to be involved in activities aiming at full implementation of the scheme.

Kao will continue to cooperate with the relevant internal and external divisions and groups and actively engage in activities to promote improvements and strengthen chemical substances management in the supply chain.

#### 3. Risk communication on chemical substances

Kao has been participating actively in the Japan Initiative of Product Stewardship (JIPS),<sup>\*7</sup> a voluntary activity aimed at strengthening management of chemical substances through product stewardship proposed by the International Council of Chemical Associations (ICCA), which the Japan Chemical Industry Association has been implementing since 2009, and

which constitutes an effort by the chemical industry to make a major contribution toward SAICM. To this end, Kao has been actively implementing chemical substance related communication with customers.

Kao has always been proactive in its SDS, MSDSplus and eSDS<sup>\*8</sup> for Europe disclosure for chemical products inside and outside Japan as part of its chemical substance related communications. In recent years, Kao has proactively made available GPS safety summaries<sup>\*9</sup> that outline, in an easy-to-understand manner, hazard information and information on product risks on the Kao Chemicals website and ICCA GPS Chemicals Portal. Kao considers publication of GPS safety summaries to be an important element of risk communication on chemical substances with stakeholders that constitutes part of its SAICM activities.

In 2015, Kao prepared GPS safety summaries for products with REACH registration. For multiple substances for priority assessment handled by Kao, the safety summaries have been published on the Kao Chemicals website as risk assessment deliverables. We have created 12 GPS safety summaries in English and Japanese for chemical products related to these Kao priority assessment substances, which are published on the Kao Chemicals website as well as the ICCA's GPS Chemicals Portal website. With this, the Kao Group has published a total of 89 GPS safety summaries globally.

Kao will continue to publish GPS safety summaries and implement proactive risk communication with customers and with society as a whole on a global basis.

<sup>\*1</sup> GHS

Globally Harmonized System of Classification and Labelling of Chemicals

<sup>\*2</sup> SDS (Safety Data Sheet)

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

<sup>\*3</sup> JAMP

Joint Article Management Promotion-consortium

<sup>\*4</sup> MSDSplus

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

<sup>\*5</sup> JAMP-IT

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

<sup>\*6</sup> chemSHERPA

A new scheme that facilitates sharing information on chemical substances in products across the entire supply chain to address broadening regulations and appropriately manage chemical substances contained in products on an ongoing basis.

➡chemSHERPA URL: <https://chemsherpa.net/chemSHERPA/english/>

<sup>\*7</sup> JIPS (Japan Initiative of Product Stewardship)

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

<sup>\*8</sup> eSDS

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

<sup>\*9</sup> GPS safety summary

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

➡p.86 Community > Communication with corporate customers (Chemical Business)



## Sound management of chemicals

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

Japan

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

The amended Chemical Substances Control Law, which came into effect in April 2011, established a new category of Priority Assessment Chemical Substances to assess the phased appraisal of the impact on human health and on the environment, and substances are added to this category each year. In response to the new Priority Assessment Chemical Substances that were added in 2015, Kao has revised the SDS for the subject chemical products, and provided customers and sales distributors with information regarding chemical substance content.

In addition, the amended Chemical Substances Control

Law requires reporting of volumes for each use.

Continuing in 2015, Kao conducted surveys and updated usage information for chemical products in cooperation with sales distributors and managed the information to keep it up to date.

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

To comply with the 2012 revisions of the Industrial Health and Safety Law (IHSL) and the Law Concerning Pollutant Release and Transfer Register (PRTR Act), revisions were required to the SDS and product labels of almost all chemical products. Kao completed SDS revisions for the applicable products in 2014 as well as revisions to product labels in 2015.

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

Japan

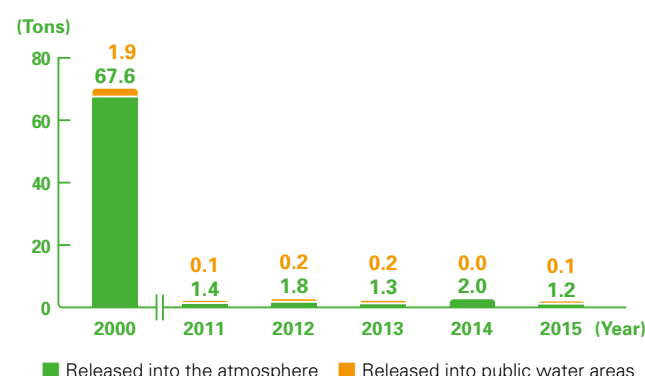
Kao began activities by setting in 2000 the voluntary target of annual emissions of 1 ton or less for each substance from each plant. We achieved this target in FY 2002. Since then, we have continued to achieve this target, excluding leaks of fluorinated gas and similar emissions.

The number of chemical substances subject to the PRTR Act which Kao handled in 2015 was 76, and the total discharge of such substances into the atmosphere and public water areas was 1.3 tons.

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

➡For details, refer to List of Emissions of Substances Subject to PRTR Act  
[http://www.kao.com/jp/en/corp\\_csr/eco\\_activities\\_02\\_07.html](http://www.kao.com/jp/en/corp_csr/eco_activities_02_07.html)

#### Releases of chemical substances subject to the PRTR Act



### Management of VOC emissions

Japan

Although Kao has no facilities subject to the VOC emission regulations provided by the Air Pollution Control Act, we work to voluntarily cut VOC emissions. For the 100 VOC substances defined in the Notice of the Director General of the Environmental Management Bureau, Ministry of the Environment, we set voluntary targets on the annual emissions volume from each plant for each substance (5 tons or less in 2005, 3 tons or less in 2009, 1 ton or less in 2010), conducted

emission reduction activities and accomplished our targets. These activities have become established and we are currently managing VOC emissions with the target of maintaining the activities.

Kao handled 34 chemical substances in 2015, and the total release into the atmosphere was 13.1 tons (★).

# Measures for biodiversity conservation 【EN12,EN33】

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

## 2015 activities

We aimed to purchase only palm oil, one of Kao's basic raw materials, that was traceable to the mill. The Kashima Plant and Pilipinas Kao in Philippine are key operations whose initiatives for biodiversity conservation have received commendations from outside groups.

## Policies/structures

Kao established the Kao Basic Policies on Conservation of Biodiversity in 2011 based on seven individual policies. We set action guidelines and targets for each policy, and strive to consider biodiversity in all of our business and community

activities. In 2015, we created and released the Action Policies and Introductions of Activities to communicate this information both inside and outside the company.

### Kao Basic Policies on Conservation of Biodiversity

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

### Kao Basic Policy on Biodiversity Conservation with Action Policies and Introductions of Activities



Coastal Japanese Black Pine forest as a protection against tidal waves (Wakayama Plant)  
The conservation management of Wakayama Plant paid respect to the history and ecosystem of the coastal forest developed as a protection against tidal waves that mainly consisted of Japanese Black Pine trees and located in the historic site of Wakayama in the premise of the plant. This effort won the 2nd "Urban Green Award" in 2014.  
<http://www.kao.co.jp/eco/sustainability/en/eco/eco-activities/biodiversity/>

➡For details, refer to Basic Policies on Conservation of Biodiversity and Action Policies and Introductions of Activities  
[http://www.kao.com/jp/en/corp\\_csr/eco\\_activities\\_03\\_04.html](http://www.kao.com/jp/en/corp_csr/eco_activities_03_04.html)

## Measures for biodiversity conservation [EN12,EN33]

### Initiatives toward sustainable procurement of all palm oil

Global

In light of degradation of biodiversity as well as global warming and other environmental problems, resource constraints, and human rights issues, Kao has formulated and implements the Guidelines for Sustainable Procurement of Raw Materials for the purpose of realizing procurement of sustainable raw materials. We are also a member of the Roundtable on Sustainable Palm Oil (RSPO) and are working to create a traceable supply chain for palm oil.

#### Sustainable Palm Oil Procurement Guidelines

In the procurement of palm oil, one of the basic raw materials we handle, we have committed to consider biodiversity conservation and zero deforestation, and have set four goals to realize this.

**Goal 1:** By the end of 2015, purchase only sustainable palm oil traceable to the mill for use in Kao Group consumer products.

**Results:** We were able to confirm by the end of 2015 that the palm oil and palm kernel oil for use in Kao Group consumer products was traceable to the respective mill, but some raw materials among derivatives purchased from outside sources were not traceable to the mill. We will continue our efforts to confirm traceability and take supplementary measures such as purchasing RSPO certified products.

**Goal 2:** By 2020, adequately confirm zero deforestation at the source through cooperation with plantations, suppliers (mills, refineries) and third-party organizations. In addition, we will not take part in developing high conservation value (HCV)\*<sup>1</sup> forests, high carbon stock (HCS)\*<sup>2</sup> forests or peatlands.

**Results:** We are reviewing support for RSPO Next,\*<sup>3</sup> aiming for this realization with cooperation from our suppliers.

**Goal 3:** By 2020, purchase only sustainably sourced palm oil that is traceable to the plantation for use in Kao Group consumer products.

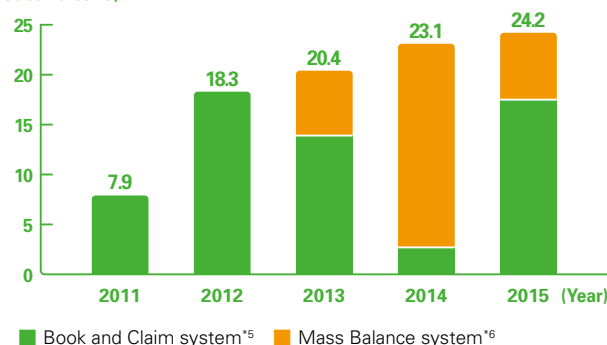
**Results:** From 2016, we are tracing palm oil and palm kernel oil to the palm oil mill supplying the raw material palm kernels to the confirmed palm kernel oil mill, aiming to trace the materials to the plantation.

**Goal 4:** By 2020, work to obtain RSPO SCCS certification\*<sup>4</sup> of Kao Group factories in order to build a traceable supply chain for the Kao Group.

**Results:** RSPO SCCS certification was obtained by the Kashima Plant in March 2012, and has since been obtained by 16 companies and 19 plants inside and outside Japan as of the end of 2015.

#### Kao Group certified palm oil purchases

(Thousand tons)



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

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

In 2015, we conducted preferred purchasing of palm kernel oil traceable to the mill, but our purchase volume of certified palm kernel oil did not increase. We intend to promote purchasing of RSPO certified products.

\*1 HCV: High Conservation Value

\*2 HCS: High Carbon Stock

\*3 RSPO Next: An addendum established in 2015 of voluntary actions necessary to realize zero deforestation when meeting the requirement of the RSPO Principles and Criteria, the basic producer certification.

\*4 SCCS (Supply Chain Certification System) certification  
A certification system for the manufacturing, processing, and logistics of products using palm oil produced at RSPO certified plantations when making products. There are four supply chain models, and at Kao, we obtain certification using the Segregation system or Mass Balance system.

\*5 Book and Claim system

A system to handle credits of palm oil certified by the RSPO. By purchasing "certification credits" issued in proportion to the amount of palm oil produced and registered by plantations certified by the RSPO, users of palm oil are considered to have purchased the amount of certified palm oil corresponding to the amount of credits. This system strictly ensures that the same amount of certified palm oil as palm oil used is produced and encourages plantations to produce certified oil.

\*6 Mass Balance system

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

\*7 Segregation system

A certification system that does not permit mixing of RSPO certified palm oil and non-certified palm oil.

## Measures for biodiversity conservation [EN12,EN33]

### Initiatives toward sustainable procurement of paper and pulp

Global

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

We give priority to using waste pulp (recycled paper) as the main raw material without wasting paper or pulp. When using pulp other than waste pulp (virgin pulp), by 2020 we aim to purchase only pulp that is traceable to the source, and to confirm zero deforestation at producers of wood materials through cooperation with suppliers and third-party organizations.

As of the end of 2015, 96% of our purchased volume was recycled paper and traceable pulp.

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

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

➡ p. 106 Culture > Partnering with our suppliers  
 ➡ Sustainable Paper and Pulp Procurement Guidelines  
[http://www.kao.com/jp/en/corp\\_csr/procurement\\_05.html](http://www.kao.com/jp/en/corp_csr/procurement_05.html)

### Promoting collaboration with various companies

Japan

Kao Corporation has participated in JBIB (Japan Business Initiative for Biodiversity) since its founding in 2008. We participate in multiple JBIB internal working groups, working with corporations representing a variety of industries for such purposes as researching effective tools and guidelines for

conservation of biodiversity.

➡ p. 25 Highlights: Conservation > Contribution to safeguarding regional biodiversity

### Biodiversity initiatives at Wakayama Plant

Japan

Wakayama Plant is incorporating biodiversity conservation viewpoints into its operations, deepening its activities from conservation of a greenery area on the plant grounds to conservation of the local ecosystem.

The grove consisting mainly of black pine trees that traverse Wakayama Plant grounds serves as a protection against the storm surge and is a legacy whose shape has been preserved since it was created in the first half of the 17<sup>th</sup> century. We monitor the trees and animals that live in this grove and have confirmed more than 20 species of wild birds. Based on the results of these surveys, we are conducting conservation activities of the greenery area on the plant grounds and of the protective grove in ways that are suited to the local ecosystem. We are also erecting an informational board so that the next generation continues to protect this grove.

On December 20, 2015, we held a forest foraging for nuts and wreath-making workshop with participation by 51 children and their parents and guardians.

This event was part of a program run by the Wakayama City Children's Museum for parents and children to learn about plants and animals. The program is designed to have parents and children interact with Wakayama's nature and develop an enriched sensitivity to the natural world.

Participants made wreaths by collecting pinecones and acorns from the pine grove on the Wakayama Plant grounds and using kudzu vines to make a ring.

The children commented that they learned what pinecones look like as they grow on trees and how making wreaths was fun.



Holding a wreath made from collected pinecones



## Measures for biodiversity conservation [EN12,EN33]

### Topic

### Ministry of Land, Infrastructure, Transport and Tourism commendation for ongoing Kao Creating Forests for Everyone program

To leave an abundance of greenery for future generations, Kao has continued the Kao Creating Forests for Everyone program since 2000. This program is administered in partnership with Kao and the Organization for Landscape and Urban Green Infrastructure, and supports NPO's and citizens' organizations engaged in the protection and expansion of green environments in places that are part of daily life. Aid is provided in two main areas: forestation and environmental education. In both areas continuous support is provided for a period of three years, enabling citizens' organizations to conduct stable activities from a longer-term perspective. Kao has so far supported 411 organizations (as of December 2015). Feedback from organizations whose support has concluded includes comments such as receiving the aid increased their credibility in the community and led to new activities, and the long-term aid received over three years allowed them to equip themselves in stages and deepen their knowledge.

This ongoing activity has received high praise, earning Kao a commendation of merit for urban greening in FY 2015 urban greening and urban park development, conservation, and beautification campaigns from the Ministry of Land, Infrastructure, Transport and Tourism. Kao was commended at the national Widen and Grow Green Cities convention on October 30, 2015.

In 2015, 109 organizations responded to our call for applications between August and October. Selections were finalized in March 2016, with 15 organizations the new recipients of support. In addition, about 50,000 people have participated in activities with the groups currently receiving aid.



Commendation ceremony



Sangosya Scole (Okinawa Prefecture), a recipient of aid in the environmental education category

## "FURUSATO" Environment Conservation Project in Northern Thailand

Global

With social problems such as rapid deforestation and soil degradation affecting Thailand, Kao conducts the "FURUSATO" Environment Conservation Project in Northern Thailand for reforestation and sustainable conservation of Thai forests together with the Organization for Industrial, Spiritual and Cultural Advancement (OISCA) and OISCA Thailand.

This project started in 2012 and marked its fourth year in 2015. In 2015, 8,000 trees were newly planted on land covering 7ha, and a cumulative total of about 34,000 trees have been planted on 28ha so far. At the same time, the project provides environmental education to local children to develop future protectors of the environment. In July, local citizens, students from nearby schools and Kao Group employees participated in tree planting activities. Through the care of community residents, trees planted in the first year of the project now provide shade and a place for people to rest, and many bees and birds are also visible as the trees grow and turn into abundant forests.



Planting a commemorative tree



Tree planting on a hillside

## Measures for biodiversity conservation [EN12,EN33]

### Employee volunteers participate in Post Tsunami Monitoring Project

Japan

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

In 2015, 10 employees went to local areas to support the field work. The data obtained in the field work are being used in restoration plans that take biodiversity into consideration and for conservation of species.



Field work in a rice paddy

## Other environmental topics [EN2,EN21,EN22,EN23,EN24,EN25,EN29]

**Kao is developing an operating system and initiatives to limit the effects of waste and a wide range of other environmental impacts.**

### 2015 activities

We have conducted ongoing activities to reduce the volume of waste and other unwanted materials we generate, but higher production volumes resulted in an increase in the amount of waste and other unwanted materials generated in 2015. The Kao Group in Japan has achieved its zero-emission targets for the 11<sup>th</sup> consecutive year. Kao also regularly conducts on-site checks of waste disposal providers directly contracted to dispose of waste, and conducted on-site checks at 152 facilities in 2015.

### Promoting initiatives to reduce waste

Global

Among its 3R initiatives toward creating a recycling-based society, Kao is promoting reduce, reuse and recycling of waste and other unwanted materials generated inside and outside the company.

At production sites, efforts to reduce the amount of waste and other unwanted materials generated include altering production methods so as to reduce the volume of product loss and offcuts generated, and adjusting equipment washing procedures to reduce wastewater. We are continuing to reduce and reuse distribution materials at logistics centers, and at offices, continuing to manage the quantity of paper used.

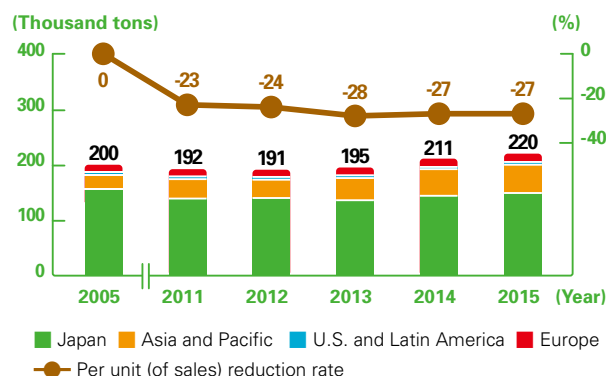
Although we have implemented these measures, the amount of waste and other unwanted materials generated in 2015 increased by 9,000 tons year on year due to higher production volumes and expanding production lines. The amount of waste generated per unit of sales remained at 27% relative to 2005 levels, the same as the previous year. This falls below the target of 30% for all Kao Group production and non-production worksites. We will further strengthen efforts to promote waste reduction activities in 2016.

Of the amount of waste generated, 15,000 tons was hazardous waste. No hazardous waste was transported internationally under the Basel Convention.

Waste that was reused or recycled came to 197,000 tons, with a recycling rate of 90%.

We maintained our target of 0.1% or lower final disposal ratio for waste. We have achieved our target of zero emissions for the 11<sup>th</sup> consecutive year since the target was set (all Kao Group worksites in Japan, final disposal ratio of waste generated).

#### Amount of waste and other unwanted materials generated★



\* Boundary: Through 2014, all Kao Group production sites as well as non-production sites within Japan. 2015 includes some non-production sites outside Japan as well.

\* Assurance provided for amount of waste and other unwanted materials generated.

### Strengthening waste- and recycling-related governance

Global

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

In 2015, Kao carried out on-site inspections of 152 facilities belonging to 131 firms with which Kao collaborates.

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

## Other environmental topics [EN2,EN21,EN22,EN23,EN24,EN25,EN29]

### Proper storage and treatment of PCB

Japan

Waste containing polychlorinated biphenyl (PCB) in insulating oil, such as in transformers and ballasts, is stored at Wakayama Plant, Sumida Office, Kawasaki Plant, Kashima Plant, Odawara Office, and Kao Sanitary Products Ehime under the regulations until treatment and disposal are contracted to a waste disposal provider.

In 2015, we did not treat waste containing high levels of PCB. Five waste items containing PCBs were treated and disposed of.

### Initiatives to prevent air pollution

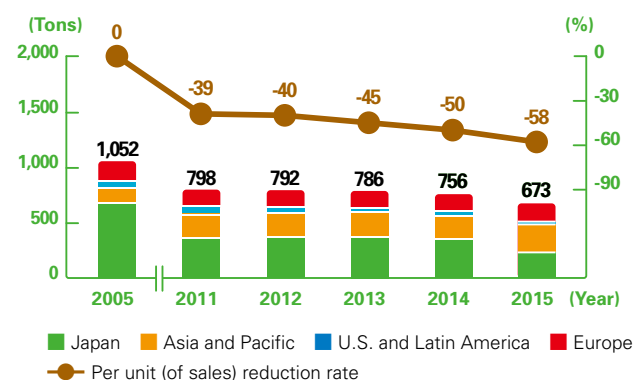
Global

To prevent air pollution, we work to maintain our equipment and facilities, and Kao monitors pollutant levels in exhaust gases in accordance with the law and with local government agreements. All plants with the necessary infrastructure use natural gas to limit emissions of SOx, a substance known to cause acid rain.

Emission of NOx decreased by 82 tons in 2015 compared with the previous year, an 8 percentage-point improvement on a per unit of sales reduction rate basis.

Emission of SOx decreased by 7 tons in 2015 compared with the previous year, a 3 percentage-point improvement on a per unit of sales reduction rate basis.

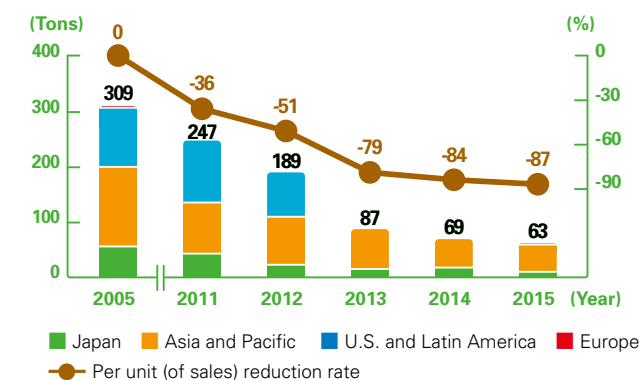
#### NOx emissions★



\* Boundary: All Kao Group production sites

\* Assurance provided for NOx emission figures.

#### SOx emissions



\* Boundary: All Kao Group production sites



## Other environmental topics [EN2,EN21,EN22,EN23,EN24,EN25,EN29]

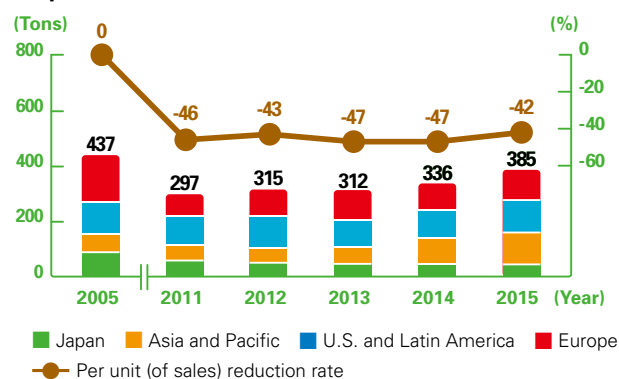
### Initiatives to prevent water pollution

Global

Kao operates and maintains wastewater treatment facilities at a high level at most plants. After properly treating the wastewater, it is discharged outside the plant. The quality of the discharged water is monitored for pollutants based on laws and regulations as well as agreements with nearby local governments.

The discharged volume of COD increased by 50 tons in 2015 compared with the previous year and deteriorated 5 percentage points on a per unit of sales reduction rate basis.

#### COD pollution load★



\* Boundary: All Kao Group production sites

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

\* Assurance provided for COD pollution loads.

➡ p. 42 Conservation > Measures for water resources conservation > Initiatives for discharged water after product use

### Surveys of groundwater and soil contamination

Japan

In light of its history of use of chemical substances, Kao voluntarily measures the levels of substances regulated by standards within the premises of each plant every year.

In 2015, investigations were conducted at Wakayama Plant, Sakata Plant, Tochigi Plant and Odawara Office, and it was confirmed that levels of all substances were below their

regulatory limit values across all test items.

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

### Compliance with environmental laws and regulations

Global

Kao operates and maintains facilities and work procedures at a high level to ensure compliance with various environmental laws and regulations, whose standards grow increasingly strict each year.

While not a major leak, wastewater at a level slightly exceeding regulations was discharged at Kao USA in 2015 due to improper work procedures.

#### Compliance status with environmental laws and regulations

	Number of deviations*1	Of which, leaks	Total fines*2 (¥1,000)	Of which, leaks (¥1,000)
2013	3	0	0	0
2014	3	1	86	0
2015	1	0	0	0

\*1 All incidents detected by authorities during the reporting period

\*2 Fines paid during the reporting period

# Environmentally-conscious containers and packaging [EN1]

Containers and packaging serve an important role and function as part of our products, protecting contents and preserving quality during transport and providing a wide range of information to consumers using the products. As part of our “eco together” activities, we are promoting environmentally conscious containers and packaging.

## 2015 activities

Aiming for containers and packaging with little environmental impact, Kao has reduced the cardboard used in refill packaging for products including *Wide Haiter* and *Bath Magiclean*. Bio-polyethylene was adopted in *Merit Shampoo* and *Conditioner* bottles, and new refill packaging for highly viscous products were developed and introduced that are both more user-friendly and environmentally friendly.

## Policies/structures

At Kao, we are working to reduce the environmental impact imposed by containers and packaging by promoting product development technology from the perspective of the 4R's: Reduce, Renewable, Reuse, and Recycle.

In terms of “Reduce,” we welcome even minor successes in lightening product weight, making bottle walls thinner, concentrating products to make them more compact, and downsizing products, all with the aim of reducing the volume of packaging materials used.

Our “Renewable” initiatives include converting from

petroleum-based resins to renewable, plant-based raw materials such as polyactide and bio-polyethylene.

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

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

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

## Reducing container and packaging materials

Japan

Reducing container and packaging materials not only reduces environmental impact, but also leads to cost reductions. In an example from 2015, we reduced CO<sub>2</sub> emissions by about 780 tons by reducing the amount of cardboard used in refill packaging for products including *Wide Haiter* and *Bath Magiclean*. In all of 2015, there were 39 such instances in which reductions in container and packaging materials resulted in a reduction in environmental impact, leading in turn to an

about 2,400-ton reduction in CO<sub>2</sub> emissions per year and an annual drop in costs of about 250 million yen.

The amount of container and packaging materials used in 2015 decreased from 2014 despite increased sales volume. This is attributed to the increased sales volume of refill products.

### Volume of container and packaging materials used

(Unit:tons)

	2005	2011	2012	2013	2014	2015
Plastic	49,200	53,100	54,300	54,600	56,500	56,000
Paper	26,100	17,900	17,400	16,000	14,700	13,900
Cardboard	65,600	69,300	69,700	69,600	73,800	76,100
Others	3,800	2,000	1,900	4,300	3,900	2,400
Total	144,700	142,300	143,300	144,500	148,900	148,400
CO <sub>2</sub> emissions (1,000t/year)	293	336	343	327	335	339
Per unit (of sales) reduction rate	0%	19%	14%	16%	15%	16%

\*Boundary: Kao Corporation

## Environmentally-conscious containers and packaging [EN1]

### Topic

### Received 2015 WorldStar Award for environmental design of *Wide Haiter EX Power*

Due to the nature of the product, the container for *Wide Haiter EX Power* needs to be able to suppress bottle deformation caused by rises in internal pressure. The previous product bottle's design ensured mechanical strength by adjusting the bottle thickness. This award-winning bottle attains the same level of mechanical strength as the previous bottle but with a 13% reduction in resin volume. Simulations to calculate mechanical strength were used to achieve the design of seven indented ribs on the front and back of the bottle to suppress deformation. The horizontal ribs also fit the fingers when holding the bottle, which improves its universal design by preventing the bottle from slipping.

These attributes earned the bottle the WorldStar Award 2015 in the Household category. The WorldStar Awards have been presented every year since 1970 by the World Packaging Organisation (WPO), a major international federation in the packaging industry.



The horizontal ribs on the new bottle reduce resin use by 13% and make it easier to use as well

## Switching to renewable raw materials

Japan

In 2012, Kao began to convert from petroleum-based resins to plant-based raw materials that are renewable and have little environmental impact. Introducing plant-based materials into the *Merit Shampoo* refill packaging at this time involved switching 10% of the bottle by weight from petroleum-based polyethylene to bio-polyethylene. The bio-polyethylene is made from renewable ethanol obtained by fermenting the waste residue remaining after producing sugar from intentionally cultivated sugar cane. This plastic is attracting attention due to its low environmental impact, as the CO<sub>2</sub> emitted when the plastic is incinerated is deemed zero. Using this plastic in the *Merit Shampoo* refill packaging reduced the packaging's CO<sub>2</sub> emissions by about 12% over the previous product. We subsequently adopted bio-polyethylene in almost all other refill packaging for hair care products.

In the label for *Healthya Green Tea* 350ml bottles, we adopted a shrink film containing more than 50% polylactic acid (PLA) made from corn.

In 2015, we newly switched to using bio-polyethylene for 30% of the bottles for *Merit Shampoo* and *Conditioner* by weight. This can reduce the packaging's CO<sub>2</sub> emissions by about 23% over the previous products.

At Kao, we will continue switching packaging to renewable raw materials such as bio-polyethylene and polylactic acid.



*Merit Shampoo* and *Conditioner* bottles that switched to 30% bio-polyethylene by weight

## Environmentally-conscious containers and packaging [EN1]

### Promoting refill and replacement products

Japan

Since Kao introduced its first refill product in 1991, their number has continued to grow, and as of December 2015 had reached 243 products. Kao has also continued to make improvements in these refill products according to bottle size, the viscosity of the contents and so on to make refilling packaging easier for the consumer.

Since 1997, the ratio of refill products to unit sales has rapidly increased, and is currently at more than 80% (based on number of units). For example, the refill ratio for fabric softener and fabric bleach now stands at more than 90%. All of the refill and replacement products sold in 2015 represent a reduction in plastic use of more than 70,000 tons compared to if they had been packaged in original containers (products in plastic containers).

In 2015, we developed the new refill packaging, which is both environmentally friendly and easy to use. This new pack is used for refill packaging of highly viscous products such as shampoos and conditioners. Its film is about 18% thinner than existing products, and the pouring spout is made from about 50% bio-polyethylene.

Shaped like a bottle, the pack can hold the same volume as existing refill products but in a slimmer and more compact shape. This not only makes it easier to handle in transport and at stores, but also makes it easier to refill quickly without

wasting or spilling. From manufacturing to use and disposal, the new pack reduces CO<sub>2</sub> emissions generated in these processes by about 3%.

➡p. 29 Highlights: Community > *Monozukuri* from a Universal Design perspective



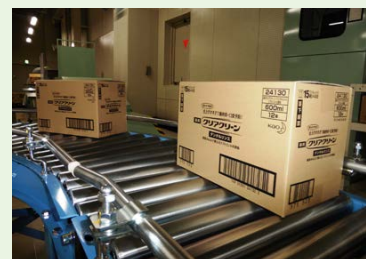
#### Topic

### Start of introduction of first FSC® certified cardboard in Japan

The Kao Group began to introduce FSC® certified cardboard for the first time in Japan in 2016. This certification is from the Forest Stewardship Council and given to paper and wood products that use forest resources from properly managed forests that incorporate considerations for conservation of rain forests and biodiversity.

Kao has incorporated FSC® certified paper as the backing paper for packaging with a thin film cover. However, about half of the paper and pulp that we purchase worldwide is used in cardboard. Including FSC® certified cardboard will greatly increase the environmental considerations of our business activities given the high volume of cardboard use.

The new FSC® certified cardboard is being introduced in stages starting in March 2016. At the end of 2016, we plan to use about 50% FSC® certified cardboard in the cardboard we use globally.



Initiative to use raw materials from forest sources with zero forest destruction



Example of FSC® certified logo

➡p. 50 Conservation > Measures for biodiversity conservation > Initiatives toward sustainable procurement of paper and pulp

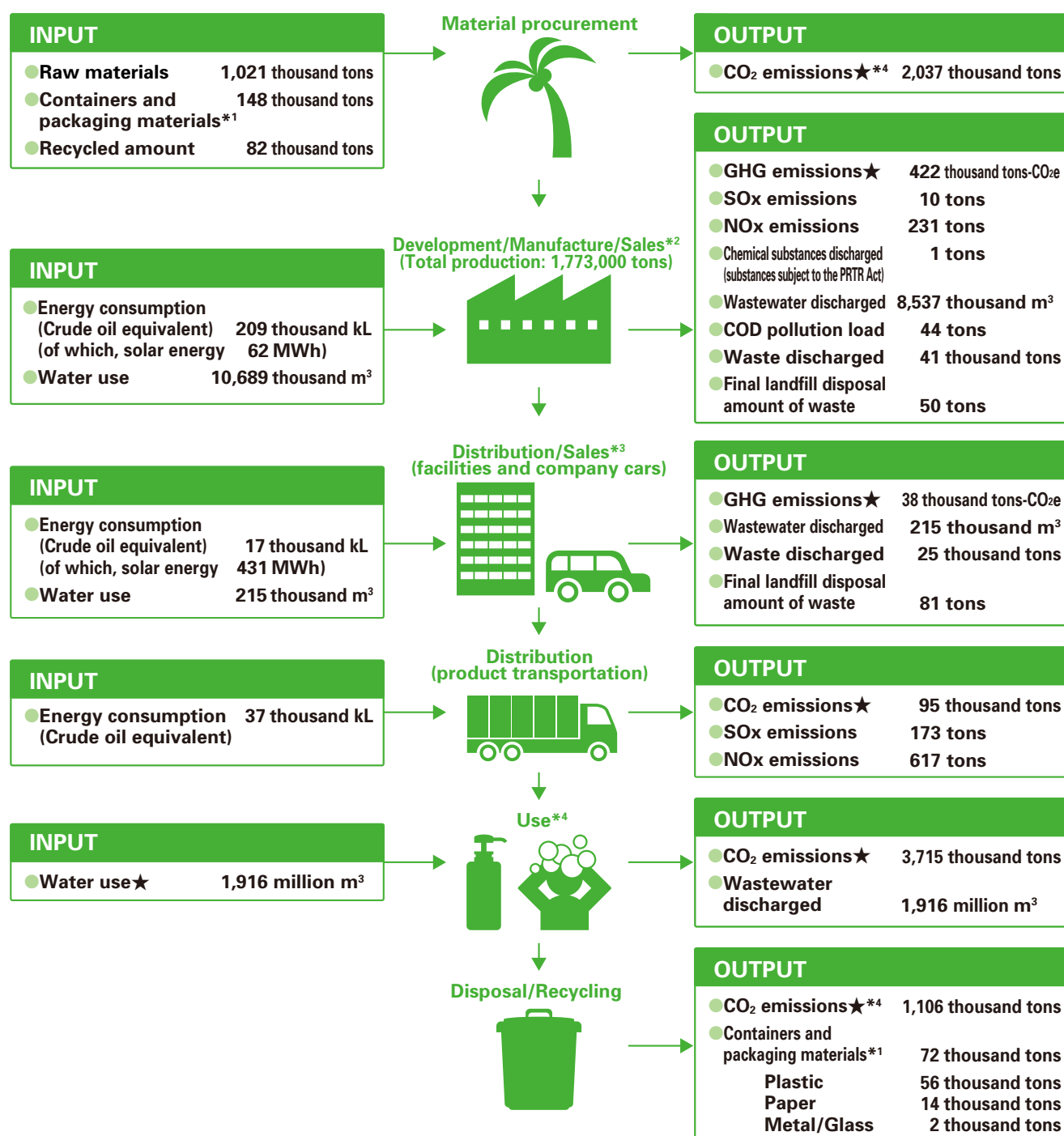


# Product lifecycle and environmental impact [EN1,EN2,EN3,EN17,EN30]

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

## 2015 business operations and environmental impact

Japan



Scope of Calculations

\*1 Figures for Kao Corporation

\*2 Figures for all production sites

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

\*4 Figures mainly for consumer products in Japan

## Product lifecycle and environmental impact [EN1,EN2,EN3,EN17,EN30]

### INPUT

- **Raw materials**  
The amount of raw materials directly used to manufacture products (excluding containers and packaging materials and fuel)
- **Containers and packaging materials**  
Total amount of containers and packaging used for products sold (including cardboard)
- **Recycled amount**  
Of the waste generated from manufacture and R&D activities, the amount that is recycled within Kao
- **Energy consumption (product development/manufacture)**  
Amount of energy consumed at production sites
- **Energy consumption (distribution/sales [facilities and company cars])**  
Amount of energy consumed at offices and other facilities and for vehicles (used for sales activities) in the distribution and sales divisions
- **Energy consumption (transportation [product transportation])**  
Amount of energy consumed during transportation of consumer products (from a plant to distribution base), industrial products, raw materials, etc.
- **Water use**  
Municipal water, underground water, rainwater consumed

### OUTPUT

- **GHG emissions**  
Amount of emissions of the seven GHGs covered by the Kyoto Protocol, generated from business activities, expressed in CO<sub>2</sub> equivalent
- **SOx emissions**  
Total amount of SOx emissions from smoke-and-soot-emitting facilities and transportation
- **NOx emissions**  
Total amount of NOx emissions from smoke-and-soot-emitting facilities and transportation
- **Chemical substances discharged**  
Amount of substances subject to the PRTR Act discharged into the air and public water
- **Wastewater discharged**  
Sum of the wastewater discharged from production sites, distribution and sales offices and that associated with the use of consumer products mainly sold in Japan
- **COD pollution load**  
Amount of COD pollution load in wastewater
- **Waste discharged and final disposal amount of waste**  
Amount of waste from production sites, distribution and sales offices, and other facilities that is sold or entrusted as waste or recyclable materials to waste treatment companies, and the amount of waste put for final disposal
- **CO<sub>2</sub> emissions**  
Emissions from manufacturing raw materials, consuming energy and those generated upon decomposition of ingredients
- **Containers and packaging materials**  
Total amount of containers and packaging materials (excluding cardboard) used for products sold

# Environmental accounting [EN31]

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

## 2015 environmental accounting report

Global

- ① The aggregation methods comply with the Japanese Ministry of the Environment's Environmental Accounting Guidelines 2005. Kao also refers to the Environmental Accounting Guidelines for Chemical Companies (November 2003) issued by the Japan Chemical Industry Association.
- ② The companies within the scope of accounting are the Kao Group in Japan and outside Japan.

- ③ See Product Lifecycle and Environmental Impacts for environmental conservation results (numerical results).

➔p.59 Conservation > Product lifecycle and environmental impact

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

(Unit: millions of yen)

Categories		Key activities	Inside Japan		Outside Japan	
			Investment	Cost*	Investment	Cost*
(1) Business area costs			2,058	4,120	446	1,469
Breakdown	①Pollution prevention	Air pollution prevention, water contamination prevention	913	1,690	94	683
	②Global environmental conservation	Energy conservation	886	467	325	210
	③Resource circulation	Resource conservation, waste processing and disposal	259	1,963	27	576
(2) Upstream/downstream costs		Plant and equipment for eco-conscious products, containers and packaging recycling	566	2,761	0	61
(3) Administration costs		Acquisition and maintenance of ISO certification, environmental publicity, tree planting within work sites	9	1,064	0	99
(4) R&D costs		Eco-conscious R&D	1,161	4,670	0	45
(5) Social activity costs		Natural environmental conservation and tree planting activities outside work sites, donations	0	118	0	2
(6) Environmental remediation costs			0	0	0	15
Total			3,794	12,733	446	1,691

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

(Unit: millions of yen)

Categories		Key activities	Inside Japan		Outside Japan	
			Investment	Cost*	Investment	Cost*
①Cost related to global warming measures		Energy conservation	886	467	325	196
②Cost related to ozone layer protection measures		Switch to alternatives to CFCs	0	0	0	14
③Cost related to air quality conservation measures		Prevention of air pollution, prevention of dust pollution, malodor prevention	747	645	33	230
④Cost related to noise and vibration measures		Noise prevention	0	1	1	17
⑤Cost related to environmental conservation measures for the aquatic, ground, and geologic environments		Prevention of water pollution	166	1,044	60	414
⑥Cost related waste and recycling measures		Resource conservation, industrial waste volume reduction, recycling	825	4,724	26	636
⑦Cost related to measures to reduce chemical risk and emissions		R&D on products and production	1,161	4,670	0	45
⑧Cost related to natural environmental conservation		Natural environmental conservation and tree planting activities outside plants, donations	0	117	1	50
⑨Other costs		Acquisition and maintenance of ISO certification, environmental publicity, tree planting activities within plant premises	9	1,065	0	89
Total			3,794	12,733	446	1,691

\* Cost includes depreciation costs.

## Environmental accounting [EN31]

### Economic effect associated with environmental conservation activities\*1

(Unit: millions of yen)

		Inside Japan	Outside Japan
Details of benefits		Amount	Amount
Revenue	Sales value of valuable resources and fixed assets	321	240
Cost reduction*2	Reduction in costs through energy conservation	259	139
	Reductions in cost through resource conservation	1,418	207
	Reduction in operation costs (maintenance costs, etc. of eco-conscious equipment)	126	60
Total		2,124	646

\*1 For economic effect, only amounts from selling valuable resources and fixed assets and the amount of cost reduction are recorded. So-called "deemed effects," or economic effects based on risk mitigation and other assumptions, are not recorded.

\*2 The amounts of cost reductions are recorded only for the relevant fiscal year for the annual reduction for items generated during that year. Cost reduction amounts to be generated over multiple years are not included.



# Environmental communication 【EC7】

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

## 2015 activities

Kao has continued to conduct a variety of activities both inside and outside Japan aimed at environmental conservation and raising environmental awareness in partnership with governments, NGOs and other groups at venues including plants, schools, and stores.

Water-saving initiatives conducted jointly with the Chinese government marked their fourth year. Kao conducted new initiatives this year, including awareness-raising activities at over 50 universities in China and a contest with the theme of saving water.

In the sixth year of the Kao International Environment Painting Contest for Children, a textbook to consider the environment based on the prize-winning works to date was published and is being used to raise environmental awareness among children and adults.

## Policies/structures

Along with Community and Culture, Kao has defined Conservation as one of the three key areas of the Kao Sustainability Statement, released in 2013. This makes clear Kao's corporate stance of aiming to make contributions to a sustainable society by conducting environmental activities in partnership with various stakeholders.

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

Aiming to contribute to a sustainable society, we believe that working together with our customers, business partners and the wider community is important to advance these initiatives. Among these initiatives, we actively publicize information on Kao's thoughts in relation to the environment and the features of our environmentally conscious products, based on the belief that it is vital for individual customers who use Kao products to take part in easy-to-do "eco together" activities in their daily lives. As part of this, we also conduct ongoing communication activities with all of our stakeholders to proactively provide information in a range of venues.

## Exchanges with local communities through Environmental and Safety Reports

Global

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

In 2015, seven Kao plants in Japan and the two companies of Kao Specialties Americas and Kao (Spain) produced Environmental and Safety Reports, which were distributed to local residents and plant tour participants.



Environmental and Safety Reports issued by Kao Group companies and plants

## Environmental communication [EC7]

### Kao Eco-Lab Museum displays information on the global environment and Kao eco-technologies

Japan

The Kao Eco-Lab Museum opened in 2011 on the first floor of the Eco-Technology Research Center in Wakayama as a base to communicate information about “eco together” and eco-technologies in an experiential format. The museum saw total visitors reach the 60,000 mark at the end of 2015.

The museum introduces what is happening to the global environment, how eco-products are created, and what are scientific ways to be more eco-friendly at home.

The museum has also prepared an educational program to use after experiential learning during social science field trips, in which about 70% of elementary school students in Wakayama City participate each year.

On October 6, 2015, Their Imperial Highness Prince and Princess Akishino visited the Kao Eco-Lab Museum. President Sawada and staff introduced Kao's business activities that include considerations for the regional ecosystem as well as environmental conservation activities through partnerships with outside groups.



Their Imperial Highness Prince and Princess Akishino listening to President Sawada

### Water conservation campaign in cooperation with the Chinese government

Outside Japan

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 the Center for Environmental Education and Communications (CEEC), part of the State Environmental Protection Administration (SEPA) of China, since 2012. These initiatives encourage people to “Save 10,000 liters of water annually per household” in China with events held in Beijing, Shanghai, Guangzhou, Chengdu and elsewhere. A total of more than 200,000 people have participated in the events in the three years through 2014.

Kao actively encourages employees' participation in these events while communicating the importance of saving water

and ways to save water at home.

The campaign kicked off its fourth year of activities in 2015 with an opening event in Beijing on March 20. Along with a new initiative to raise awareness for saving water at over 50 universities in China, the campaign also held a contest with the theme of saving water. In May, an exhibition and awards ceremony were held in Shanghai for the main works by participating universities.

With cooperation from the Chinese government, Kao (China) will continue pursuing environmental activities that can be done together with university students and customers, who will inherit the future.



Awareness raising for saving water at universities in China



Kao (China) employees also participate in events and communicate the importance of saving water

## Environmental communication [EC7]

### Topic

### Kao endorses Cool Choice promoted by the Japanese government

In March 2016, Kao endorsed Cool Choice, a new citizen campaign designed to prevent global warming.

Cool Choice was decided at the 29<sup>th</sup> meeting of the Japanese government's Global Warming Prevention Headquarters. It is a national campaign with the goal of reducing greenhouse gas emissions by 26% in FY 2030 over FY 2013. With the cooperation of the national government, industry, labor groups, local governments, NPOs and others, the campaign encourages citizens to make "cool choices" in their daily activities, including choosing Japan's environmentally friendly and low-carbon products and services that are renowned worldwide, and in taking environmentally conscious actions.

Based on the 2009 Kao Environmental Statement and the 2013 Kao Sustainability Statement, we also aim to contribute to a sustainable society through awareness-raising activities done in cooperation with the Cool Choice campaign.

➡Cool Choice website:  
<https://funtoshare.env.go.jp/coolchoice/index.html> (Japanese)



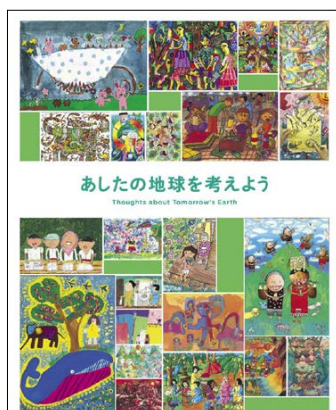
## Environmental awareness raising through the Kao International Environment Painting Contest for Children

Global

Kao has been holding the Kao International Environment Painting Contest for Children since 2010 with the theme of "eco together" and the wish that children, who will be playing the leading role in society in the future, think seriously about the environment around them and take action to conserve it. Through 2015, we have received more than 45,000 works from a total of 71 countries and regions.

### Publishing the environment textbook "Thoughts about Tomorrow's Earth"

In 2015, the sixth year of the contest, we published the environment textbook "Thoughts about Tomorrow's Earth" based on the prize-winning works. In the textbook, paintings done by children around the world are grouped by themes including Water, Forests and Trees, and Energy. The textbook is designed to raise the environmental awareness of children and citizens by having them think about how each environmental theme is connected to the others and learn about environmental problems.



Environment textbook: "Thoughts about Tomorrow's Earth"

### Sixth Kao International Environment Painting Contest for Children

In 2015, Kao Group companies invited elementary and junior high school children to submit paintings, with entries received from school children in 37 countries and regions worldwide. Entries far exceeded the number from the previous year to reach a total of 12,456 (2,450 from Japan, and 10,006 from outside Japan).

During the Eco-Products 2015 Exhibition in December, seven contest winners were invited to the awards ceremony at the Kao booth, and prize-winning works were displayed there. Thatchaphon Kaeokamkong represented the winners by giving a speech on "The Blessings, Happiness and Value Trees Give to People" that his winning work expressed.

To enable as many people as possible to see the prize-winning works, they are being displayed at Kao offices and plants and at environmental events, and along the route of our plant tours.

➡For details, refer to "Prize-winning works for the sixth Kao International Environment Painting Contest for Children, along with the entry screening and awards presentation ceremony"  
[http://www.kao.com/jp/en/corp\\_csr/eco\\_activities\\_04\\_08.html](http://www.kao.com/jp/en/corp_csr/eco_activities_04_08.html)



Winners posed with Mr. Masuda, chairman of the judging committee (right), and Kao President Sawada (left)



## Environmental communication [EC7]

### Topic

### "Eco Together" – Planet Earth Grand Prix: Thoughts and wishes from the award winner Thatchaphon Kaeokamkong

Tree is a natural heritage, which is magnificent and diverse in its own right. It is a natural representative of growth and prosperity. Tree is a tremendously valuable resource for all. It is a resource of abundant food, ecological system, medicinal herbs, and habitat for wildlife. Tree also purifies air and decreases the wash down of soil. With its verdant color, tree can be a place for recreation. When tree is destroyed, it is extremely difficult to restore. Therefore, we should take care of the tree and the forest as best as we can so that tree will be with us forever.



"Wealth of Nature"  
Painting by Thatchaphon Kaeokamkong  
(11 years old, Thailand)

## Community exchanges through the Kao International Environment Painting Contest for Children

Outside Japan

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

At PT Kao Indonesia, various exchanges with regional elementary and junior high schools and a very active campaign for entries led to an overwhelming 4,228 entries being received. On February 20, 2016, Kao Indonesia held an awards ceremony in Jakarta, both to express gratitude to the children who put their thoughts about the environment into their paintings, and to ask that they continue practicing environmental conservation in their everyday lives.



Contest winners in Indonesia



PT Kao Indonesia president with a contest winner



## Environmental communication [EC7]

### Topic

### Parent and Child Eco Workshop creates opportunities to think about eco activities in daily life

The Kao Eco-Lab Museum in the Wakayama Plant held the Parent and Child Eco Workshop on August 25, 2015, for 42 elementary school students and their parents and guardians. The workshop was designed to introduce how familiar Kao products are made based on environmental considerations, and to create opportunities to think about eco actions in everyday life.

After an explanation of the environmental consideration put into making Kao products, participants heard from Professor Fumikazu Masuda, chair of the judging committee for the Kao International Environment Painting Contest for Children, about the eco actions of children around the world in the context of their own communities and cultures using the environment textbook "Thoughts about Tomorrow's Earth."

Lunch during the workshop used ingredients sourced locally in Wakayama and included carrot peel and other food parts that are often thrown away to show ways to be environmentally friendly by reducing food waste and eating locally grown foods.

Next, participants made crafts in the afternoon using Kao containers such as detergent bottles. Kao's containers can be used again and again, and the workshop used the theme of finding yet another use for the containers before ultimately throwing them away. Among the unique and interesting crafts were pencil holders made from *Ultra Attack Neo* detergent bottles.

The workshop offered a meaningful opportunity to think about eco actions from a variety of angles together with elementary school students and their parents and guardians, environmental experts, and Kao employees.



Children listening to how detergent is made from palm oil



A student making a craft with help from her mother

## Introducing eco as part of daily life at the Eco-Products Exhibition

Japan

The Eco-Products Exhibition is one of the largest environmental fairs in Japan. Kao has exhibited at the fair since 2008, conducting various activities to introduce Kao's thoughts on the environment and eco activities possible in daily life using Kao's leading products.

More than 14,000 people visited the Kao booth during the three days of the fair in December 2015.

Kao's theme for this edition was "For a Beautiful Tomorrow." In the exhibit corner, Kao introduced its new eco-friendly products and packaging efforts including recycling research on refill packaging. Chemical products that are beneficial to our lives were also introduced, such as Visco Top, a cement additive that is designed to be gentle on water environments.

At the participatory stage set up in the booth, visitors were able to experience the function of surfactants, dish-washing techniques, eco-friendly and effective hair-washing techniques, the features of refill products and refill methods, and the function of agents for de-inking, which is an important process in paper recycling.



Kao's booth introducing various initiatives

# Product quality management 【PR1】

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

## 2015 activities

A new test method for eye irritation developed by Kao was approved as one of the OECD Test Guidelines for an alternative animal testing in the safety evaluation procedures.

In addition, through effective utilization of Global ECHO, a system for the integrated management of the voices of consumers and customers, we have realized a higher level of collaboration among relevant divisions globally.

## Policies/structures

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

➔For details, refer to Basic Policy for Quality Management Activities  
[http://www.kao.com/jp/en/corp\\_csr/safety\\_00.html](http://www.kao.com/jp/en/corp_csr/safety_00.html)

### Basic Policy for Quality Management Activities

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

Kao has established the Quality Management Committee to assess the reliability and validity of the corporate quality management system. The Quality Management Committee forms part of Kao's Internal Control Committee; its chair is the Executive Officer responsible for Product Quality Management Division, while committee members represent the business, consumer care, research & development, supply chain management, procurement, and other related divisions, their function on the committee being to set corporate-wide goals and policies concerning quality management.

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

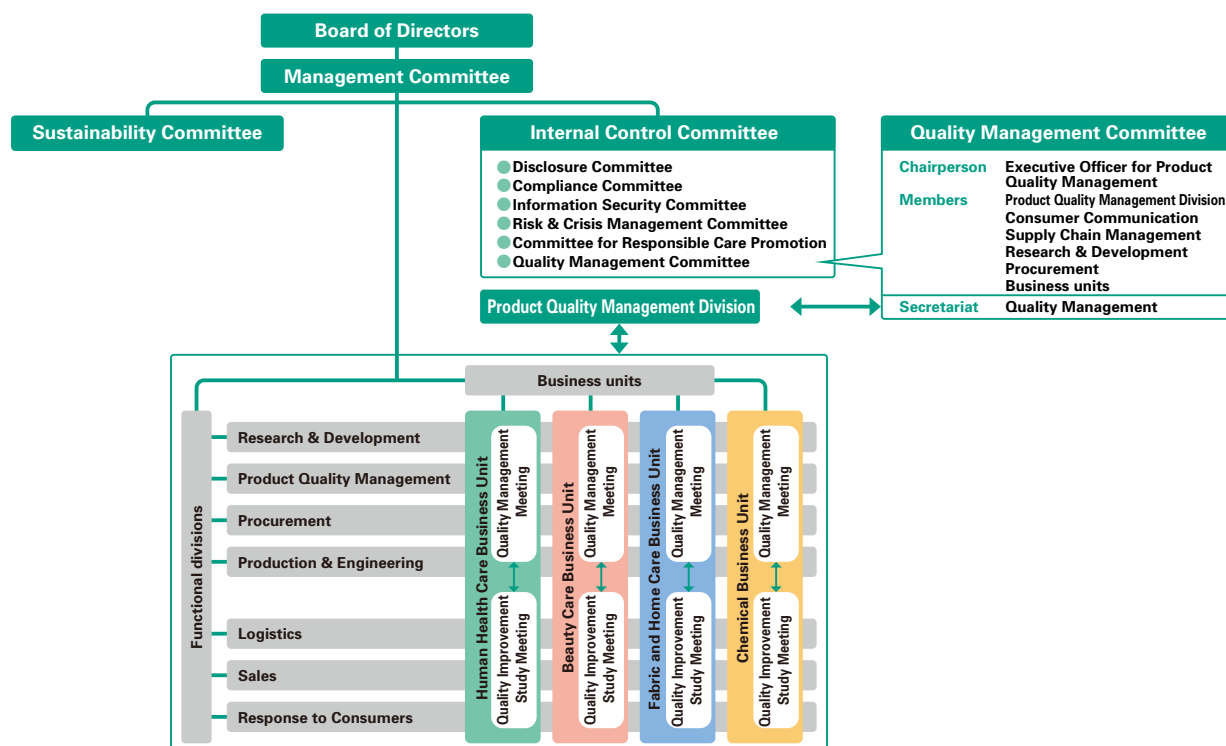
Each month, the respective business units also sponsor Quality Improvement Study Meetings to assess quality issues with new and improved products prior to the launch.

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

Kao strives daily to achieve *Yoki-Monozukuri*, but unforeseen problems and accidents can potentially affect product quality. Information from customers, external organizations, and distribution sources is accumulated at Consumer Communication, which, in the event of any potentially serious or critical situations (from the consumer perspective), delivers a report to Product Quality Management Division. The division has its own system in place for responding to critical or serious quality issues, through which it performs its own quick assessment of the potential for hazard or escalation of the problem, informing top management and related internal divisions of any emergencies and/or serious quality issues. Further, in order to fulfill its social, quality management, and disclosure responsibilities as a manufacturer, Kao strives to establish a close relationship not only with related in-house divisions, but also with government, related agencies, and distribution sources.

## Product quality management [PR1]

### Product quality management system



## Company-wide quality management initiatives

Global

Kao's Basic Policy for Quality Management Activities was established based on our consumer-driven principle that consumers/customers decide on the quality of the products, and Product Quality Management Division supervises our product quality management system. We have established strict policies governing every stage of a product, from raw materials procurement through to product development, production, distribution, and sales and usage by consumers, to storage and disposal, promoting product quality management across the product lifecycle.

In 2015, as Kao worked towards the realization of the Kao Group Mid-term Plan 2015 (K15) and towards the next stage in the Kao Group's development, Kao promoted quality management activities while also aiming to utilize assets with maximum efficiency and expand the global scope of the group's operations.

Product Quality Management Division implemented pre-launch safety and quality verification and post-launch follow-up in relation to the launch of Kao's new *SOFINA iP* brand, the creation of which represents a revolutionary step forward in Kao's cosmetics business. Particularly with regard to the introduction of the new *SOFINA drink* (the brand's first beauty drink product), Product Quality Management Division has made effective use of the resources available to it, adopting a quality management system based on the system previously used with *Healthya* brand to ensure that safety and high quality standards are maintained at every stage from the raw materials through to the finished product.

Also, Kao has implemented a new initiative targeting the steadily rising number of inbound tourists visiting Japan (reflecting the globalization of our business), promoting the inclusion of English-language product category information on Kao products alongside the Japanese-language information. With respect to products that have large numbers of Chinese purchasers, information regarding products' special features, claims, all ingredients, instructions for use, and precautions is being made available on the Kao website in Chinese (using Simplified Characters).



Kao's new *SOFINA iP* brand



花王株式会社  
〒103-8210  
東京都中央区日本橋茅場町1-14-10  
\*めぐリズムは花王の商標です。  
Steam Eye Mask Made in Japan

English-language product category information on the package for international tourists visiting Japan

## Product quality management [PR1]

### Safety assessment and management

Japan

Striving for the wholehearted satisfaction and enrichment of the lives of people, Kao uses cutting-edge technology to create high product value. In realizing that value, we consider ensuring the safety of all of our products as our primary social responsibility. To ensure that its consumers can feel confident in using its products, in April 2014 Kao Group reevaluated its safety standards, establishing a new and even more extensive set of safety standards which have since been made available not only internally but also on the Kao Group website.

- ➡ For details, refer to Consumer Product Safety Standards  
[http://www.kao.com/jp/corp\\_csr/safety\\_06.html](http://www.kao.com/jp/corp_csr/safety_06.html) (Japanese)
- ➡ For details, refer to Cosmetics Safety Standards  
[http://www.kao.com/jp/corp\\_csr/safety\\_03.html](http://www.kao.com/jp/corp_csr/safety_03.html) (Japanese)

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

Furthermore, we will take responsibility for verifying the

ingredients, features, directions for use, warning labels, and advertisement wording to ensure that products can be used safely. Whenever products feature new uses or significant improvements, Product Quality Management, Consumer Communication, and Research & Development including safety and other related divisions liaise to evaluate not only how consumers actually select and use our products, but also to perform evaluation in terms of environment, lifestyle practices, national origin, ethnicity and other social science perspectives.

Once products are on the market, Kao works to deal sincerely with, and thoroughly investigate and respond promptly to consumer feedback. With regard to post-launch safety management, Kao continuously conducts ongoing, detailed checks of product safety and works with a network of medical personnel, government agencies, and other parties to manage safety.

Regarding the revised adverse reaction reporting system for quasi-drugs and cosmetics that was introduced starting from April 1, 2014, Kao group is taking appropriate measures to maintain and improve the post-launch product safety management system.

### Evaluating the safety of alternatives to animal testing

Global

Moves to eliminate animal testing are now global. Kao and Kanebo Cosmetics support this approach, and since the late 1980s have been proactively working to explore technologies that provide alternatives to animal testing, and to adopt such technologies.

In July 2015, a new test method, a cell-based short time exposure (STE) eye irritation test that was independently developed by Kao as an alternative to animal testing, was approved as OECD Test Guideline 491. In the future, this type of STE test can be used in REACH applications in Europe and for evaluation of eye irritation during cosmetics product development; it can be anticipated that the test should make a positive contribution towards reducing animal testing on a global level.

With regard to alternative skin sensitization testing methods, as of December 2015 the human Cell Line Activation Test (h-CLAT) jointly developed by Kao and Shiseido Co., Ltd. was undergoing final international review with the aim of having the new technology incorporated into the OECD Test Guidelines. Kao has also developed EpiSensa, an alternative skin sensitization testing method that uses a cultured human skin model, and which permits testing of poorly water-soluble substances that existing

testing methods are not suitable for; the reproducibility of the research results has already been confirmed at multiple research facilities. Kao has also participated in discussion meetings organized by Japan's Ministry of Health, Labour and Welfare (MHLW) regarding alternative testing method guidance in relation to safety testing methods for quasi drugs; additionally, Kao is also participating—and maintaining a key role—in a project exploring alternatives to animal testing being pursued by Cosmetics Europe.\*

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

\* Cosmetics Europe (The European Cosmetic Toiletry and Perfumery Association)  
 An association of the European cosmetics industry. Established 1962.  
 Members include over 16 corporations and organizations from over 25 nations.

### Consumer-driven quality management activities

Global

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

- ➡ For details, refer to p.79 Community > Communication with consumers

The utilization of the Global ECHO system is helping to further strengthen linkages between related divisions. Despite the fact that business has been growing, the total number of complaints received from consumers and customers in 2015 was lower than in 2014 for both the Consumer Products Business and the Chemical Business.

In the Chemical Business, activities to enhance quality have been put on a more systematic basis, with the SCM department playing a key role, supporting by the Asia Quality Leaders Meeting, etc. Besides leading to a decrease in customer complaints, the results obtained in these activities have also made a positive contribution to human capital cultivation at Kao's business locations.



## Product quality management [PR1]

### Conducting quality management audits/self-checks

Global

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

Kao Group companies in Japan as well as in Asia, Europe and Americas also underwent audits by certification bodies for the ISO9001 and GMP standard, maintaining their certification, and conducted audit and product quality meetings with internal and external auditors, contract manufacturers and suppliers of raw and packaging materials.

In addition, the quality management audit and self-check systems have been strengthened, new auditing items have been established, and quality audit promotion meetings have been launched to drive audit activities forward. Quality audit promotion meetings are attended not only by representatives of the Product Quality Management Division, but also by representatives of other departments; these meetings are helping to promote the adoption of effective PDCA processes in the Kao Group's quality auditing activities.

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

Japan

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

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

Products in the *Healthya* series, which are designated Foods for Specified Health Uses, are checked for radioactivity in line with management standards adhering to new values indicated by the Food Sanitation Act.

In regard to *Econa* cooking oil, assessment of *Econa*'s impact on human health was carried out by a working group of the Food Safety Commission of Japan, and compilation of the assessment report was completed in March 2015. In response to the assessment results, Kao has updated its "Report on Econa Cooking Oil." More detailed information can be found at this link:

- ➡ Report on Econa Cooking Oil  
<http://www.kao.co.jp/econa> (Japanese)
- ➡ Report by Kao: Key Measures and Communication Activities Implemented in Regard to the Verification of the Safety of Econa Cooking Oil  
<http://www.kao.co.jp/econa/151209.pdf> (Japanese)

\*1 Traceability  
Verifying the origin, use, manufacturing history, and location of products and raw materials using records.

\*2 Original materials  
Primary agriculture, livestock, and fishery products. For example, soybeans are an original material of cooking oil.

### Disclosing information on country of origin and allergenic substances

Japan

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

Country of origin information etc. regarding the new *SOFINA iP* brand beauty drink launched in 2015 can be found on the Kao website.

# Universal Design

While promoting the development of “User-friendly products” that are easy and straightforward to use for as many people as possible, we also aim to contribute to “Social inclusion” through our products, fostering the relationships between individuals, and between individuals and society. Kao also aims for barrier-free access to information, meeting the diverse needs of consumers everywhere.

## 2015 activities

In 2015, Kao introduced a dedicated Sign Language Communication Window for hearing-impaired customers. We have also been using the ideas developed from customer feedback and from employee participation in Workshops for Promoting Empathy with Elderly People to make improvements to product containers and labeling.

## Policies/structures

With “Consumer Driven” the foundation of its *Yoki-Monozukuri*, Kao has consistently expanded business based not only on the superior fundamental performance characteristics of its products, but also on providing products that are “straightforward and easy for everyone to use.”

Recently, changes in demographic composition and lifestyles, such as an aging society and more men participating in housework and childrearing, are making the consumer target markets for Kao’s daily necessities and consumer goods more diverse. Reflecting this situation, our aim is for its products to be used by people in all age groups (from babies to senior citizens) in their daily lives, so that we can contribute to “Social inclusion,” playing a useful role in fostering the relationships between individuals, and between individuals and society.

*Monozukuri* (good workmanship) that takes into account people’s lifestyles and attitudes, and which instills products and services with consideration and care for the users, is at the heart of the Kao’s Guidelines of Universal Design (UD) approach: “User-friendly products,” “Creating joy through

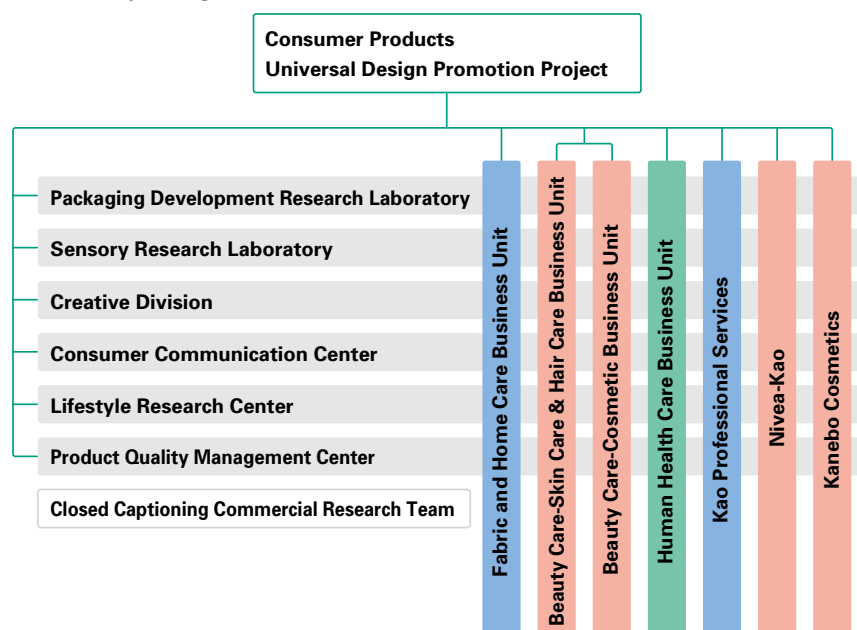
products,” and “Social inclusion.”

Ensuring fuller corporate sharing and diffusion of the Kao approach to UD among all Kao Group employees is very important from the perspective of Kao’s global business expansion, which involves providing products to people with different values and cultures.

To this end, within the framework provided by Kao’s Guidelines of Universal Design, the Universal Design Promotion Project (whose members comprise managers from related divisions across the company) plays a central role, with divisions sharing information about needs and comments expressed by Kao customers, and implementing various initiatives in response to these issues from a UD perspective on an ongoing basis.

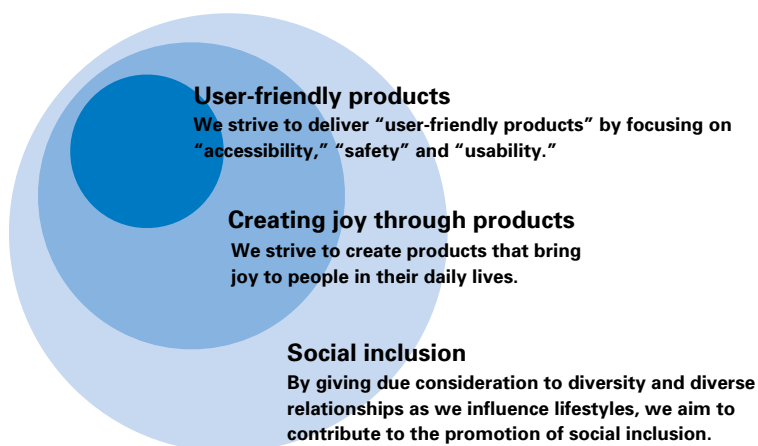
➡p.9 Non-financial highlights > Products improved with UD considerations and implementation rate (cumulative, consumer products in Japan)

## Universal Design Promotion Project organization



## Universal Design

### Kao's Guidelines of Universal Design

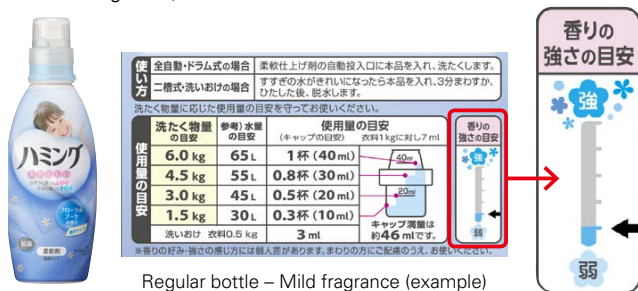


## Examples of product improvements reflecting consumer feedback

Japan

### Case Study 1—Displaying fragrance strength gradations in fabric softener labeling

Over the last few years, particularly among younger consumers, fabric softener has come to be used not only for softening clothes, towels, etc., but also for making clothes smell nice. However, different consumers have different preferences as to how strong the fragrance that fabric softener leaves on washing should be, and as a result Kao has received many comments from consumers to the effect that “It would be nice to know how strong the fragrance is before buying the product,” “It did have ‘Strong fragrance’ written on it, but the warning wasn’t very noticeable,” and “I’ve been trying to find a softener with a milder fragrance, but I haven’t been able to find one.”



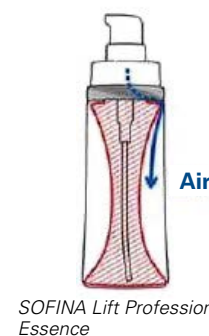
Kao tries to provide a comprehensive line-up of products with varying degrees of fragrance. In the past, the indication as to the strength of the product’s fragrance was noted on the Kao website, and also the words “Strong fragrance” were displayed on the back of both the regular bottles and the refill packaging of the fabric softener. Starting with the *Humming* brand that Kao launched in March 2015, a “Fragrance Strength Indicator” has been displayed on the back of both the regular bottles and the refill packaging, with the fragrance strength graded into one of five levels, in order to make it easier for consumers to choose the type of product they want in retail stores.



### Case Study 2— Emulsion-type cosmetics that can be used up right to the last drop

Responding to consumers’ comments such as “With expensive cosmetics products, I want to be able to use every last drop” and “The emulsion tends to have high viscosity, so you can’t use all of it up, which seems a waste,” for the new *ALBLANC Medicated Emulsion* and *SOFINA Lift Professional Essence* that were launched in 2015, Kao adopted a new type of container that is easy to use and reduces the quantity of product that gets left in the container.

The container has an inner pouch which shrinks and pushes up the product as the remaining amount decreases, so that even emulsion-type essence of high viscosity can be used up. Kao has also adopted a new mechanism for the refill packaging, so that the pump portion of the container can be set easily. To facilitate the setting process, different colors are used for the inner and outer containers, to make it easier for users to distinguish between them.



The new easy-to-set container that allows every last drop of product to be pumped out

## Universal Design

### Case Study 3—Foaming Type Shampoo for kids

Kao has launched a new type of shampoo that produces foam, making it easy for even young children to wash their hair on their own. Children as young as 2 or 3 years old are actually capable of starting to learn how to wash their own hair. However, many parents and guardians worry that if they let the child do it on their own, only the outer surface of the child's hair may get washed, or the child may not rinse the shampoo off properly.

*Merit Foaming Type Shampoo for Kids* uses a pump that is easy for children to press. Shampoo foam flows out smoothly, so that the whole of the child's head gets washed properly, getting rid of dirt and sweaty odors. The foam also dissipates smoothly, so that the hair can be rinsed off easily and quickly. The refill packaging has also been carefully designed to avoid confusion with existing *Merit Shampoo* products.



Highlighting the fact that this is a refill packaging for foaming shampoo

Showing what the regular container looks like

### Case Study 4—Adult diapers with enhanced “design” feel, including a wider range of colors and decorative patterns

Adult diapers tend to have a plain white design. Kao has received a variety of requests from adult diaper users and their family members such as “Because they are white, you can’t help being reminded of the fact that they are diapers, which is depressing; it would be good if they could be made in different colors, with different decorative designs,” and “If they came in decorative patterns I would feel happier about wearing them outside the house.”

Responding to these suggestions, since 2014 Kao has launched a series of limited-run “designer” adult diapers. These feature bright colors, and feel more natural to wear because they look more like underwear. Many customers have reported feeling more positive about wearing adult diapers as a result, commenting that “Having a decorative pattern on them makes you feel more natural wearing them,” and “I’m 70 years old, but I enjoy wearing them because of the attractive floral-printed design. I feel relaxed wearing them too.” Consumers have also commented that “I wish you would start to manufacture them as a regular product rather than just as a limited-edition product,” and “It would be good if you start selling them with larger quantities per package.”

Kao’s *Relief Super Slim Pants* (adult diapers) look just like regular underwear (Limited-edition design)

“Designer” models launched in April 2015



“Designer” models launched in October 2015





## Universal Design

### Realizing the *Yoki-Monozukuri* spirit through Workshops for Promoting Empathy with Elderly People

Japan

Kao holds Workshops for Promoting Empathy with Elderly People to develop a better sense of how senior citizens actually live and get a new perspective on how improvements could be made, with the aim of realizing continuous improvement based on a Universal Design (UD) approach.

For each of these workshops, a rental studio based in a single-family home is used, and a dozen or so Kao employees make use of equipment that provides a virtual experience of being a person requiring Level 1 Nursing Care,\* experiencing what it is like for such people to perform housework and other daily living activities, etc.

By performing home living activities over a period of half a day, Kao employees are able to develop a better understanding of what it is like being a senior citizen, including the physical constraints; by actually using the products, participants are able to notice issues of usability and accessibility that would not necessarily be picked up when examining the products in isolation.

In 2015, 11 workshops were held, with a total of 114 Kao employees taking part. In addition, two in-store workshops were held using actual retail outlets, with 27 Kao employees participating. In the future, Kao will continue to make improvements from a UD perspective in relation to dissemination of information about products, product purchasing, product use, and product disposal.

**\* Level 1 Nursing Care**

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

### Examples of improvements made to containers and labeling applying what was learned at the workshops

#### ORIENA Medical Aging Care series



All items in this series have an easy-to-grip "lemon" shape, so that they don't require much strength to open



Illustrations and graphics are carefully chosen to make the instructions on the outer box easy to understand

#### TWANY Glow Line



The oval-shaped cap can be closed with just a slight turning motion

The container has an easily-gripped shape, and has a textured surface to prevent slipping

The product packaging shows the product name in large, clear letters

## Universal Design

### Providing information to the visually impaired

Japan

#### Providing voice-based information

Kao offers information for everyday life in Home Life, a voice-based magazine published by the Japan Braille Library for its over 6,600 members. The three issues of Home Life that were published in 2015 (the February, May and September issues) provided useful lifestyle information based on Kao's know-how and insight. The February issue included segments on body fat, lifestyle ideas relating to eco-friendly products and saving, anti-pollen methods, etc.; the May issue covered strategies for protecting yourself from UV radiation, and maintenance of bedding; the September issue included articles on dealing with the odor resulting from mild incontinence and sweat, tips for washing summer clothing and space-saving storage solutions.

The recorded information provided in Home Life is narrated by Kao employees.



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

#### Braille tools for product differentiation

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

For household products, we have stickers such as "BODY SOAP" to "SHAMPOO," "CONDITIONER," "MAKEUP REMOVER," and "TOOTHPASTE" to help people distinguish between different products, and stickers such as "CHLORINE-BASED" to clarify product functionality, which help to prevent mistakes when using these products. For cosmetics, we also have Braille stickers which can be used by product types, usage conditions, as well as target problem area, color of lipsticks and other makeup, and additional characteristics.

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



Braille labels for use on household products

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

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



Information showing the quantity of Kao EMAL laundry detergent to be used, optimized for text-to-speech software

## Universal Design

### Topic

### Making effective use of visually impaired people's suggestions to improve Kao products

In June 2015, at the request of disabled people's associations in Hiroshima City, the hair care business group, R&D Division, and consumer communication centers of Kao Corporation and Kao Customer Marketing Co., Ltd. collaborated on the implementation of a hair care seminar for the visually impaired. Making use of demonstrations in which participants could touch and listen to things for themselves, and also using information provided in Braille format, the seminar was attended by 32 people, including 5 people working as guides for the visually impaired.

In a demonstration of a type of shampoo that minimizes friction damage caused by the hair getting tangled up, participants were able to check how smooth hair feels to the touch even during shampooing which is the most severe environment for hair. In another demonstration, participants had their own hair fixed in place in a paper cup so that they could rub it with their own fingers and evaluate how much damage the hairs had suffered. Whenever a scraping sound was heard, it provoked peals of laughter.

Because the visually impaired have few opportunities to try new products out by themselves, an explanation was provided of Kao's UD strategy and some recommendations were offered as to suitable products. During the exchange of views, a number of suggestions were received which will help Kao to make improvements from a UD perspective, for example: "Is there some way to distinguish shampoo and conditioner refill packaging?"

Responding to those suggestions, the refill packaging for Kao's *Essential Shampoo* that was launched in 2016 has had a notch added to the cap to facilitate recognition by touch. In the future, Kao will be making a proactive effort to take into account consumers' suggestions as expressed at events such as this, so that we can further improve our products.



Checking how smooth hair feels to the touch after shampooing

## Closed captioning television commercial

Japan

With the aging of the population, Japan is estimated to now have around 14 million hearing-impaired people (representing about 11.3% of the total population). As hearing tends to deteriorate with age, these figures can be expected to rise still further in the future.

Although digitalization has enabled closed captioning of most television programs, efforts to provide closed captions for commercials have proceeded more slowly. Closed captioning not only provides hearing-impaired viewers with information about products, it also enables them to share common topics with friends and family, keep up to date with the latest trends, and strengthen ties with society.

Kao has promoted the airing of closed captioning commercials in regular broadcasts since 2011. We have surveyed the hearing-impaired and their families, along with related organizations, incorporating their feedback into our research on ways to make closed captioning more effective at transmitting information; to date, around 900 commercials with closed captioning have been produced. We have shared the

results and findings we have gained through these activities with government agencies, related organizations and other companies, and are working to help ensure that closed captioning commercials become more widely adopted.

In 2014, a "Closed Captioning Commercial Promotion Council" was established by a group of government agencies and related organizations, and began preparations for fully-fledged commercial broadcasting of closed captioning commercials in Japan.

Kao's efforts in this area have received public recognition with the 64<sup>th</sup> "Radio Day" Minister of Internal Affairs and Communications Award and with the presentation of a Consumer-oriented Activities Award at the First Annual ACAP Consumer-oriented Activities Awards organized by the Association of Consumer Affairs Professionals (ACAP) in 2015.

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

## Universal Design

### Topic

### Opening of a dedicated consultation window for sign language users

In October 2015, Kao established a new Sign Language Communication Window for hearing-impaired customers who have difficulty making inquiries over the phone.

There are many hearing-impaired people who rely heavily on sign language as their main means of communication, and who have trouble accessing written information or communicating by e-mail. Kao's new dedicated communication window is intended to make it easier for these people to select and use Kao products comfortably.

Using a remote sign language communication system (developed by ShuR) that connects the customer with a sign language specialist via Skype, the new communication window makes it possible for hearing-impaired customers to address queries (through the sign language specialist) to the inquiries offices of Kao, Nivea-Kao, and Kanebo Cosmetics.



## Implementing Universal Design lessons for elementary school children

Japan

While the concept of “barrier-free” access that embodies consideration for the disabled has already been incorporated into elementary school classes, Kao's idea of “Universal Design that makes products easy for everyone to use” is currently not so widely diffused.

In 2013, Kao's Consumer Communication Center launched Universal Design lessons for fourth-grade elementary school students as a joint project with Tokyo Gakugei University.

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

In 2015, the Universal Design lessons were held at seven schools in Tokyo and Osaka, with around 800 schoolchildren taking part.



A smiling instructor talks to the schoolchildren



## Communication with consumers 【PR3】

**We continue to use close, in-depth communication with consumers to improve our products and services, while providing essential lifestyle information to consumers of all ages.**

### 2015 activities

Besides listening to consumers' ideas and wishes regarding our products, we also endeavor to provide useful information that takes account of the changes taking place in society.

We have created videos which show how to use Kao products safely and comfortably. We also publish details of the ingredients of Kao products, information which may be needed when shipping these products outside Japan. In addition, we have launched a new program for responding to queries raised on social networking service (SNS) sites.

### Policies/structures

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

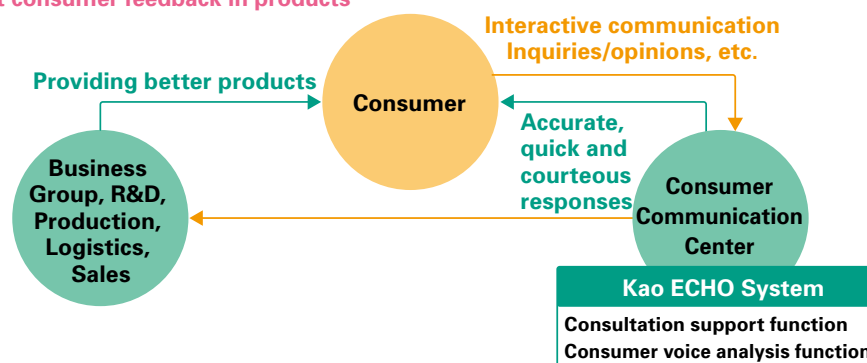
Kao developed the Kao ECHO System database in 1978. This system, which has been upgraded five times in the intervening years, enables effective communication between Kao and its consumers and provides a foundation for the entire company to share and utilize consumer feedback.

The database stores a wide range of information on all Kao products, ranging from basic product information to

improvement histories and daily lifestyle information. By accessing this information, staff at the Consumer Communication Center can respond to consumer inquiries in a prompt and appropriate manner. In addition, while taking suitable measures to protect personal information, the system compiles a list of all consumer inquiries received each day and makes this data available to all relevant divisions the following morning.

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

#### Structure to reflect consumer feedback in products



In 2015, Kao Corporation, Nivea-Kao Co., Ltd., and Kanebo Cosmetics Inc. together handled about 213,000 consumer inquiries received via phone and e-mail (equivalent to 96% of the previous year's total); overall, the number of inquiries fell compared to the previous year. However, there has been an increase in inquiries from the elderly regarding product differences and usage, reflecting Japan's aging society, and also an increase in inquiries from men. People aged 60 or over now account for around 40% of all inquiries received. At the same time, Kao has responded to the changes in the communication methods used by young people by starting to use social networking services (SNS) to disseminate information. The increase in consumer spending by foreign tourists visiting Japan in the last few years has also resulted in an increase in inquiries regarding delivery of Kao products.

## Communication with consumers [PR3]

### Goals

Kao aims to reflect consumer opinions and inquiries when improving and developing its products, and seeks to improve services by listening to consumers while fine-tuning its outgoing communications.

Kao also endeavors to provide a wide range of daily life information that is useful for everyone from children to the elderly. Kao promotes diverse communication by organizing various seminars and actively participating in events organized

by government agencies. Since FY 2010, Kao has been providing in-school education support programs, including environmental lessons, hand washing lessons and house cleaning lessons that are related to the school curriculum. Kao aims to expand such opportunities, enabling us to communicate directly with more consumers.

### Providing information on the Kao website

Kao utilizes its website to respond to consumer inquiries, providing detailed and timely information.

To help consumers select the products that best suit their needs, Kao makes available the information that can be found on product labels (including ingredients, instructions for use, warnings etc.) in the Kao online product catalog.

### Inquiries

The Customer Inquiry page offers numerous contact points according to the type of inquiry. Upon receiving several similar inquiries, we then publish the response as a specific topic, adding it to the Q&A site banner and other locations for quick resolution of customer concerns.

Starting from October 2015, Kao has introduced a new Sign Language Communication Window for hearing-impaired customers who have difficulty making inquiries over the phone, and is now able to handle inquiries in sign language in addition to the existing telephone, e-mail, post and fax inquiry channels.

Responding to a Consumer Affairs Agency press release issued in September, 2015, entitled "Make Sure Senior Citizens Do Not Eat or Drink Hazardous Substances by Mistake!," which noted a case in which a senior citizen drank chlorine kitchen bleach fluid by mistake, starting from December the "Notifications" section of the Kao website has presented some important points to note regarding the proper handling of tableware and kitchen utensils when using kitchen bleach fluid.

➡Inquiries main page  
<http://www.kao.com/jp/soudan/> (Japanese)

➡p.78 Community > Universal Design > Topic: Opening of a dedicated consultation window for sign language users

Japan

As our top priority is consumer safety and comfort, the website also provides essential information, such as information regarding the importance of skin sensitization test (human patch test) when using hair color, emergency treatment methods for when a product is accidentally ingested or consumed, etc., in the Products Q&A section of the website.



Kao's newly-established Sign Language Communication Window



Important notice regarding the handling of tableware and kitchen utensils when using kitchen bleach fluid

## Communication with consumers [PR3]

### Products Q&A

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

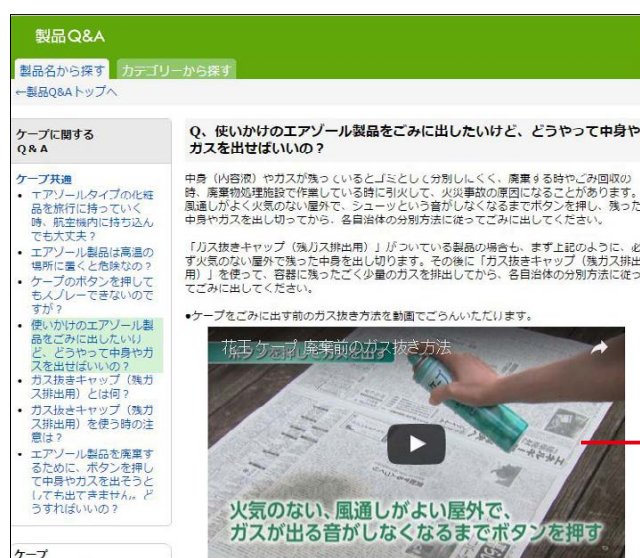
In 2015, Kao launched a new "Products Q&A" website, which utilizes videos, with the aim of showing people, in an easy-to-understand way, how to use Kao products safely and easily.

To help prevent flashing accidents caused by aerosol products, the site includes videos showing the correct way to release all the gas from aerosols before disposing of them, and what to do if the aerosol nozzle gets clogged up. Some consumers have damaged their skin while trying to remove hair

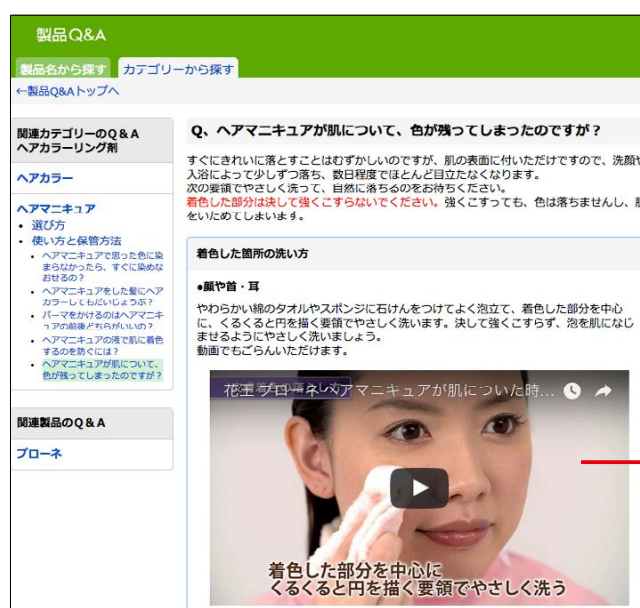
coloring agent that had dripped onto the skin by mistake; the website uses live-action video to show the correct process for removing the skin discoloration. To ensure that the information presented on the site can also be used by the hearing impaired, all of the video clips have subtitles.

Also in 2015, Kao has responded to the increase in the number of people who need to know the product ingredients in order to be able to send Kao products to relatives or friends living outside Japan by making this information available on the website.

►Products Q&A main page  
<http://www.kao.com/jp/qa/> (Japanese)



Product Q&A video example: how to release gas from Kao Cape hair spray before disposal



Product Q&A video example: how to remove Blaué hair manicure from skin





## Communication with consumers [PR3]

### Product catalog

Product catalog is Kao's consumer product catalog site. It includes about 1,300 items, with the information that is displayed on product packaging labels, such as product components, usage, etc.

The catalog is also linked to the product Q&A section and other sites, with users able to view relevant product Q&As from each of the product pages. It includes information on precautions that should be taken when using hair color products, aerosol products and chlorinated products, and an "Emergency Treatment SOS," a link consolidating various treatments for urgent situations including cases of unintentional product ingestion, helping to ensure that consumers can use their Kao products safely.

Besides introducing new products, Kao also provides information on product enhancements, listing specific improvements in performance, fragrance, containers, design and other areas in a format that is as easy to understand as possible. In addition, the catalog provides notification of product discontinuations two months in advance, as we work to keep regular users informed about the

products they enjoy.

In 2015, following the publication in October of a report by the Consumer Safety Investigation Committee investigating the reasons for incidents involving damage to skin caused by hair dyeing, Kao's Consumer Communication Center received a large number of inquiries. In response, Kao has announced important notices with regard to the ingredients and instructions for use of all Kao hair color products, as well as important notes for their use. Kao has also endeavored to raise awareness of the relevant issues by providing links to Q&A section on the Kao website to inform consumers about the importance of doing a skin sensitization test (human patch test) before using hair coloring products. The instructions for use have been made available for download, so that consumers can examine detailed information about the products before purchasing.

➡Product catalog main page  
<http://www.kao.com/jp/products/> (Japanese)

### Information on discontinued products

We continue to receive inquiries concerning products from loyal customers long after the product has been discontinued.

Since 2002, we have consolidated information concerning main discontinued products in a single site—the product catalog for discontinued products. In 2015, new information was added to this site regarding *Humming Concentrated Fabric Softener*, *Pipe Hairer Powder*, and *Blaué Essence Plus Color*.

➡Main page for discontinued product announcements  
<http://www.kao.com/jp/products/haishihin/> (Japanese)



Examples of discontinued products listed on the site

### Topic

## Introduction of wide-ranging support for consumers via SNS

The increased diffusion and growth of digital media has led to an increase in the number of people who use the Internet and social media to make inquiries when they have a query about a particular product. Up until recently, Kao has mainly relied on an approach that involves waiting until consumers get in touch via telephone or e-mail, but there are also a lot of posts on social networking service (SNS) sites about consumers' problems that Kao can help to solve. With the goal of providing even more wide-ranging lifestyle support for consumers, in July 2015 Kao began providing responses to consumers' queries submitted via SNS; as of December 2015, Kao had replied to a total of about 600 inquiries using SNS.

On Yahoo! Chiebukuro (Japan's largest knowledge sharing community service, where many Kao product users post queries), Kao has set up Kao Official Support, providing support for home products (mainly washing and cleaning products), and also for beauty products (including skin care, hair care and cosmetics products). Kao's concrete suggestions in response to queries about how to wash the delicate clothing, etc., inspired consumers to submit comments such as "Being able to get professional advice is a great reassurance," and "I am very glad that Kao now has a presence on Yahoo! Chiebukuro." One of the key features of social media is that responses can be read not only by the person who made the original query, but also by other people with a similar problem; providing information via SNS thus significantly extends the benefits.



➡Kao Official Support welcome page  
[http://chiebukuro.yahoo.co.jp/my/kao\\_official](http://chiebukuro.yahoo.co.jp/my/kao_official) (Japanese)



### Response message

\*This support message is shown to give an idea as to how this form of communication works in practice.



## Communication with consumers [PR3]

### Interactive events

Among its relationships with various stakeholders, Kao recognizes the vital importance of activities directly involving communication with the consumer to deepen mutual understanding. We proactively visit key consumer groups, consumer affairs administration offices, and local authorities handling consumer affairs to facilitate the exchange of information.

We invite members of consumer groups to visit our plants and museums, encouraging the sharing of ideas. We also participate in events held for various consumer groups in response to requests from NPOs and governmental agencies.

In 2015, Kao continued to participate in “Children’s Day for Visiting Kasumigaseki” and the “Sumida Consumer Lifestyles Exhibition.” Also in 2015, Kao participated for the first time in the healthy lifestyles event held in Minami-ku, Yokohama. Kao was able to introduce Kao products (such as *Relief* adult diapers) to participants. The response to Kao’s involvement in these grassroots community event was very positive, with many people stopping by the Kao booths.

Kao continues to contribute to society through such activities.



The healthy lifestyles event held in Minami-ku, Yokohama

Japan

### Globalization of consumer communication activities

Kao is applying consumer communication know-how honed in Japan to activities carried out by Kao Group companies outside Japan as well. To ensure that consumer communication in all countries is conducted appropriately and quickly, and consumer communication processes and values are shared throughout the entire Kao Group, Kao is taking steps to facilitate the monitoring of the state of Kao operations in each country, and utilizing the exchange of information through day-to-day e-mails and telephone calls, as well as the holding of regular web conferences, etc. In addition, every year a meeting is held at which consumer communication representatives from every company in the Group come together to share information horizontally across countries as to how consumer communication is being implemented in each country and develop an enhanced understanding of the Kao Group’s consumer communication strategy, which in turn contributes to an enhancement of the overall quality of

consumer communication provision and helps to provide forward momentum for Kao’s global activities.

In order to realize the visualization of consumer attitudes and the sharing of this information across countries, in 2009 we developed the Global ECHO System, a framework for the sharing and effective utilization of the views expressed by consumers in different countries, which operates in a similar manner to the Kao ECHO System that had already been adopted in Japan. Through this System, for the vast majority of Kao Group member companies, the content of consumer consultations can be viewed by all related divisions, supporting coordinated measures to meet consumers’ needs in an appropriate manner, and facilitating the precise and prompt provision of support to consumers through coordinated action across countries, and creating new opportunities for *Yoki-Monozukuri* activities.

Global

#### Topic

### Kao is designated an Official Partner of the Japan Obesity Prevention Association

Kao has for many years now been undertaking research on visceral fat and contributes to awareness raising in relation to obesity and metabolic syndrome by carrying out research to develop the *Healthya* product series, which are designated Foods for Specified Health Uses, as well as various types of information dissemination activities. In recognition of these efforts, in September 2015 Kao was designated an Official Partner of the Japan Obesity Prevention Association, making Kao the Association’s first and currently only Official Partner.

Taking “Let’s reduce our visceral fat to stay healthy!” as its catchphrase, the Japan Obesity Prevention Association was established in January 2015 with the aim of promoting better understanding of obesity and metabolic syndrome, and of spreading awareness of ways to prevent and combat obesity and metabolic syndrome within society as a whole.

Kao will be providing support for the Association’s activities by holding visceral fat seminars and visceral fat measurement sessions throughout Japan, and by providing solutions to help prevent and mitigate obesity and metabolic syndrome. In October 2015, with support from the Association, Kao held a visceral fat seminar in Oita Prefecture.



The Japan Obesity Prevention Association website

➡p.28 Highlights: Community > Supporting people to live healthily > Supporting local government authorities’ health promotion initiatives

# Communication with corporate customers

**We aim to use close, in-depth communication with corporate customers to improve existing products, facilitate the development of new products, and enhance the quality of service we provide.**

## 2015 activities

In the Consumer Products Business, the scope of the “eco together” activity that Kao has been implementing in collaboration with retailers was expanded in 2015 to include collaboration with government agencies.

In the Chemical Business, while continuing to implement the Training Sessions for Distributors’ New Employees, which are held to help newly-recruited employees at Chemical Business distributors to develop their understanding of Kao products and acquire related know-how, we also began to hold new Information Exchange Meetings.

In the Professional Business, we implement total system solutions aimed at enhancing food sanitation management, and to provide information to medical and nursing care service providers on an ongoing basis.

## Consumer Products Business

## Policies/goals/structures

Kao Customer Marketing Co., Ltd. (CMK) works with retailers (corporate customers) to inform consumers about Kao products and the value they provide, aiming to ensure that even more consumers and corporate customers are satisfied.

To achieve these goals, CMK takes concrete steps to monitor consumers’ purchasing preferences and purchasing activities, implementing in-store merchandising development and planning from a customer-focused perspective, and making effective use of the capabilities of the entire Kao Group to carry out market building and market invigoration.

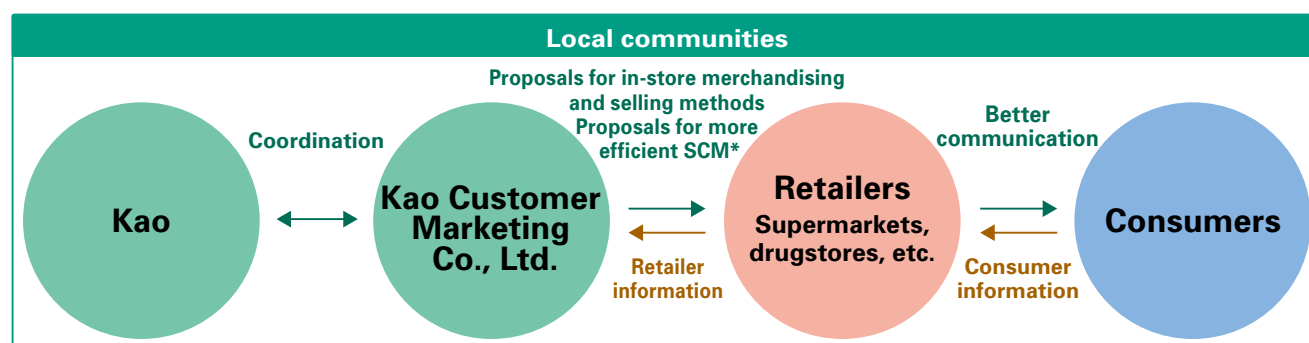
In addition, to further strengthen the relationship of mutual trust that exists between Kao and retailers, CMK liaises closely with retailers about their strategies and the issues affecting

them, offering comprehensive proposals that incorporate measures to enhance supply chain efficiency, and customizing these proposals to meet the needs of individual retailers. As a result of these activities, Kao is building even stronger partnerships with an ever-growing number of retailers.

Starting from January 2016, Kao has switched over to a new system that strengthens the coordinated operation of the Kao Group’s domestic sales subsidiaries. In the future, we will further strengthen in-store merchandising and sales strategies based on precise analysis of changes in markets and consumer behavior through the coordinated efforts of the entire Kao Group.

## Collaboration between CMK and retailers

### Contributing to the success of our retail customers



### Improving products and sales activities through retailer and consumer input

\* SCM: Supply Chain Management

## Communication with corporate customers

### Consumer Products Business

### Collaborating with retailers and local government authorities

Japan

Kao Customer Marketing Co., Ltd. (CMK) uses in-store merchandising at retailers throughout Japan (which represent one of the most important contact points with consumers) and participation at community and local government events to implement “eco together” activities aimed at encouraging people to “Save water, Save electricity and Reduce garbage.”

In 2015, Kao participated in a total of around 170 environmental events, offering suggestions to about 85,000 consumers on eco-friendly activities that they can carry out in their own homes.

At the 18<sup>th</sup> Environment & Recycling Fair in Yamanashi Prefecture, sponsored by Kofu City Government and held in November 2015, a quiz format was used to introduce visitors to simple, easy ways to save water and electricity with Kao products. Participants in the quiz were given free samples of

Kao's *Ultra Attack Neo* liquid laundry detergent, while children received copies of the “*Eco Together Diary*” to encourage them to get into the habit of not wasting water; in this way, Kao employees shared with visitors to the Fair some ideas about how people can help build a sustainable society. Many of the visitors were surprised, and impressed, by the ways in which Kao products can be used for eco-friendly activities. While the Fair was on, retailers in Kofu City collaborated by holding “eco together” awareness-raising activities in their stores.

Events of this kind, where Kao coordinates collaboration between retailers, government authorities, and Kao itself, are being held throughout Japan. In the future, we will continue to implement “eco together” activities by working closely with local communities.

### Environmental communication in partnership with retail stores and the government



Showing how people can be environmentally friendly with Kao's liquid laundry detergent

## Communication with corporate customers

### Chemical Business

### Policies/goals/structures

One of Kao's core businesses is offering chemical products to customers operating in a wide range of industries throughout the world for use as intermediate materials. The main focus of our chemicals business is oleo chemicals (fat and oil derivatives), performance chemicals (surfactants) and specialty chemicals

(information materials, fragrances). In this business, Kao has been required to provide corporate customers with prompt information concerning laws and regulations related to products and product safety through supply chains. We are therefore working to promote close communication with corporate customers and sales distributors.

### Chemical Business

### Active information exchange with sales distributors

### Global

Kao shares information with corporate customers and distributors, cooperating closely with them.

#### Cooperation with corporate customers and sales distributors

**Product/Technical service/Information on the environment, safety (SDS, etc.), regulations, societal trends, etc.**



**Market needs, inquiries regarding safety or other information**

In light of newly announced and revised laws and regulations related to chemical substances, information transmission within the supply chain is an essential part of chemical substance management, and the role of the sales distributors of Kao products is expanding and gaining in importance in terms of compliance with import and export regulations, sharing information and adjusting delivery schedules following earthquakes and other disasters, and in other respects.

Kao and its key Chemical Business sales distributors continue to share information on an ongoing basis and hold regular meetings to discuss the latest trends in the various international and domestic laws and regulations governing chemical products, and environmental and safety initiatives, etc.

Once every two years, Kao holds Training Sessions for Distributors' New Employees, for newly-recruited employees of distributors that handle Kao's chemical products, with the aim of helping them to develop a better understanding of product quality and safety issues and to acquire the specialist know-how they require in order to market these products effectively to corporate customers. In 2015, the training session was held over two days (October 20–21) at Wakayama Plant, with over 80 people participating.

In November and December, 2015, Information Exchange Meetings were held with representatives of leading Chemical Business distributors, to exchange information about new trends in chemical product related laws and regulations, and about environmental and safety measures, etc.

In addition, a new idea was tried in 2015, with the holding of a special Information Exchange Meeting at Wakayama Plant

for the persons in charge of order placement at selected Kansai region distributors and the persons handling ordering and order reception work at Kao, at which the participants discussed issues and needs relating to order placement and receipt.

In the future, we will continue to use activities of this kind to foster close communication with corporate customers and distributors.



Training Sessions for Distributors' New Employees held in 2015



## Communication with corporate customers

### Professional Business

### Policies/goals/structures

Kao Professional Services Co., Ltd. (KPS) proposes its original professional-use products and solution services to professional customers who require expert cleaning and hygiene management in the areas of food service (food-service and food processing industries), medical support and care (hospitals and nursing-care facilities), and recreation services (hotels, dry cleaners, etc.).

In the food service area, we create a safe, secure, and comfortable environment through comprehensive hygiene management; in the medical support and care service area, we reduce risk of hazards due to infection through expert infection control, and offer an environment for gentler nursing care

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

Developing and providing effective products meeting individual client needs while reducing the environmental impact, KPS also creates total solutions solving hygiene management issues, delivering “cleanliness and sanitation” operation systems tailored to serve each customer.

### Professional Business

### Food hygiene management: a total system proposal

Japan

KPS collaborates with our food service customers to improve worksite hygiene management in restaurants and food processing plants, creating food safety and security, and comfortable environments through comprehensive hygiene management.

We provide the products as well as hygiene management operation proposals for implementation in the actual workplace. We promote steady, standardized operations based on clear and simple manuals suited to the customer's site.

We conduct an on-site appraisal according to each customer's situation, and use this appraisal as the basis for the joint establishment of a new hygiene management framework, through the provision of an improvement system, results verification, and a customized manual.

We also hold on-site hygiene lectures for employees and implement store hygiene diagnostic screenings regularly. We continue to implement measures aimed at realizing an ongoing enhancement of the overall level of hygiene management.

#### The number of hygiene lectures implemented

Year	No. of Lectures
2011	178
2012	174
2013	207
2014	195
2015	219

## Communication with corporate customers

### Professional Business

### Implementing infection-control support activities

### Japan

KPS organized Infection Control Best Practices Program research meetings and seminars to support the activities of professionals engaged in the infection control management at hospitals and nursing-care facilities.

Infection Control Best Practices Program is one of the techniques aiming for improved infection control levels through behavior modifications of medical and nursing staff, by assessing the risks in medical and nursing practices from the perspective of infection control, preparing the protocols with scientifically based solutions and checklists, and putting them into practice.

In 2015, we held 89 Infection Control Best Practices Program research meetings (working groups) for about 1,900 nurses, care workers, and other health and medical professionals from 642 hospitals and 128 nursing-care facilities in 30 areas.

Typical comments from participants were: "The research meeting

was a useful method to remind people about the importance of infection management," "The meeting helped us to realize that there are still problems where improvements need to be made. We will continue to implement these measures."

Kinki region seminars were attended by 1,146 health and medical professionals from 364 hospitals and 106 nursing care facilities. Participants' comments: "We learned new information which was very useful." "The case studies of other hospitals' poster presentations were very useful. I appreciated having the opportunity to attend."

To better share information with health and medical professionals of hospitals and nursing-care facilities, KPS also offers study sessions on the proper use of products and prevention of hospital-acquired infections, and exhibit our products at seminars and academic conferences; in 2015, we conducted a total of 369 study sessions and 72 product exhibits.



Infection Control Best Practices Seminar



Product exhibit at Infection Control Best Practices Seminar

#### Topic

### Giving a lecture at the Food Safety Workshop organized by Oriental Land Co., Ltd., the company which owns and manages Tokyo Disney Resort

Since July 1, 2015, Kao has been an Official Sponsor of Tokyo Disneyland® and Tokyo DisneySea® Parks. As part of this sponsorship, a presentation with case studies was given on the food safety know-how that KPS and the Kao Group as a whole possess, at the annual Workshop for Food Contamination Prevention held by Oriental Land Co., Ltd. for Disney Resort cast members, chefs, and food preparation staff working at Disney Resort hotels.

Two sessions of the Workshop were held, on September 30 and October 14, 2015, at the Tokyo DisneySea Hotel MiraCosta, with about 900 people attending. Kao explained how food can be contaminated, and presented case studies and preventive strategies.

They also explained the importance of maintaining day-to-day awareness for food safety management, as well as forecasting and considering risks in every single process.

As professionals in providing visitors with "happiness," the participants demonstrated a high level of interest, and took extensive notes. A wide range of positive comments were received, such as "These ideas will help us to maintain the right attitude in the workplace."

The Workshop provided an opportunity for the Kao Group to share with Oriental Land Co., Ltd. the hygiene management know-how that has been accumulated by KPS, and it is anticipated that this will have made some contribution towards the maintenance of food safety.



Presenting food safety know-how and case studies

# Corporate citizenship activities 【EC7】

Kao aims to enrich people's lives and contribute to global sustainability through its social contribution activities.

## 2015 activities

Three of Kao's ongoing activities reached important milestones in 2015. 2015 marked the 10<sup>th</sup> year of implementation of the Supporters of "Kao Creating Forests for Everyone" program, and to mark this anniversary a special commemorative brochure was compiled, summarizing the project's achievements so far. It is also 10 years since Kao began providing support for the Japan Science and Engineering Challenge (JSEC) scheme; a questionnaire survey was administered to past winners and award-winning schools, to verify the benefits that JSEC has provided. The fifth anniversary of the launch of the Kao Social Entrepreneurship Schools was marked with the issuing of a special report, and an exchange meeting that brought together social entrepreneurs and Kao employees.

In addition, Kao continues to implement social contribution activities in countries throughout the world. For example, when PT. Kao Indonesia Chemicals relocated its factory, it arranged for the installation of underground water pumps, in order to ensure that local residents could continue to benefit from the clean water that the factory had provided.

## Policies/structures

As part of our contribution to enriching people's lives and contribute to global sustainability, Kao has adopted the theme of "Creating an Environment and Developing Human Capital to Nurture the Next Generation," identifying three key domains—Environment, Education, and Community—upon which to concentrate its activities. To promote social contribution activities across the entire group, we place particular emphasis on co-existence and co-prosperity with local communities.

### Activity Guidelines

- Conduct activities that play a role in nurturing the next generation
- Conduct activities aimed at contributing to the development of regional communities and culture
- Conduct activities that protect and nurture the environment to promote a sustainable society
- Conduct activities that promote a barrier-free society as a form of social support
- Conduct activities that make effective use of Kao's resources
- Create an atmosphere in which every employee can participate in community activities as a good citizen

## Overview of Kao's corporate citizenship activities

### Creating an Environment and Developing Human Capital to Nurture the Next Generation

#### Environment

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

#### Education

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

#### Community

- Kao Family Concert
- Kao Social Entrepreneurship Schools

#### Employee participation activities

Kao Heart Pocket Club, Pink Ribbon Campaign

#### Support of the arts

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

### The Kao Foundation for Arts and Sciences

## Corporate citizenship activities—Education [EC7]

### Supporting the education of the children, the bearers of the future in our society

Japan

With the aim of helping children to enjoy clean, healthy lives while demonstrating concern for the global environment, Kao is working with schools to provide an education program: hand washing lesson, house cleaning lesson, environmental lesson, and Universal Design (UD) lesson\* which are closely related to Kao's business.

In 2015, the four lessons involved a total of about 1,100 Kao Group employees, who visited 223 schools in 45 prefectures and taught about 17,000 children. A total of 75,000 children have participated since the program's launch in 2009. Employees from many divisions at Kao Group companies participate in this program, and say that this education program is a good opportunity for them to interact with local communities and to learn more about social contribution.

Kao also makes available teaching materials that school teachers can use for the hand washing lesson and house cleaning lesson; Kao also provides teaching materials that can be used in junior high school Home Economics classes.

#### Hand washing lesson

Kao has been conducting this lesson for children in the lower grades of elementary school since 2009, to teach the importance of hand washing and, using Kao's original hand washing song, how to wash hands properly.

In 2015, about 560 employees visited 111 schools in 34 prefectures and gave hand washing lessons to about 8,000 children.

In addition, in coordination with Kao's business activities, teaching materials for the hand washing lesson were distributed to 2,423 schools and institutions.



Hand washing lesson

#### House cleaning lesson

This lesson, started in 2010 and offered in conjunction with Living Environment classes for children in the lower grades of elementary school, teaches the importance of housework and how to do it well, by practicing washing dishes and cleaning with a wet cloth. By helping them explore their role in the family, the lesson also tries to teach children to feel happy at being useful and to feel grateful.

In 2015, the house cleaning lesson was implemented for a total of about 4,700 children in 62 elementary schools in 26 prefectures, with about 360 Kao employees offering instruction and practical training. In addition, the teaching materials for the house cleaning lesson were distributed to another 47 schools.



House cleaning lesson

#### Environmental lesson

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

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

In 2015, the lesson was offered to about 3,500 elementary, junior high and senior high school students in 43 schools across 26 prefectures.



Environmental lesson at elementary school

\*Universal Design (UD) lesson

➡For details, refer to p.78 Community > Universal Design > Implementing a Universal Design lesson for elementary school children



## Corporate citizenship activities—Education [EC7]

### Providing teaching materials for junior high school Home Economics curriculum

In 2011, Kao began working with Home Economics teachers in Okayama Prefecture to develop teaching materials that teachers could use in their own lessons. In June of 2013, we began providing these teaching materials under the title “A Comfortable, Environmentally Conscious Life.” The materials are made up of five programs based on the course units of the junior high school Home Economics curriculum, including “Caring for clothes” and “Thinking about the relationship between consumption and the environment,” and are designed to get students thinking about environmental issues in their daily lives, while giving them a systematic way of learning how to lead more environmentally conscious lives themselves.

In 2015, Kao provided teaching materials to 122 schools and government agencies, and held nine seminars to introduce the teaching materials content to home economics teachers.



Home Economics teacher training seminar

## Support for school education through plant visits

Japan

Kao organizes factory visits at eight Kao factories in Japan, with a total of around 60,000 people a year visiting the plants, where they have the opportunity to learn how Kao implements *Yoki-Monozukuri*.

Kao also works to ensure that its plant visit scheme supports school education, with elementary school students accounting for around 30% of the visitors to Kao factories each year. For example, at Wakayama Plant, which is the Kao Group's largest production site, an experiential learning program has been established which involves visits to the factory and to the Kao Eco-lab Museum, tailored to meet the needs of the Social Studies curriculum for third grade and fifth grade elementary school students.

Kao's Sakata Plant, which manufactures *Merries* baby diapers, has installed a tour route so as to be able to welcome plant visits to view the production process, and now receives over 3,500 visitors a year, including around 1,000 elementary school

students. In 2015, Sakata Plant introduced a new plant visit program tailored to the needs of the “Industrial Production and Our Daily Lives” unit in the Social Studies curriculum for fifth grade elementary school students (which several other Kao plants have already introduced). Sakata Plant is working actively through the city's Board of Education to make local schools aware of this plant visit program.

The new program uses a combination of pre-visit learning and the plant visit itself to show students the creativity and hard work which go into the production of *Merries* baby diapers. The plant visits provide an opportunity for building on the learning that children have already done in school, strengthening their awareness of the links between their lives and the local community and society, and enhancing their interest in the commitment to *monozukuri* (high standards of craftsmanship), and the efforts made by the workers, at business enterprises such as Kao.



Plant visit learning linked to students' Social Studies lessons



Showing students the work that goes into the production of *Merries* baby diapers

## Corporate citizenship activities—Education [EC7]

### Support for science education

Japan

#### Support for the Japan Science and Engineering Challenge (JSEC)

The JSEC (which is organized by the Asahi Shimbun Company and TV Asahi Corporation) is a contest of independent science and engineering research targeting high school and technology college students nationwide, with the goal of nurturing world-class scientists. Kao supports the JSEC as part of its support for high school science education, and each year presents outstanding projects with the Kao Award and the Kao Special Incentive Award. The review process for selection of the award-winners is based on a reading of the participants' papers by Kao researchers, and by attendance at the students' presentations.

##### JSEC 2015 Kao Award

"Mechanism of the Oscillating Chemiluminescence Reaction Using Luminol"

By Erika Toki, Misato Nakamura and Shiori Osaki (Ichikawa Gakuen Ichikawa Senior High School)

##### JSEC 2015 Kao Special Incentive Award

"The 200Hz Hidden in 'Rubbing'—Particle Agglomeration through Oscillation"

By Ryotaro Kobayashi and Hirokazu Nagaoka (Chiba Prefectural Chiba Higashi Senior High School)

As an additional prize for the Kao Special Incentive Award, a special study tour was arranged for the students of the award-winning school, which offered them a chance to visit Kao facilities and talk with Kao researchers. In March 2015, groups from Yamaguchi Prefectural Yamaguchi High School (which won the JSEC 2014 Kao Special Incentive Award) and National Institute of Technology, Yonago College (which won the JSEC 2014 Kao Award) took part in this study tour, where they engaged in a lively and informative discussion with Kao researchers.



JSEC 2014 study tour, Q&A session in progress

#### Looking back over 10 years of Kao support for JSEC

As of 2015, Kao had been providing support for JSEC for 10 years. To facilitate a retrospective and appraisal of this activity, a questionnaire survey was administered to past award-winners and award-winning schools. The responses given showed that participation in JSEC had provided positive psychological benefits to participants (in terms of enhanced motivation, etc.), while also contributing to personal growth through the acquisition of practical knowledge and know-how, helping participants to clarify the research themes they were engaged in and the possible benefits to society. It was also apparent that receiving the awards had boosted recipients' self-confidence, and had raised their schools' profile within the local community. Expectations regarding JSEC and the enterprises supporting it were high, and it was felt that JSEC had had a positive impact on the participating schools; Kao has therefore decided to continue its involvement with this activity.



JSEC 2015 presentation review in progress

## Corporate citizenship activities—Education [EC7]

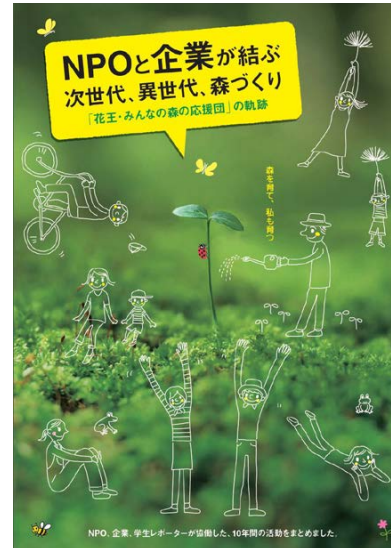
### Supporters of “Kao Creating Forests for Everyone”

Japan

The Supporters of “Kao Creating Forests for Everyone” involves university students interviewing civic groups that have received support through the “Kao Creating Forests for Everyone” program, which helps civic groups to protect local forests and greenery, and then writing and publishing articles about the civic groups’ activities.

In 2015, which marks 10 years since this project was launched, to help clarify what the project has achieved, Kao worked with Japan NPO Center (JNPOC), which has supported the project, on the compilation of a brochure entitled “Collaboration between an NPO and Business Enterprises Helps to Cultivate the Next Generation and Bring Together People from Different Generations—the Forest-creating Efforts of the ‘Supporters of Kao Creating Forests for Everyone’ Program,” which looks back over the project’s achievements and presents a record of its activities.

The brochure explores, through a questionnaire survey, interviews and concluding remarks written by experts, what the 86 university students who participated in the project learnt through interacting with people from a different generation, how the students were changed by the experience of writing the reports, and what kind of synergies were created through having people from different backgrounds participating in the same project. Copies of the brochures were distributed to around 700 related organizations, and the brochure content was also uploaded onto the Kao website.



“Collaboration between an NPO and Business Enterprises Helps to Cultivate the Next Generation and Bring Together People from Different Generations—the Forest-creating Efforts of the ‘Supporters of Kao Creating Forests for Everyone’ Program” brochure  
[http://www.kao.com/jp/corp\\_csr/social\\_activities\\_00\\_09.html](http://www.kao.com/jp/corp_csr/social_activities_00_09.html) (Japanese)

\*As this program had already achieved the desired goals, implementation was terminated in 2015.

### Kao Earthwatch Teachers’ Fellowship

Japan

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

In 2015, nine teachers took part in five field work projects. According to the teachers’ reports, after returning home they gave classes and lectures about their experiences to a total of around 1,000 children. In October 2015, Kao organized a participant presentation meeting at Kao’s Head Office, attended by teachers (including former participants) and members of the selection committee. Project participants from 2015 gave presentations on their experience working overseas and on how they were able to utilize this experience in environmental education after returning home; the meeting also provided an opportunity for sharing the know-how and skills that had been acquired through involvement in the

scheme.

Since the Kao Earthwatch Teachers’ Fellowship project was first launched, a total of 128 teachers have taken part in 65 field work projects.



Survey in the “Wildlife of the Mongolian Steppe” project



## Corporate citizenship activities—Community [EC7]

### Providing support for social entrepreneurs through the Kao Social Entrepreneurship Schools

Japan

Kao supports the development of young social entrepreneurs who attempt to solve social issues with business approaches in order to pass a better society on to the next generation.

To this end, starting in 2010, Kao launched Kao Social Entrepreneurship Schools, a social entrepreneur development program, in cooperation with Entrepreneurial Training for Innovative Communities (ETIC.), focusing in particular on providing support for entrepreneurs who work to help solve issues surrounding families. The entrepreneurs supported by the program have the opportunity to benefit from advice from experts and more experienced entrepreneurs to help them get their business off the ground. In 2015, support was provided for three teams.

To mark the fifth anniversary of the project's launch, a Kao Social Entrepreneurship Schools Report was published in 2015, and in June a seminar and exchange meeting were held at Kao's Head Office. The keynote speech for the seminar was given by Mr. Haruo Miyagi, Executive Director of ETIC., on the theme of "Why Are Social Entrepreneurs Needed Now?" Four entrepreneurs who had previously received support under the program also spoke about various aspects of their business and projects. At the exchange meeting that followed, Kao employees could be seen deep in conversation with the entrepreneurs including those who had benefited from previous years' schools. The seminar and exchange meeting were attended by 86 Kao employees, who were able to benefit from this in-depth interaction with entrepreneurs.



Kao Social Entrepreneurship Schools Report brochure  
[http://www.kao.com/jp/corp\\_csr/social\\_activities\\_04\\_18.html](http://www.kao.com/jp/corp_csr/social_activities_04_18.html) (Japanese)

#### ◆Entrepreneurs who received support in 2015, and their business concepts:

##### **Charity Santa (specified non-profit corporation)**

Representative Director: Natsuki Kiyosuke

Business concept: "Arranging for Santa Claus to help children in single-parent families build up their self-esteem, with a new target of helping 10,000 people in one year."

##### **Chance For All (specified non-profit corporation)**

Representative Director: Isana Nakayama

Business concept: "Operating CFAKids, a high-quality after-school program that any child can attend."

##### **Makigumi LLC**

Representative Staff Member: Kyoko Watanabe

Business concept: "Developing business models to support the cultivation of key personnel for local industries in areas affected by natural disasters, and to encourage such personnel to relocate to these areas."



The three entrepreneur teams give presentations on their business content, ideals etc. (October 2015)



## Corporate citizenship activities—Community [EC7]

### Kao Family Concert

Japan

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

Kao Family Concerts have previously been held near Kao facilities in Sakata, Tochigi, Kashima, Wakayama and Ehime. In 2015, Kao Family Concerts were held in Wakayama City (Wakayama Prefecture) in March, in Sakata City (Yamagata Prefecture) in October, and in Saijo City (Ehime Prefecture) in December. A total of 33 Kao Family Concerts have now been held since the program was first launched.

All of the ticket revenue from the concerts is donated to help support music education etc. in the area. We received a letter of thanks from a local school that have benefited in this

way, and the Concerts help to strengthen links with the local community.

#### Concerts held in 2015

##### Wakayama

Performing artists: Sepperl Trio

Presenter: Ms. Emi Kasano

Audience: 830 attendees

##### Sakata

Performing artists: TSUKEMEN

Audience: 1,200 attendees

##### Saijo

Performing artists: Ken Nishikiori (Tenor), Tadayuki Kawahara (Piano)

Audience: 1,000 attendees



Kao Family Concert in Wakayama



Kao Family Concert in Sakata



Kao Family Concert in Saijo

### Kao Heart Pocket Club

Japan

The Kao Heart Pocket Club is a club focused on social support activities, which was founded in 2004. Employees who support the objectives of the Kao Heart Pocket Club become members and participate in its activities. Members donate a portion of their monthly salary to the Club; Club funds are donated to NPOs and citizen groups working to build a better society, and are also 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 2015, the Club donated to 46 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, which supports larger-scale activities. The Club also provides opportunities for members to participate personally in the activities that it supports. Such participation can take a variety of different forms, such as participating in screening of applicants for support, collaborating on activities as a volunteer, and participating in events organized by the recipients of funding support, etc. This program provides opportunities to learn about social issues in the context of the activities through exchanges with donation recipients. As of 2015, Club members had been participating for 10 years in a program to send picture books to children in developing nations, sponsored by the Shanti Volunteer Association. One hundred and eighty employees, together with their family members and friends, attached stickers of translated text into picture books and sent them to children in Myanmar.



Kao employee attaching stickers of translated text into picture books

#### ◆Activities to Date

Donation recipients: 490 groups

Donated amount: 86.23 million yen

Membership (as of December 2015): 2,697

## Corporate citizenship activities—Community [EC7]

### Support for the young artist development, and support for artistic and cultural activities

Japan

We provide support for a wide range of artistic and cultural activities and for the development of the next generation of artists, to help ensure that rich artistic and cultural traditions can continue to thrive and can be handed down to future generations.

#### Support for the young artist development

We provide support for activities aimed at the development of young artists.

#### Tokyo Music Competition

The Tokyo Music Competition is held aimed at discovering and developing young musicians. This competition is organized by the Tokyo Bunka Kaikan, The Yomiuri Shimbun, Tokyo Metropolitan Government and Kao Corporation. The 13<sup>th</sup> Tokyo Music Competition was held in 2015, with a total of nine prize-winners in the Strings, Woodwind and Vocal sections. The prize-winners' concert (for the First Prize winners) was held in January 2016.



Award ceremony for the Strings Section in the 13<sup>th</sup> Tokyo Music Competition in 2015

#### K-BALLET YOUTH

K-BALLET YOUTH is a junior ballet company for young people aged 22 or under, directed by Mr. Tetsuya Kumakawa, which was founded in 2013. The company is providing young people with an opportunity to develop their skills in an environment that is in no way inferior to that of a professional ballet company. Kao has been sponsoring K-BALLET YOUTH's performances since the ballet company was first established. K-BALLET YOUTH performed "The Adventures of Tom Sawyer" for the second time in April 2015.

#### Support for artistic and cultural activities

With the aim of fostering the continued development and transmission of important aspects of the arts and culture, Kao has provided sponsorship for the New National Theatre, Tokyo, for art exhibitions, and for orchestras.

#### Sponsorship in 2015

[Music]

Kao provided sponsorship for: the Tokyo Symphony Orchestra; the Japan Philharmonic Orchestra; the Tokyo Philharmonic Orchestra; and the NHK Symphony Orchestra, Tokyo. We also support the Tokyo Symphony Orchestra's regular subscription concert series, and in 2015 provided sponsorship for a Beethoven 9th Symphony Concert by the NHK Symphony Orchestra, Tokyo.

[Theater]

Kao was a member of the 2014/2015 Season Special Corporate Sponsors Group for New National Theatre, Tokyo.

[Arts]

Kao has provided sponsorship for René Magritte, The British Museum Exhibition, The Genesis and Development of Landscape Painting from Kunsthistorisches Museum Wien.

#### Activities implemented through The Kao Foundation for Arts and Sciences

The Kao Foundation for Arts and Sciences, which was founded in 1990 to mark the 100<sup>th</sup> anniversary of the company's establishment, provides sponsorship for culture and the arts and also presents awards to outstanding researchers. In 2015, which marked the 25<sup>th</sup> anniversary of the Kao Foundation's establishment, 2.5 billion yen of additional funds were donated from Kao to the Foundation, to contribute to the promotion and continued development of the arts and sciences in Japan. The Kao Foundation now has total assets of around 5 billion yen, and is working to strengthen its support for science and technology, and to further enhance its support for the arts.

#### Achievements in 2015

- Provided grants and awards for the arts (fine arts and music):  
A total of 40 million yen for 69 projects
- Provided grants and awards for science and technology: A total of 12 million yen for 12 projects  
(Since the Kao Foundation was first established, it has provided a cumulative total of 1,244.35 million yen for 1,943 projects.)

➡The Kao Foundation for Arts and Sciences  
<http://www.kao-foundation.or.jp/english.html>

## Corporate citizenship activities—Community [EC7]

### Contributing to the development of a sustainable society

Global

Kao Group Companies continue to undertake activities aimed at supporting the development of the next generation and at fostering communication and involvement with local communities.

In 2015, we undertook a wide range of activities, including activities contributing to the nurturing of the next generation, such as collaborating on the improvement of school facilities, provision of scholarships, offering support for hygiene education, etc., as well as providing support for local communities through product

donations and arranging for Kao employees to volunteer on local projects, and engaging in exchange and interaction with local communities in other ways.

For example, when PT. Kao Indonesia Chemicals relocated a factory, it installed a pump to access underground water, so that local people who had been making use of the clean water supply on the factory's premises could continue to have access to clean water after the factory was relocated.



Collaborating on the improvement of school facilities (Pilipinas Kao)



Presenting a scholarship (Kao Thailand)



Providing education about the beginning of menstruation (Kao (Malaysia))



Factory visit (Kao (Hefei))



Donating office furniture to a children's nursing home on the relocation of the factory (Kao Indonesia Chemicals)



Employees helping with the provision of support for the homeless (Kao Specialties Americas)



Working to beautify the local environment (Quimi Kao)



Supporting vocational training for disabled people by placing orders for the production of Kao's "Kizuna" series gift dolls (Kao Spain)

### Disaster relief in 2015

Global

Disaster	Company	Support provided
April 2015 Nepal Earthquake	Kao Corporation	Donated 1 million yen to Japan Platform (an NGO) to support disaster response efforts in the regions affected by the earthquake.
	Kao Specialties Americas LLC	Donations to American Red Cross etc. equivalent to 60,000 yen and employees' volunteer support.
Typhoon No. 18, Japan, September 2015	Kao Corporation	Donated 2 million yen through the Central Community Chest of Japan to help people affected by the storm and floods, and also donated Kao products to Joso City, Ibaraki Prefecture.
Volcanic eruption on Kuchinoerabu-jima Island, Japan, May 2015	Kao Corporation	Kao products were donated to Yakushima Town, Kagoshima Prefecture, to help the evacuated residents from Kuchinoerabu-jima Island.
Flooding in Indonesia	PT Kao Indonesia	Product donations equivalent to 350,000 yen and employees' volunteer support to help people affected by the flooding.
Flooding in Malaysia	Fatty Chemical (Malaysia), among other companies	Donated Kao products worth the equivalent of 200,000 yen to help people affected by the flooding.

To help the victims of the severe earthquake which struck Kumamoto in Japan in April 2016, Kao donated 10 million yen through the Japanese Red Cross Society. Kao products were also donated, including diapers for babies, adult diapers, sanitary napkins, hand soap, etc.



## Corporate citizenship activities—Community [EC7]

## Topic

## Activities supporting recovery in the Tohoku Region

The Kao Group continues to provide support for the recovery of the regions affected by the Great East Japan Earthquake of 2011. Immediately after the disaster, we provided donations and goods to support emergency response efforts. Subsequently, the main focus of our activities shifted to activities tailored to the needs of communities affected by the disaster, including the provision of daily necessities for families living in temporary accommodation, providing assistance for women's specific needs, offering emotional support, and helping to stimulate the revival of local industries; we have endeavored to provide the kind of support that was needed at each particular period of time. Currently, the main emphasis in the Kao Group's activities is on emotional support and industrial revival.

In 2015, in the area of emotional support, we participated in the Smile Tohoku Project, while in regard to industrial revival we worked with the Michinoku Revival Partners.

### ●Smile Tohoku Project

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*, and *Fukushima-Minpo*) located in the Tohoku region. By arranging for volunteers to work alongside local people on flower planting, or help them with hand-care, etc., the Smile Tohoku Project helps to deepen the exchange.

In 2015, a combined total of 317 Kao Group employees participated in Smile Tohoku Project activities; since Kao began its involvement with the project, over 1,000 Kao employees have traveled to Tohoku as volunteers. Regarding the visits to people living in temporary accommodation, which originated from the desire to have more direct involvement in the affected areas, a total of 30 locations were visited in 2015, making a cumulative total of 70 locations visited since the visits began. Providing hand-care for local residents gives an opportunity to hold their hands, interact with them and put a smile on their faces.

From listening to the members of the Disaster Recovery Story-telling Group, Kao employees were able not just to learn about what happened during the disaster, but also learn, in a compelling way, important lessons about disaster preparedness and disaster response.

Participating Kao employees commented that "It brought home to me just how much we should value our everyday lives," "I got a real sense for how, with the passing of time, the kinds of support that people need change too," and "I hope I can continue to participate in providing support for the region, in whatever form it takes." The Kao employees felt that they had learned a great deal from the experience, that it had enriched their thinking, and that they had been inspired by the attitude shown by local people.

### ●Michinoku Revival Partners

Kao has been participating in Michinoku Revival Partners, which was launched by ETIC. (Entrepreneurial Training for Innovative Communities) and seven business enterprises, and which aims to provide support for self-directed recovery in the Tohoku region. In this program, we provide support for entrepreneurs and next-generation leaders who are working to bring about Tohoku's recovery.

In May and November 2015, 50 Kao Group employees visited Minamisanriku-cho in Miyagi Prefecture, where they examined the current situation in the area and helped out as volunteers at the Onokashouen vegetable and flower cultivation facility. Mr. Ono, who runs the facility, is one of the young leaders of the region's economic revival, taking up the challenge of developing new distribution systems and seeking to create new job opportunities in the area. The Kao employees found their visit to Onokashouen very enlightening. Comments from participating employees included: "Having the opportunity to see and experience it for myself was the key to starting to feel that this was something of direct relevance to me personally," and "I was glad to have the chance to do something, however insignificant, to help the people living in the area."

- ▶Videos of some of Kao's activities can be viewed here:  
Kao Group employees volunteering in Minamisanriku-cho  
<https://www.youtube.com/watch?v=aQyvOmldbxA> (Japanese)
- ▶For details, refer to Michinoku Revival Partners  
<http://www.michinokupartners.jp/> (Japanese)



Providing hand-care for and laughing with residents of temporary accommodation



Writing a message on a marker stake to be placed in a flower-pot where flowers have just been planted



Kao employees working in the chrysanthemum fields



# Integrity [41,57,58,DMA,HR2,HR12,SO4]

**Kao strives to implement and establish compliance on a global basis in order to behave lawfully and ethically and conduct fair and honest business activities, while responding to changes in society.**

## 2015 activities

While continuing to implement existing compliance-related measures and activities, in order to develop a more objective picture of the effectiveness of compliance measures and activities so as to provide a basis for further improvement, Kao launched the Listening to Employees' Opinions Activity in 2015, through which we have been able to collect the views of a large number of Kao employees and verify their understanding of compliance issues. Building on this Listening to Employees' Opinions Activity, October 2015 was designated Compliance Awareness Month. During Compliance Awareness Month, a message from the Compliance Committee chairman was disseminated using posters, and compliance messages were also sent from the Executive Officers to individual divisions. In addition, voting was conducted to decide on a compliance logo, and tests were conducted to check understanding of the Kao Business Conduct Guidelines (BCG). Also in 2015, external experts conducted third-party auditing of Kao's compliance operations, focusing in particular on corruption prevention. Proposals for future improvements have been made in regard to the issues identified in this audit.

## Policies/structures

### Policies

Kao upholds the principle of Integrity, passed down from our founder, as one of the core values of its corporate philosophy, the Kao Way. Integrity means to behave lawfully and ethically and conduct fair and honest business activities. Kao regards Integrity as the starting point of compliance and promotes it as a foundation for earning the respect and trust of all stakeholders.

### Compliance promotion structure

Kao has established the Compliance Committee, chaired by the Representative Director and Senior Managing Executive Officer, and comprised of representatives of relevant divisions and affiliates.

The Compliance Committee:

- 1) reviews the establishment and revision of the Kao Business Conduct Guidelines (BCG) and other compliance-related internal guidelines;
- 2) implements educational activities to promote wider permeation and establishment of corporate ethics both in and outside of Japan; and
- 3) monitors the operation of and responses to the compliance hotlines once every six months, reports on important matters, provides an overview of activities and makes proposals to the Board of Directors as appropriate.

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

In addition to conducting these activities, Kao monitors and evaluates the activities and continues to improve them using the PDCA cycle.

### Auditing and monitoring structure

Kao conducts audits for compliance through the Department of Internal Audit, Global and monitoring of activities in a variety of formats.

### ●Auditing through the Department of Internal Audit, Global

The Department of Internal Audit, Global conducts regular internal audits for all companies and divisions of the Kao Group, which include verifying conduct on compliance-related issues based on guidelines related to entertaining and gift-giving.

### ●Self-appraisal of individual divisions

Once a year, the Compliance Committee members of individual divisions conduct self-appraisals concerning whether there are violations of the BCG and the progress of activities to promote compliance in their own divisions.

### ●Employee opinion survey

The Kao Group monitors the status of compliance awareness among employees through the company-wide opinion survey *Find* conducted every other year.

### ●Supplier satisfaction survey

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

➡For details, refer to p.107 Culture > Partnering with our suppliers > Supplier satisfaction survey

### ●Self-check exercises at seminars

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

## Integrity [41,57,58,DMA,HR2,HR12,SO4]

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

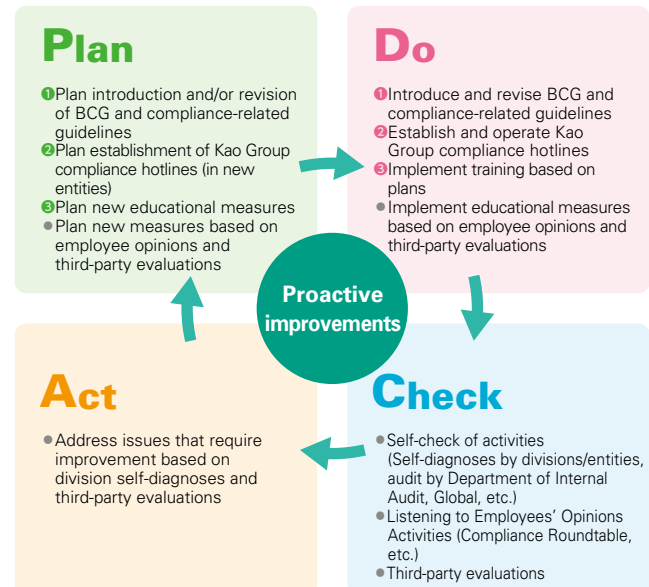
Global

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 other employees. Kao also used an evaluation of the compliance structure by an external consulting firm as a reference when formulating the compliance promotion action plan for the following year and thereafter.

In 2015, Kao implemented the Listening to Employees' Opinions Activity and Compliance Roundtable to provide an opportunity for dialog with the staff members of 19 departments and organizations including Kao Group companies, to find out employees' views on existing measures and their expectations for new measures they will adopt. Kao has also been listening to voices from outside the company, commissioning an accounting firm to evaluate Kao's compliance system and compliance activities.

#### PDCA Cycle for Compliance Activities



### Implementation of Compliance Awareness Month

Japan

Recognizing that compliance is each employee's responsibility and responding to the many requests from employees to make compliance activities more relevant to them personally, within Japan Kao has designated October as Compliance Awareness Month, timing this to coincide with the Nippon Keidanren's Corporate Ethics Promotion Month, and seeking to use this activity to spread compliance awareness more widely within the Kao Group.

During Compliance Awareness Month, a message from the Compliance Committee chairman is disseminated via the Kao company Intranet and by using posters, and compliance messages are also sent from the Executive Officers to individual divisions. In addition, case studies are disseminated, and refresher tests are administered to check knowledge of the Kao Business Conduct Guidelines (BCG) and, in 2015, voting was conducted to decide on a compliance logo.

Comments from Kao employees included: "Having employees of Kao Group companies vote on a campaign logo helped strengthen group cohesion" and "Providing a once per year opportunity to reflect on compliance issues is an innovative and exciting idea."

In 2016, the scope of Compliance Awareness Month implementation will be expanded to cover all of the Kao Group, including Kao Group companies outside Japan.



Compliance Awareness Month poster

## Integrity [41,57,58,DMA,HR2,HR12,SO4]

### Utilization of compliance-related rules

Global

The Kao Business Conduct Guidelines (BCG), which serve as Kao's corporate code of conduct, have been adopted by all Kao Group companies throughout the world.

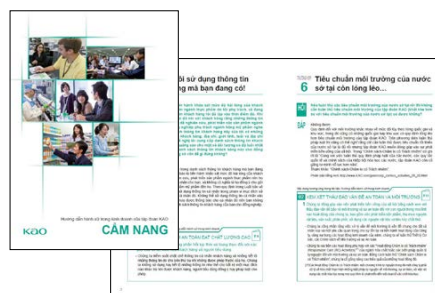
In addition, the Kao Business Conduct Guidelines Casebook, which covers possible scenarios relating to the BCG in Q&A format, has been compiled in both Japanese-language and English-language versions.

Reflecting the approach embodied by the BCG, Kao prohibits the giving and receiving of bribes regardless of the identity of the other party and bans facilitation payments in the Kao Anti-Bribery Guidelines, and prohibits the making of political donations in its Donation Guidelines. Kao Anti-bribery Guidelines are being drawn up and adopted for each region and company including Kao Group outside Japan.

Besides the measures noted above, Kao is also proceeding with the adoption at Kao Group companies outside of Japan of the Kao Guidelines for Avoiding Conflicts of Interest which requires particular forms of approval or notifications corresponding to specific situations in which there is a risk of a real, apparent or potential conflict of interest through competition, transactions, loans, personal investments etc. with the Kao Group.

The following measures were implemented in 2015:

1. The Kao Anti-bribery Guidelines and Kao Guidelines for Avoiding Conflicts of Interest were adopted in those regions where they had not been adopted in 2014 (including the U.S.A., Europe, the Middle East, Africa, Indonesia, and Singapore).
2. A total of 17 local-language versions of the Kao Business Conduct Guidelines Casebook were compiled, so that the Casebook could be shared with Kao employees in all countries and regions.
3. The content of the BCG was revised to reflect the measures implemented by the Kao Group since 2013 and the approach adopted by the Kao Group in relation to the global environment in which it operates; the revised version of the BCG took effect in April 2016.



Kao Business Conduct Guidelines Casebook (Thai language version)

4. It was confirmed that Kao had made no political donations in 2015.

### Activities to communicate and instill the BCG

Global

To deepen employee understanding of the BCG and other compliance-related Guidelines, Kao holds classroom-based training for new employees, newly appointed managers, executives working in Japan, and Group company employees outside Japan. In addition, an annual BCG refresher test is held to check knowledge of BCG content.

For 2015, specific targets were set for the following three items; the result achieved are outlined below:

1. BCG refresher test:  
Target: 95.0% completion rate  
Result: 96.4% completion rate (34,229 out of 35,483 eligible personnel)
2. Compliance training for Kao executives working in Japan:  
Target: 70.0% completion rate  
Result: 73.6% completion rate (1,369 out of 1,859 eligible personnel)
3. Integrity Workshops held overseas:  
Target: 85.0% completion rate  
Result: 85.0% completion rate (9,360 out of 11,000 eligible personnel)

Utilizing mainly the 16 instructors selected in late 2014, these training programs were extended to Kao Group companies in Europe in 2015.



Integrity Workshop (Finland)



Integrity Workshop (Norway)

- p.19 Kao Sustainability Statement > 2015 Results & 2016 Targets (Culture)

## Integrity [41,57,58,DMA,HR2,HR12,SO4]

### Establishment and operation of compliance hotlines

Global

#### Kao Group operational policy

In accordance with the needs of each country and region, Kao Group companies have established and operate both internal and external compliance hotlines or only external hotlines.

In operating the hotlines, after properly confirming the report and caller's needs, companies take steps to respect the individual's privacy, strive to ensure that callers suffer no disadvantage as a result of their good-faith consultation, and receive the caller's consent when a third party needs to be involved.

In 2015, there were 196 calls to the hotlines of the Kao Group including companies outside Japan, none of which presented a serious risk. About 70% of the calls concerned consultations about communications in the workplace.

#### Kao Group in Japan

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

#### Kao Group outside Japan

All Kao Group companies outside Japan have established and operate external compliance hotlines operated by an outside service provider, and the majority have also established internal compliance hotlines in which the company's HR manager or other representative handles inquiries.

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

anonymous reports.

In 2015, new hotlines were set up for Kao Group companies in Brazil and Norway.



**Together.**

Together... we can build a successful organization.  
Together... we can ensure an outstanding reputation.  
Together... we can protect our values.

Your role on our team is to speak up if you know of or suspect an unethical behavior. Our role is to listen. Report any violations or get more information by calling the number below or visit the website:

**Kao Group Integrity Line**  
[kagroupintegrityline.com](http://kagroupintegrityline.com)  
 Or by calling: 0800-850-0845  
 Confidential, Easy-to-use and Always Available

**kao**

Poster for the Integrity Line in Brazil and Integrity Cards for Brazil and Norway

**Kao Group Integrity Card**

When making a decision, ask yourself:

- Does the action comply with all relevant laws and regulations?
- Does it conform to company policy and/or rules including the Kao Business Conduct Guidelines?
- Can you legitimately justify the action internally and externally if they were to be reported by the press?
- Would you feel comfortable if similar action were taken against a member of your own family (e.g., Can it be considered discrimination, harassment, etc.)?

If you cannot answer "yes" to all the above questions, don't take such action. Make a decision only when you are completely satisfied.

**kao**  
Embracing lives, in harmony with nature.

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**Integrity Line:**  
Hotline number: 0800-850-0845

**INTEGRITY LINE:**

- Handles cases where it is difficult to approach your supervisor, department head or HR manager directly.
- Is available 24 hours a day for 365 days a year in many languages for compliance-related inquiries.
- External Integrity Line is a toll free number.
- Does not deal with personal problems in the workplace (except for cases of harassment), personal performance evaluations, salary and other dissatisfaction with working conditions.
- In order to investigate your report or inquiry, please note that a responsible person at a Kao Group company may handle your personal information.

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**Kao Gruppe Integritet-kort**

Når du skal ta en avgjørelse, spør deg selv:

- Betyr handlingen å overholde alle relevante lover og forskrifter?
- Er handlingen i samsvar med selskapets policy og / eller regler inkludert Kao Business Conduct Guidelines?
- Kan du legitime rettferdiggjøre handlingen internt og eksternt hvis de skulle bli rapportert av pressen?
- Vil du føle deg komfortabel hvis en lignende handling ble foretatt mot et medlem av din egen familie (f.eks. Kan det bli vurdert diskriminering, trakassering, etc.)?

Hvis du ikke kan svare "Ja" på alle spørsmålene ovenfor, ikke ta en slik handling. Ta en beslutning bare når du er helt sikker.

**kao**

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**Ekstern Integritets Linje:**  
Hotline number: 0800-12136

**Integritets Linje:**

- Håndterer tilfeller der det er vanskelig å ta opp problemet med overordnet, arbeidsleder eller HR-ansatt direkte.
- Tilgjengelig 24 timer i døgnet i 365 dager i året på mange språk for compliance-relaterte henvendelser.
- Ekstern Integritets Linje er et gratis telefonnummer (i utvekselt fra mobiltelefon).
- Håndterer ikke personlige problemer på arbeidsplassen (unntatt for tilfeller av trakassering), personlige evalueringer, lønn og annen mangnede arbeidsforholdene.
- For å undersøke din rapport eller henvendelse, vær oppmerksom på at en ansvarlig person i Kao Group kan håndtere din personlige informasjon.

### Response to compliance violations and serious violations in 2015

Global

Kao upholds a principle of disclosing serious violations of laws and regulations in the Kao Group's business operations.

\*However, in cases where there are legal or contractual confidentiality obligations, the risk of affecting public interest, the need to take privacy into consideration or other similar limiting factors, the violation may not be made public.

There were no serious compliance violations relating to the Kao Group's operations in 2015.

While there were cases involving fraudulent behavior for personal gain, criminal behavior (such as theft) for which formal criminal charges were not brought, and instances of sexual harassment, etc., none of these were serious enough to cause any significant harm to the company's reputation, and internal measures to remedy the situations have already been taken.



## Integrity [41,57,58,DMA,HR2,HR12,SO4]

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

Global

In March 2016, Kao was named to the list of the World's Most Ethical Companies 2016 by the U.S. think tank Ethisphere Institute. We have been on this list for 10 straight years, since the award's inception in 2007. Kao is the only Japanese company, and the only manufacturer of fast-moving consumer goods as well as chemicals, to be honored in all 10 years.

Selection of companies is based on the evaluation of five factors: (1) Ethics and Compliance Program; (2) Leadership, Innovation and Reputation; (3) Corporate Citizenship and Responsibility; (4) Governance; and (5) Culture of Ethics. In this year of the award, 131 companies around the world made the list. This recognition reflects the fact that the spirit of Integrity as passed on by our Kao predecessors continues to be implemented by all Kao Group members through practice of the Kao Way and the BCG.



Awards ceremony

### Measures ensuring full compliance in daily work

Japan

Kao assigns employees trained as "laws and regulations experts" to monitor trends in enforcement and amendments to laws and regulations related to its business, and to communicate information and educate as needed through

various means such as in-house workshops.

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

#### Laws and regulations revised in 2015 for which laws and regulations experts conducted relevant activities

- Laws and regulations relating to the rationalization of energy use, etc.
- Laws and regulations relating to the rationalization and appropriate management of fluorocarbon use
- Laws and regulations relating to the promotion of measures to safeguard the environment through environmental education etc.
- Basic Act on the Water Cycle (Japan) etc.

#### Number of laws for which laws and regulations experts have been appointed and the number of internal regulations registered as of the end of December 2015

Number of laws for which laws and regulations experts\* have been appointed: 340 laws in total from 92 laws and regulations experts

Number of internal regulations registered: 605

\* Laws and regulations experts

The managing division independently appoints laws and regulations experts for specified laws and regulations

### Management and use of intellectual property

Global

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

R&D-Intellectual Property focuses on patent rights, which indicate key company values such as capacity for technological development, as it promotes strategic applications in a broad range of fields. Brand Legal Management collaborates closely with the business divisions, considering cost-effectiveness while submitting and managing applications for design and trademark rights (some design rights are handled by the R&D-Intellectual Property department). Kao also actively pursues the acquisition of rights outside of Japan, while vigorously protecting the company against any infringements of its legal rights, both in and outside Japan. Most recently,

Kao has been pursuing measures against counterfeit products in Asia and other regions.

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

In 2015, Kao announced the licensing of Kao's patented technology for identifying causative microorganisms in food and beverage product incidents. It is anticipated that bringing this technology into more widespread use will help to enhance food safety and make a positive contribution to society.

# Human rights initiatives [LA15,HR2,HR11]

**Recognizing that human rights is an important issue, Kao has adopted the Kao Human Rights Policy in accordance with international human rights principles and is strengthening efforts in this area.**

## 2015 activities

Kao formulated and announced the new Kao Human Rights Policy, which is based on the United Nations Guiding Principles on Business and Human Rights, and is promoting awareness of it among Kao Group companies and divisions.

In addition, Kao is promoting the investigation and identification of human rights risks within the Group and in the supply chain.

## Policies/structures

As the globalization of corporate activities advances and the value chain expands, the risks of various human rights problems are increasing. As shown by the adoption of the United Nations Guiding Principles on Business and Human Rights\*<sup>1</sup> in 2011, the attention of the international community as a whole is focusing on the efforts of companies to address human rights issues.

In collaboration with a diverse range of stakeholders, the Kao Group promotes the achievement of the Kao Way mission, which is “to strive for the wholehearted satisfaction and enrichment of the lives of people globally and to contribute to the sustainability of the world.” In this collaboration, we firmly believe that fulfilling our responsibility to respect the human rights of various stakeholders in line with international standards is the foundation of our business activity.

In 2005 Kao declared its support for the United Nations Global Compact, which defines 10 principles in the four areas of human rights, labor standards, the environment, and anti-corruption. In addition, the Kao Business Conduct Guidelines, the Kao Group’s code of conduct, defines the policy of respect

for human rights and prohibition of child labor and forced labor. Kao also requires suppliers to show respect for human rights through the Guidelines for Suppliers’ Assessment.

Furthermore, in June 2015 Kao formulated and announced the new Kao Human Rights Policy. On the basis of this policy, Kao promotes group-wide efforts to respect human rights in business activities as a whole, including awareness raising and human rights due diligence.\*<sup>2</sup>

\*<sup>1</sup> 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

\*<sup>2</sup> Human rights due diligence  
Ongoing process to identify, evaluate, and avoid or mitigate impacts of corporate activities on human rights

➡Kao Business Conduct Guidelines  
[http://www.kao.com/jp/en/corp\\_info/compliance\\_01.html](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](http://www.kao.com/jp/en/corp_csr/procurement_04.html)  
➡Kao Human Rights Policy  
[http://www.kao.com/jp/en/corp\\_csr/csr\\_action\\_03.html](http://www.kao.com/jp/en/corp_csr/csr_action_03.html)

## Adoption of Kao Human Rights Policy

Global

In June 2015, after consultations among related internal divisions and with reference to the opinions of external experts, Kao formulated and announced the new Kao Human Rights Policy, which is based on the United Nations Guiding Principles on Business and Human Rights. In this policy, Kao declares its aim to respect the human rights of a diverse range of stakeholders, including employees, consumers, local communities, suppliers, and other business partners, throughout the entire process of *Yoki-Monozukuri*.

Furthermore, the policy stipulates that Kao respects and complies with international norms relating to human rights, such as the International Bill of Human Rights\*<sup>1</sup> and the International Labour Organization’s Declaration on Fundamental Principles and Rights at Work,\*<sup>2</sup> which stipulates core labor standards, including the effective abolition of child labor and the elimination of all forms of forced or compulsory labor. The policy also states that Kao will comply with the laws applicable

in each country and region in which it operates. If there are conflicts between internationally recognized human rights and the laws of a country or region, Kao will follow processes that seek ways to honor the principles of international human rights.

As specific activities, the policy states that Kao will conduct human rights due diligence and will investigate and identify human rights risks in the business activities of the Kao Group, take measures to prevent or mitigate them, report the results, and promote awareness raising among employees.

\*<sup>1</sup> International Bill of Human Rights  
Consists of the Universal Declaration of Human Rights and the International Covenant on Civil and Political Rights

\*<sup>2</sup> ILO Declaration on Fundamental Principles and Rights at Work  
Declaration defining core labor standards adopted at the International Labour Conference in 1998

## Human rights initiatives [LA15,HR2,HR11]

### Process of human rights due diligence

Global

At present Kao is making the following efforts to investigate and identify human rights risks involving the Kao Group.

#### ●Efforts of the Kao Group

As a part of self-inspection in responsible care activities, Kao implements the management and secretariat auditing of occupational safety and health check sheets related to human rights targeting Kao Group companies both in and outside Japan. In addition, Kao conducts surveys of overseas production sites and Kao Group companies both in and outside Japan through self-check sheets. Furthermore, Kao has formulated voluntary inspection sheets based on the Kao Business Conduct Guidelines for checks at Kao Group companies and production sites within Japan.

#### ●Efforts in the supply chain

Kao requires suppliers to conduct self-assessment based on Kao's Guidelines for Suppliers' Assessment and monitors the results. In December 2014 Kao became a member of the

Supplier Ethical Data Exchange (Sedex\*), the world's largest membership organization for sharing ethical supply chain data, and has been considering its utilization. In the fall of 2015 Kao first of all began to request overseas suppliers to register with Sedex and enter their replies. Since January 2016 Kao has been holding explanatory meetings for suppliers in Japan and is urging them also to register with Sedex and enter their replies.

In addition to Kao's own self-assessment, Kao will conduct more detailed human rights risk assessment based on the contents of the replies to Sedex and link it to the identification and mitigation of human rights risks and the prevention of human rights violations.

➡p.107 Culture > Partnering with our suppliers > Status of the Guidelines for Supplier's Assessment > Social: Number of suppliers monitored and percentage meeting CSR Procurement Standards

\* Sedex (Supplier Ethical Data Exchange)

➡p.106 Culture > Partnering with our suppliers > Goals\*1

### Training and communication

Global

After the formulation of the Kao Human Rights Policy in June 2015, explanatory meetings (including online meetings) were held on 22 times by December 2015 with the aim of raising awareness among Kao Group companies and divisions. In addition, efforts to disseminate the policy were made by distributing the Kao Sustainability Report 2015 and the company newsletter, both of which carried articles introducing the Kao Human Rights Policy, to all employees of the Kao Group. The importance of diversity and respect for human rights was also explained at various training sessions.

Furthermore, in September 2015 Kao participated in the Business and Human Rights Conference in Tokyo 2015. The opportunity to listen to presentations by experts on human rights from around the world and to hear about the activities of other companies enabled Kao to understand the latest world trends relating to business and human rights. Kao's own activities were introduced as well.



Training session on human rights at Kanebo Cosmetics

# Partnering with our suppliers [DMA,LA15,HR11,SO10]

**Kao acts legally and ethically as it engages in fair and impartial procurement activities. While aiming to contribute to the realization of a society with sustainable development, we fulfill our corporate responsibilities with consideration for resource protection, environmental conservation, safety and human rights.**

## 2015 activities

Besides undertaking procurement of sustainable raw materials, in 2015, Kao began asking Group companies outside Japan to request that their suppliers join Sedex and establish the relevant data access privileges.

Kao has also been responding to society's expectations in other ways, for example by responding to requests for information from the CDP Forest Program and proceeding with assessment.

## Policies/structures

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

➡For details, refer to Policies for Procurement  
[http://www.kao.com/jp/en/corp\\_csr/procurement\\_00.html](http://www.kao.com/jp/en/corp_csr/procurement_00.html)

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

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

Kao's standard contract with its suppliers has clarified provisions concerning issues such as the environment, human rights and labor. It is used when the contracts are newly concluded or renewed.

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

➡For details, refer to Guidelines for Supplier's Assessment  
[http://www.kao.com/jp/en/corp\\_csr/procurement\\_04.html](http://www.kao.com/jp/en/corp_csr/procurement_04.html)

## Goals

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

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

In 2014, Kao joined Sedex,<sup>\*1</sup> the largest organization in the world working to promote the sharing of corporate ethical data. In 2015, Kao has been instructing overseas affiliates to request that their suppliers also join Sedex, and that they establish the relevant data access privileges. In the future, we will also be notifying suppliers in Japan and requesting that they join Sedex and establish data access privileges. This will help to expand the scope of the self-assessment results currently being implemented in Japan and the supplier risk assessment reports compiled by our buyers.

We have also been undertaking a number of self-assessment activities in relation to the environment. In the areas of climate change prevention and water resource use, Kao is implementing risk management through participation in the CDP Supply Chain Program,<sup>\*2</sup> and through implementing a response to the CDP Forests Program<sup>\*3</sup> relating to forest resources.

<sup>\*1</sup> Sedex (Supplier Ethical Data Exchange)

A large-scale, global platform for the sharing and verification of information relating to labor standards, health and safety, environmental protection and business practices, aimed at promoting the adoption and maintenance of ethical business practices in global supply chains.

<sup>\*2</sup> CDP (Carbon Disclosure Project) Supply Chain Program

CDP is an international NPO (with its headquarters in London) that is sponsored by institutional investors; CDP implements various activities to encourage business enterprises etc. to disclose information relating to climate change, water use and forest resource use. The CDP Supply Chain Program is an initiative in which participating enterprises ask the firms that make up their supply chain to disclose information relating to climate change and water resource use via the CDP platform.

<sup>\*3</sup> CDP Forest Program

A CDP initiative in which enterprises are asked to disclose information regarding forest resource management and usage status, etc.



## Partnering with our suppliers [DMA,LA15,HR11,SO10]

### Status of the Guidelines for Supplier's Assessment

Global

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

	Suppliers to Kao Corporation	Suppliers to the Asian Kao Group
2011	796 (99%)	504 (97%)
2012	860 (99%)	610 (97%)
2013	883 (99%)	726 (98%)
2014	906 (99%)	823 (98%)
2015	1,168 (96%)	994 (98%)

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

	Supplier plants to Kao Corporation	Supplier plants to the Asian Kao Group
2011	685 (99.6%)	383 (98%)
2012	767 (99.6%)	463 (98%)
2013	818 (99.5%)	541 (98%)
2014	879 (99%)	608 (97%)
2015	1,254 (97%)	750 (97%)

### Supplier satisfaction survey

Japan

Kao conducts supplier satisfaction surveys every three years in order to ensure that procurement activities are carried out fairly and equitably. The most recent supplier satisfaction survey

was implemented in 2013. These surveys are conducted anonymously by an outside institution, and the results are incorporated into our policies.

### Implementation of vendor summits

Global

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

We also hold them for our partners at main Kao group companies overseas. There, we strengthen partnerships with suppliers.

The 2015 vendor summit saw a detailed explanation of the measures that Kao is implementing to strengthen collaboration with suppliers, including a request for suppliers to cooperate actively with us on the CDP Supply Chain Program, and an advance announcement of the supplier commendation system that is being launched in 2016, etc.

#### Number of companies that participated in the vendor summit

(Number of companies)

	Held in Japan	Held outside Japan	Total
2011	183	187	370
2012	—	205	205
2013	184	151	335
2014	183	233	416
2015	214	285	499

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

## Partnering with our suppliers [DMA,LA15,HR11,SO10]

### Employee training and education

Japan

Kao has educated its 25 new Procurement Division employees in our basic approach to procurement such as fairness and equity, adherence to laws and ethics, and social responsibilities. Through such training, we strive to encourage our employees in understanding of global social issues such as human rights and labor which are required ISO26000 and United Nations Global Compact (UNGC) principles.

In 2015, Kao has implemented training for Procurement Division employees in our Human Rights Policy and in the utilization of Sedex to implement effective verification of human rights risk.

### Promoting certification testing

Japan

With the aim of educating all Procurement Division employees in the relationship between business operations, society and the environment, and encouraging them to modify their behavior accordingly, starting from 2012 Procurement Division employees have been encouraged to take the Certification Test for Environmental Specialists (Eco Test<sup>\*1</sup>). The Division's target of having 70% of Procurement Division employees certified has already been exceeded.

Starting from 2015, we are encouraging Procurement Division employees to take the Examination of Compliance Proficiency for Practical Business (ECPBP)<sup>®</sup>.<sup>\*2</sup> In the first year of implementation, a total of 33 employees passed the ECPBP exam.

#### \*1 Eco Test

The Certification Test for Environmental Specialists (Eco Test) promotes an environmentally and economically sustainable society through development of human capital able to address environmental issues based on a broad understanding of the environment. The Eco Test has been administered by the Tokyo Chamber of Commerce and Industry since 2006.

#### \*2 ECPBP

The Examination of Compliance Proficiency for Practical Business (ECPBP)<sup>®</sup> aims to cultivate compliance skills that embody an awareness of the social expectations that underpin compliance-related laws and regulations, and a systematic understanding of the laws and regulations that are particularly important for business enterprises. The ECPBP was launched in 2005 by Japan's Certify Competence Examination Committee.

## Partnering with our suppliers [DMA,LA15,HR11,SO10]

### Promoting the sustainable procurement of raw materials

Global

Responding to risks to sustainable development such as resource constraints, environmental issues (such as degradation of biodiversity and global warming), and human rights issues, Kao implements initiatives toward sustainable procurement of raw materials. As entire supply chain management is important, Kao participates in the CDP Supply Chain Program, which seeks to curtail climate change, asking its main suppliers to disclose and curtail GHG emissions. Kao also cooperates with suppliers to rationalize logistics and reduce the environmental impact created by its procurements.

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

Kao has undertaken the following specific initiatives.

➡The text of the Guidelines for Sustainable Procurement of Raw Materials  
[http://www.kao.com/jp/en/corp\\_csr/procurement\\_05.html](http://www.kao.com/jp/en/corp_csr/procurement_05.html)

➡p.48 Conservation > Measures for biodiversity conservation

#### 1. Procurement of certified sustainable raw materials

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

With regard to procurement of palm oil and palm kernel oil, besides joining the Roundtable on Sustainable Palm Oil (RSPO) and promoting the obtaining of supply chain certification and the procurement of certified sustainable palm oil, we are also taking measures to ensure traceability (all the way back to the source) of all palm oil and palm kernel oil that the company purchases, by 2020. As of the end of 2015, we had completed confirmation of mills. However, as there are still some cases of derivative products purchased from external suppliers where the mill that produced the original raw material cannot be confirmed, we will continue to undertake further confirmation work, and will also be purchasing RSPO certified materials as a supplementary measure.

Regarding procurement of paper and pulp, we are aiming to ensure that, by 2020, all paper, pulp and packaging materials used in Kao products, and all paper used in Kao offices, are either recycled paper or paper from a sustainable source. In particular, in the case of pulp, by 2020 Kao aims to be purchasing only pulp that has traceability back to the area where the timber was logged. As of the end of 2015, 96% of the material procured (by weight) was from sustainable sources.

#### 2. Sustainable sourcing of natural plant resources

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

➡p.33 Highlights: Culture > Responding to the hopes and expectations of the global community > Sustainable procurement of raw materials

#### 3. Initiatives to reduce dependence on fossil-based resources in packaging

Kao continues efforts to reduce total volume of plastics used through minimization of container size and development of refill packaging, while promoting use of biomass materials such as bio-polyethylene in containers and packaging.

➡p.56 Conservation > Environmentally-conscious containers and packaging

#### 4. Green procurement

With regard to the procurement of indirect materials such as stationery and office supplies, in line with the Ministry of the Environment's calls to implement green procurement, Kao has formulated Green Procurement Standards, which give priority to the purchasing of environmentally conscious products. The Standard achievement rate in 2015 was 75%; Kao is working to raise this figure to 100% as soon as possible.

\* ABS (Access and Benefit Sharing)

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

# Human capital development [DMA,LA10]

**People are a company's most important asset. Kao strives to create an environment and corporate culture in which both individuals and the company can achieve growth through maximizing each employee's potential and making a positive contribution to society.**

## 2015 activities

We support the development of employee capabilities in line with employee preferences and organizational objectives through a range of methods that transcend national boundaries and extend beyond the company itself.

In 2015, we implemented our Global Leadership Development Program and skill enhancement training for managers worldwide. We also continue to put in place systems to ensure that each individual employee's performance is evaluated fairly and objectively, and that this evaluation is reflected in employees' compensation and career development in a standardized manner in all Kao Group Companies.

## Policies/structures

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

### Guidelines for Human Capital Development

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

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

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

### Vision of Human Capital Development

#### Ideal Organization

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

#### Ideal Human Capital

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

## Human capital development across countries and across companies

Global

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

To more effectively promote cross-border and cross-company human capital development, and to conduct even more detailed discussions of each region's issues and initiatives, beginning in 2013 Kao has been conducting Regional Human Capital Development Conferences regularly, in addition

to the existing Global Human Capital Development Conference centered around those in charge of human capital development in Japan, Europe, the United States, and Asia.

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



## Human capital development [DMA,LA10]

### Training programs that promote growth by helping employees to identify and develop their capabilities

Global

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

In cultivating future leaders who can drive Kao's global business development, Kao collaborates with leading international business schools to implement intensive training. Besides working to enhance trainees' management skills, there is also a concerted effort to build human networks and to disseminate the values associated with Kao's *Yoki-Monozukuri*.

At the same time, in-house trainers are cultivated at individual

Kao business locations around the world, working with speed and attention to detail to ensure that all Kao employees absorb the Kao Way and Kao's emphasis on integrity.

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

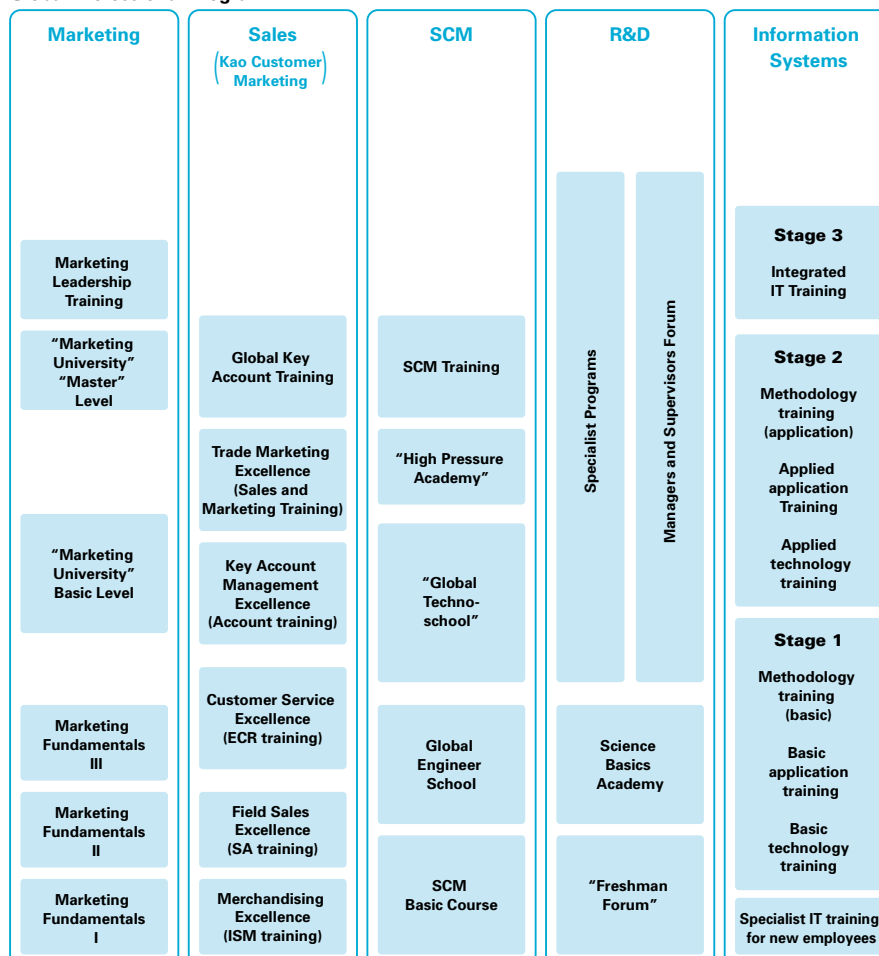
In 2015, training was implemented to cultivate 17 in-house instructors to provide training in negotiation skills and project management within the Asia region. More training programs of this kind will be implemented in future in line with the training needs of each country.

#### Kao Group Global Common Training Program Scheme

##### Global Common Program



##### Global Professional Program



#### Training expenditure per employee (Kao Group)

2013	2014	2015
55,000 yen	63,000 yen	69,000 yen

## Human capital development [DMA,LA10]

### Global leader cultivation

Global

The Global Leadership Development Program has been implemented as a global program common to all Group companies, in which members selected from individual Kao Group companies in and outside Japan study Kao's challenges from a broader perspective and make proposals to top management. The Program had 28 participants in 2015.



The Global Leadership Development Program completion ceremony

### Implementation of training to enhance managers' skills

Global

We have implemented the rollout of the Managing Human Performance Program (MHPP) in each country across the globe to strengthen line management capabilities.

In 2015, we implemented training conducted by internal instructors in the Asia region (in Thailand, Malaysia, and Singapore). Two training programs were also implemented in the U.S., with a total of 43 participants.



Manager training at Kao Specialties Americas

### Fair and transparent evaluation and compensation

Global

Kao clearly states the roles and responsibilities of its employees and endeavors to fairly evaluate their performance on a regular basis, and appropriately reflect achievements in rewards and compensation.

Since January 2013, Kao has standardized its performance management system with affiliates in Japan, Europe, the Americas, and parts of Asia, and has put into full-scale operation an infrastructure to facilitate fair and transparent evaluations by common metrics.

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

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

The performance management system and SeEDS are the twin engines driving human capital development in the Kao Group, and we continue to move ahead with cross-border, cross-company cooperation and collaboration so that the maximizing of individual employees' potential can be integrated effectively with Kao's business development, with employees and Kao contributing to one another's growth.

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

**Kao intends to bring new value to society with the vitality generated from diversity and respect for human rights, so as 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.**

### 2015 activities

Evaluating and promoting employees based on their ambition, the percentage of our female managers has been rising. In the Kao Group as a whole (including overseas Group companies), as of December 2015, 27.5% of managers were female.

As part of our efforts to create a workplace environment in which disabled employees can maximize their potential, the CEO's messages to the company are now supported by sign language interpreting or real-time captioning. We have also put in place company-wide consultation systems, with Employment Counselors for People with Disabilities playing a key role.

### Policies/structures

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

As we work to open up appropriate paths to employees with motivation and ability, we are also continuing our activities aimed at the building of a corporate culture that allows a diverse range of employees to flourish.

In particular, we recognize a need to promote diversity in Japan. To that end, starting from 2000 we have been implemented Equality Partnership (EPS) promotion activities.\* As part of these activities, we have established an awareness month focused on gender, disability and human rights, and we bring together representatives of our head office and various worksites and Kao Group companies in Japan for regular EPS Awareness Activities Meetings, with the goal of ensuring that these concepts are disseminated throughout the Kao Group as a whole.

\* Equal Partnership (EPS) promotion activities

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



The 5<sup>th</sup> EPS Awareness Activities Meeting

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

### Utilization of diverse human capital

Global

Kao works to fairly evaluate and promote each individual employee, and to develop those with motivation and ability into global leaders, regardless of gender, nationality, or other factors. For example, half of those participating in our Global Leadership Development Program are employees of Group companies outside Japan. The program regularly includes female participants.

As of the end of 2015, women held 10.4% of management positions in our domestic Group companies as a whole, and 8.7% in Kao Corporation. While there are differences depending on the type of job and employment status, the number of female employees at Kao Corporation in the areas of consumer product marketing and planning, product development, publicity, consumer communications and PR, and social contributions equals or surpasses the number of male employees, and many women are flourishing in positions of responsibility.

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

#### Number of Kao Group employees (regular employees)

	Total (persons)	Male (persons)	Female (persons)	Percentage of female employee
<b>Total</b>	33,026	15,686	17,340	52.5
<b>Japan</b>	22,105	9,981	12,124	54.8
<b>Asia and Oceania (excluding Japan)</b>	7,091	3,679	3,412	48.1
<b>Europe and the Americas</b>	3,830	2,026	1,804	47.1

#### Status of regular employees (Kao Corporation)

	2013	2014	2015
<b>Regular employees (persons)</b>	6,172	6,664	6,970
<b>Male</b>	4,874	5,188	5,414
<b>Female</b>	1,298	1,476	1,556
<b>Percentage of female employees (rate)</b>	21.0	22.1	22.3
<b>Percentage of female managers (rate)</b>	8.1	8.5	8.7
<b>Average age</b>	42.3	42.0	41.7
<b>Male</b>	43.5	43.1	42.6
<b>Female</b>	38.1	38.3	38.6
<b>Average length of employment (years)</b>	19.4	19.1	18.5
<b>Male</b>	21.1	20.6	19.8
<b>Female</b>	13.1	13.8	14.1
<b>Number of recent graduates hired (persons)</b>	238	268	264
<b>Male</b>	170	193	195
<b>Female</b>	68	75	69
<b>Turnover (rate)</b>	0.4	0.6	0.7

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

Japan

To support the lifetime career development of its employees, Kao offers employees approaching the age of 45 a Life Career Design Seminar, giving participants an opportunity to take the initiative in thinking about their own working careers through an understanding of their individual values (in 2015, 112 employees participated). For those in their late 50s, Kao also holds the Life Plan Seminar designed to support post-retirement life planning, offering explanations of the public pension system and simulations of budgeting for life on a pension (in 2015, 401

employees participated).

Kao has also introduced the Senior Partner Policy, which re-employs retired employees, with the goal of proactively promoting motivated, capable seniors and creating an environment in which their skills can be leveraged to the fullest.

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

#### Number of instances of re-employment after retirement (Kao Corporation)

Year	Number of employees who reach the retirement age*	Number of re-employment after retirement	Percentage
<b>2013</b>	116 persons	64 persons	55.2%
<b>2014</b>	152 persons	116 persons	76.3%
<b>2015</b>	125 persons	94 persons	75.2%

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



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

### Creating a workplace that respects human rights and free from harassment

Japan

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

In 2015, case studies on sexual harassment and bullying by supervisors, etc. were included as part of the compliance training provided for Kao Group managers. As a result of this training, managers were able to appreciate the importance of harassment prevention from the perspective of those affected by it. In addition, harassment prevention sessions targeting mainly supervisors, making use of DVDs and incorporating anger management\*<sup>1</sup> training were held at Kao Customer Marketing Co., Ltd. (CMK), and human rights training etc. was implemented for all staff at Kanebo Cosmetics Inc.

Additionally, Kao designates December of each year as

Human Rights Awareness Month, and conducts awareness education through distribution of newsletters and through poster displays and other efforts. In 2015, we issued a newsletter focused on the themes of harassment of non-regular employees and harassment of LGBT\*<sup>2</sup> employees.

We also continue to implement our annual self-assessment using a self-check sheet that summarizes relevant laws and regulations with respect to Diversity & Inclusion and classifying them into 68 items in 10 groups. We not only observe laws and regulations, but also achieve recommended targets for most of those items.

\*1 Anger Management

Psychological training aimed at helping employees to manage anger effectively

\*2 LGBT

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

### Promoting female employees' engagement

Global

#### Women's abilities are indispensable

In 1934, Kao established the Nagase Housework Science Laboratory, where female employees played an important role. Since then, Kao has continued to recognize the vital role that female employees play in developing the company's business operations. In September 2010, Kao signed the Women's Empowerment Principles, which are international guidelines for women's participation in society based on UN Women and the UN Global Compact.

#### Expanding the number of female managers

Evaluating and promoting employees based on their ambition and abilities leads to expanded roles for female employees. As of March 2016, Kao had one female Managing Executive Officer, and one female Executive Officer. A further two women held Executive Officer positions at Kao Group companies in Japan.

Kao's percentage of female managers tends to rise over the past several years, and stood at 27.5% as of December 2015 for the Kao Group including Group companies outside Japan; the percentage of female managers in the Kao Group in Japan was 10.4%.

There are many different types of workplace within the Kao Group, and the issues faced by female employees vary from workplace to workplace. To help speed up the process of creating more opportunities for female employees, Kao has been building on the proposals made in the human capital activation project implemented in 2014 and on the results obtained from internal questionnaires and manager hearings, by identifying problems in individual divisions and Group companies, holding discussions, and formulating and implementing appropriate plans in response.

In the future, the Kao Group as a whole will redouble its efforts to create a female-friendly workplace environment and to expand the opportunities for female employees to maximize their potential.

➡p.9 Non-financial highlights > Percentage of female managers

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

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

Japan

In line with its basic policy “Striving for a society where people with and without disabilities work and live together, Kao creates workplace environments for employees with disabilities that are conducive to work and offer reward.” Kao actively promotes recruiting both at its regular workplaces and at its special subsidiary.

#### Measures implemented at regular workplaces

As part of Kao's efforts to support the transmission of information to hearing-impaired employees, starting from 2015 the CEO's biannual message to all Kao employees is being supported with sign-language interpreting and real-time captioning.

In addition, in response to the coming into effect of the amendments to the Act on the Promotion of the Employment of Disabled Persons in April 2016, in 2015 we undertook a process of identifying and responding to issues relating to this area. To strengthen the provision of support for disabled employees, we have put in place a company-wide consultation system based around the Vocational Life Consultants for Persons with Disabilities. Disabled Employee Support Meetings are held for Advisors, as part of our efforts to improve the support system and strengthen its foundations.

Through measures of this kind, we continue to work towards the creation of a workplace environment that meets the needs of disabled employees.

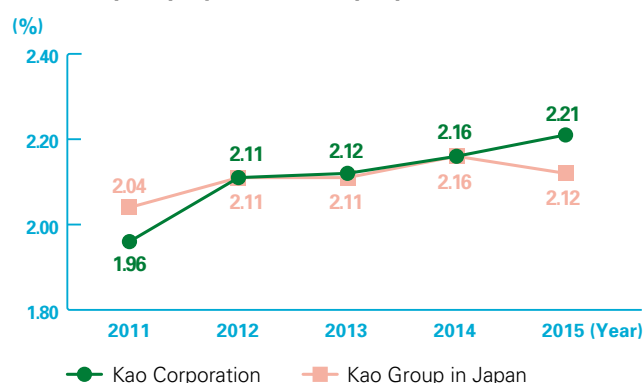
#### Measures implemented at special subsidiaries

Kao Peony Co., Ltd. was established as a special subsidiary in October 2005, with the goal of encouraging hiring of those with disabilities. As of January 2016, a total of 22 employees work there, including 19 with intellectual disabilities; they are primarily involved with packaging sets of cosmetics and personal care products.

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

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

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



(As of June 1, 2015)

\* Calculation based on inclusion of 11 domestic affiliates that are required to employ people with disabilities (Kao Corporation, Kao Customer Marketing Co., Ltd., Kao Field Marketing Co., Ltd., Kao Professional Services Co., Ltd., Kao Sanitary Products Ehime Co., Ltd., Kao Logistics Co., Ltd., Kao Business Associate Co., Ltd., Kanebo Cosmetics Inc., e'quipe, LTD., Kao Cosmetic Products Odawara Co., Ltd.) and special subsidiary Kao Peony Co., Ltd.

# Promoting dialogue with employees

**Kao firmly recognizes good employee relations as one of the most important aspects of the company's corporate culture. In addition to creating various communication opportunities, we conduct an employee opinion survey on a regular basis.**

## 2015 activities

In addition to the Group-wide action plan which was drawn up on the basis of the results obtained in the 2014 *Find* employee opinion survey, we have also been implemented individual action plans based on discussion in the workplace with regard to issues affecting each Group companies and departments.

On the basis of discussion in Employee-Management Meetings, we have also launched a new initiative. Issues that require ongoing review are identified and the progress made in tackling these issues is verified with employee representatives as a basis for further discussion.

## Policies/structures

### Deepening understanding between senior management and employees

Kao strives to foster understanding between senior management and employees by facilitating various opportunities, both in and outside Japan, for mutual talks, with the objective of developing unity throughout the Kao Group and enhancing employee motivation.

In Japan, we provide an opportunity to exchange opinions whereby, twice a year, the senior management, including the President, explains the company's current situation and priority issues regarding human capital development etc. to employee representatives and also answer questions from employees. Since 2011, we have called this opportunity the "Kao Forum," and we are expanding the range of participating companies to include all Kao Group companies in Japan. We also continue working to develop a system whereby each individual employee can participate more proactively in these kinds of communication.

In addition, we hold Employee-Management Meetings, and have formed Employee Welfare Committees, in workplaces throughout Kao Group companies within Japan. In other countries, various opportunities for employee-management communications have been established, such as the Kao European Forum in Europe and the labor union in China.



The Kao Forum

## Promoting dialogue with employees

### Promoting the development of a highly-motivating workplace environment through the *Find* employee opinion survey

Global

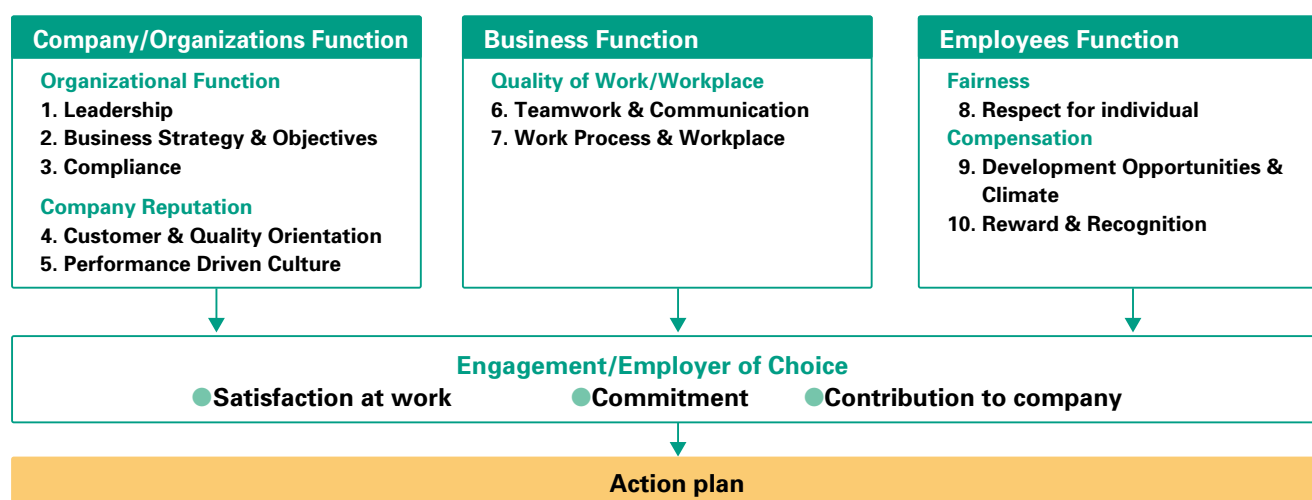
The Kao Group implements the *Find* employee opinion survey every two years on a Group-wide basis, with the aim developing a workplace environment in which employees feel highly motivated. The *Find* survey helps to further enhance areas where the organizational culture and functionality is already strong, and facilitates the identification of weaknesses and areas where response to changes in the wider environment has been slow, so that all employees can work together to realize improvements.

In 2015, besides implementing the Group-wide “Commit to

the fundamentals of organizational management with everyone’s involvement” action plan which was drawn up on the basis of the results obtained in the 2014 *Find* survey, the action plans formulated by companies and divisions following discussion of their own specific issues were also put into effect in a coordinated manner.

The eighth *Find* survey is scheduled to be implemented in 2016. All Kao employees will be working to achieve a further enhancement of the Kao Group’s overall organizational cohesion.

#### Questionnaire items for *Find*



### Making effective use of the Employee-Management Meetings in reviewing the personnel system

Japan

Kao holds Employee-Management Meetings on a biannual basis. At these meetings, employee representatives chosen from the members of the Employee Welfare Committee submit and discuss proposals in relation to issues that have previously been discussed by the Employee Welfare Committee of each office, including issues relating to organization, the workplace, human capital development, and employee welfare policies and systems. To ensure that the

discussion does not end at the meetings, issues that require further examination are identified and followed up, with the progress reached being explained and confirmed on an ongoing basis.

Kao aims to build systems for effective discussion that bring employees and the company together to realize improvements in company organization and in the workplace environment.



## Work-life balance [LA3]

**Kao endeavors to create pleasant workplace environments so that all employees can achieve a synergistic balance between work and life, combining rewarding careers and fulfilling private lives.**

### 2015 activities

In order to assist the efforts of employees to balance work and bringing up child, Kao expanded the child-raising services provided by the Kao Family Welfare Association and promoted awareness of them. Focusing on the Kinki area as a model district, Kao also promoted the utilization of an external service to support child raising. Furthermore, with the aim of realizing more flexible and diverse work patterns, Kao introduced flextime and new hourly leave system.

### Policies/structures

Kao considers work-life balance to be one component in the shaping of an environment to promote Diversity and Inclusion. In accordance with the situation in each country, we strive to enhance a variety of support systems and promote the creation of better workplace environments.

For instance, in balancing work and child and/or nursing care, we are committed to a corporate culture that encourages utilization of these systems. To do so, we have established an awareness month and conduct awareness-raising activities.

Through our EPS Awareness Activities Meetings, we work to ensure that these programs reach all of our employees. We will continue our efforts to raise the awareness of each of our employees and cultivate an appropriate workplace culture.

➡For details, refer to p.113 Culture > Promoting Diversity & Inclusion and respecting human rights > Policies/structures

### Balance support systems

Japan

Kao has put in place a variety of systems for supporting work-life balance to assist employees who have child rearing and nursing care responsibilities. To make these systems easy to understand for employees, we have also created the Work and

Life Balance Guidebook, which includes descriptions of in-house and external systems and other useful information. It has been made available on our intranet.

#### Systems for supporting work-life balance

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

## Work-life balance <sup>[LA3]</sup>

### Supporting a balance between work and child-care

Japan

Kao provides a variety of support based on the policies of “child-care requires full participation from each partner regardless of gender” and “creating an environment in which employees can display their abilities even within limited time and continue working.”

#### From childbirth to return to work

To help ensure that employees who have taken an extended childcare leave can enjoy a smooth return to the workplace, Kao has introduced systems by which such employees meet with their supervisors prior to their leave and return and submit regular reports with updates on their situations (child-care leave reports). In addition, Kao holds special seminars on an annual basis to assist employees who will soon be returning to the workplace, encouraging both employees and their partners to attend, to think about their career and child-raising together. At these seminars, Kao provides special programs where employees who have been on leave can learn about the preparations they need to make before returning to work and their partners can learn useful information and techniques to carry out work-life balance as parents.

Furthermore, in response to the serious problem of the long list of children having to wait to enter day-care facilities in the Tokyo metropolitan area, Kao has established an on-site day-care center, called Merries Garden, at the Head Office of Kao Corporation (Kayabacho office) with the aim of supporting employees' return to work.

Kao also tries to make it easier for male employees to take childcare leave, distributing awareness-raising pamphlets to those with newborns and their supervisors.

Workplaces are becoming more understanding, and the ratio of employees taking child-care leave is high—nearly 100% for eligible female employees and about 40% for eligible male employees.

#### After return to work

Kao offers a variety of events that provide new opportunities for employees to meet and share their experiences. These include F&M (Father & Mother) Meetings for employees currently raising children, roundtable talks with other female employees who are also mothers, and work-life management seminars conducted by outside instructors for male employees.

In order for employees to be able to display their abilities even within limited time and continue working, we believe that one measure is to make childcare services available to them. In 2015 Kao expanded the child-raising services provided by the Kao Family Welfare Association and promoted awareness of them. Furthermore, focusing on the Kinki area as a model district, Kao promoted the utilization of an external childcare sharing service\* in which parents help one another in looking after children. As well as this effort in the community, there was also an example of mutual assistance between the employees of Kao Customer Marketing Co., Ltd. and the beautician employees of Kanebo Cosmetics Sales Inc. Kao hopes that such efforts can take root in other regions as well.



The Merries Garden: on-site day-care center

\*Childcare sharing service  
Operated by AsMama Inc., this service involves mutual cooperation among acquainted parents in a community in taking children to and from day-care facilities and looking after them.

#### Use of childcare support system (Kao Group in Japan)

		2013	2014	2015
No. of employees taking child-care leave (persons)	Female	647	638	640
	Male	75	106	127

### Supporting a balance between work and nursing care

Japan

Kao promotes the establishment of schemes to support a balance between work and nursing care based on the policies of enabling individuals to act on their own initiative and encouraging everyone to help one another in a spirit of mutual cooperation.

Based on the results of a survey of employee circumstances regarding nursing care in 2009, Kao established a mid-term action plan and has been working to promote a system for supporting a balance between work and nursing care, focusing on addressing the heavy mental burdens placed on those providing nursing care for family members by strengthening the nursing care consultation system and through awareness raising

in the workplace.

Kao holds nursing care seminars every year. In 2015 such seminars were held at four places in Japan. Kao also continues to disseminate information about nursing care via the company newsletter and to implement case-study-based training for new managers.

Furthermore, Kao endeavors to make in-house information useful to society at large, for example by participating as a member in the Committee to Study Projects to Support Work-Care Balance (commissioned by the Ministry of Health, Labour, and Welfare).

## Work-life balance [LA3]

### Promoting appropriate working hours

Japan

Kao is striving to realize work management that balances flexibility and zeal and includes not only the work-life perspective but also the realization of effective and efficient working methods and the promotion of employees' health.

If an employee is tending to work long hours, Kao strengthens cooperation among the employee concerned, the workplace, and the company to prevent the tendency from becoming prolonged or constant by, for example, promptly holding an interview with the employee concerned or alerting the employee's supervisor.

Since July 2015 Kao has been implementing the following two measures in order to promote the creation of an environment aimed at realizing more flexible and varied work patterns based on the themes of setting flexible work hours consistent with individual circumstances, such as childcare and nursing care, and curbing long and late overtime work.

- (1) Partial revision of the flextime system and introduction of a setup by which employees can set their own times for starting and finishing work between the hours of 07:00 and 20:00
- (2) Introduction of an hourly leave system\*

In 2015 Kao also produced an original poster using the most outstanding work-life balance slogan from among those submitted by employees. The poster is displayed at Kao Group sites around Japan in an attempt to raise awareness in the workplace.

More than ever, Kao is committed to improving work productivity and generating greater vitality in the workplace with the goal of implementing organizational reforms to promote the health of employees and accelerate business growth.



Original educational poster featuring work-life balance slogan

\*Hourly leave system

Employees can take leave in hourly units up to a maximum of five days of paid leave a year.

#### Rate at which paid holidays were used at Kao Corporation

	2013	2014	2015
Rate (%)	71.0	70.9	65.8

# Consideration for employee health and lifestyles

**Recognizing that having healthy employees is a prerequisite for the realization of effective *Yoki-Monozukuri*, for successful business development, and for making a positive contribution to society, Kao implements a range of Health and Productivity Management measures.**

## 2015 activities

To increase the number of “employees with high health literacy,” we have been promoting a health management cycle focused around health checkups, while also implementing activities that help to get employees involved in health promotion activities in their daily lives.

As a result of these measures, the number of employees failing to meet basic health criteria in health checkups has fallen, and so has the number of employees requiring Special Health Guidance.

## Policies/structures

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

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

### Kao Group Health Declaration Five Support Measures

#### 1. Prevention of lifestyle-related diseases

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

#### 2. Mental health care

- Establishment of a system to deal with employees with mental health problems early on through the introduction of a mental health check system
- Implementation of training to deal with mental health issue for managers
- Implementation of mental self-care training for regular employees
- Establishment of a counseling system that combines in-house and external counseling
- Distribution of the monthly *Kao Kokoro* bulletin

#### 3. Smoking control

- Implementation of the Kao Group No Smoking Marathon  
In 2015, 15 out of the 61 participating employees succeeded in quitting smoking (representing a 9% increase in the success rate compared to the previous year).
- Survey on status of anti-smoking measures
- Formulation of smoking cessation promotion plan



Awareness-raising display installed in a Kao office to encourage employees to quit smoking

#### 4. Cancer control

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

#### 5. Women’s health

- Spreading knowledge of women’s health issues and increasing the rate of females receiving gynecological examinations



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



Display installed in a Kao office to raise awareness about types of cancer that particularly affect women



## Consideration for employee health and lifestyles

### Fostering employees with high health literacy

Japan

With the goal of increasing the number of employees with high health literacy, Kao is working to make its health-promotion activities more visible, engaging in “Health and Productivity Management” that uses a PDCA cycle to increase employee health levels.

Kao considers employees as demonstrating high health literacy if they implement the following:

1. Review lifestyle habits and improve them on their own, based on health checkup results
2. Consult with a private doctor in regard to health checkup results as needed (besides consulting occupational physicians)
3. Remain aware of his/her mental health, and confer with appropriate professionals as needed

#### Health Promotion Management System

As part of this initiative to increase visibility, since 2009 Kao has provided its 16 health consultation rooms nationwide with a statistical summary of the previous year's health data (medical interviews, health checkup, occupations, medical costs, diseases, etc.). Based on the health data for their respective regions, each health consultation room then establishes and implements a health services plan. Since 2009, Kao has held Seminar of White Paper on Health to provide opportunities for studying methods of analyzing the various types of health data and formulating measures to address any issues.

#### A health maintenance cycle centered on health checkup

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

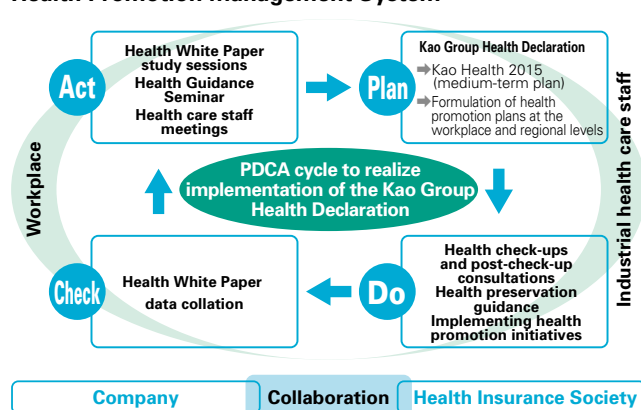
By implementing a number of different health enhancement programs, Kao is making a serious effort to encourage employees to incorporate health maintenance activities in their daily lives.

- (1) Using Web-QUPiO\* to record daily lifestyle habits (7,768 participants)
- (2) Implementation of the Kao Health Mileage system, whereby employees earn points for their health promotion achievements (9,327 participants)
- \* The Kao Health Mileage system was terminated at the end of September 2015, being incorporated into the Web-QUPiO system from October 2015 onwards.
- (3) Implementation of the Spring Walking Challenge health promotion program (3,370 participants)
- (4) Promotion of cancer screening (covering breast cancer, cervical cancer, gastric cancer, colorectal cancer and prostate cancer)
- (5) Provision of Specific Health Guidance to 71.8% of employees aged 35 or over

\* QUPiO

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

#### Health Promotion Management System



### Strengthening the utilization of employment management standards based on health checkup results

Japan

As part of Kao's efforts to provide support to help employees maintain a good state of health, so that they can maximize their potential in their work, starting from 2014 new employment management standards have been introduced that take the result of employee health checkup into account. Following the health checkup, an industrial physician makes a determination as to what categories of work an employee is engaged in (on the basis of the new standards), thereby making it possible for employees to take suitable measures appropriate to their state of health. Employees are encouraged to improve their state of

health as quickly as possible in line with the measures taken. By taking the occupational physician's views into account in its employment management, Kao is fulfilling its responsibility to maintain the safety of its employees.

As a result of the introduction of this new scheme, the percentage of employees failing to meet the basic health criteria in Kao's employee health examinations fell by 27% in 2015 compared to 2014.

## Consideration for employee health and lifestyles

### Realizing a reduction in the number of employees requiring Specific Health Guidance

Japan

In 2008, the Japanese government introduced the Special Health Checkup and Specific Health Guidance system, with the aim of realizing early diagnosis of metabolic syndrome; companies' Health Insurance Societies were put in charge of implementing the new system. To enhance the efficiency of implementation, Kao accepted a request from the Kao Health Insurance Society to have Specific Health Guidance implemented on a collaborative basis by Kao and the Society.

Kao's occupational health staff work together with specialists from Healthcare Committee Inc. (HCC) to provide Specific Health Guidance for Kao employees. Kao's nursing

staff members also provide Specific Health Guidance to employees who are considered vulnerable to metabolic syndrome, so as to reduce the number of employees who require full-scale Specific Health Guidance.

As a result of the new steps that have been taken, the percentage of Kao employees requiring Specific Health Guidance fell from 28.5% of male employees and 8.3% of female employees in 2008 to 18.1% of male employees and 5.9% of female employees in 2015.

### Promotion of mental health measures

Japan

As advocated by the Ministry of Health, Labour and Welfare, Kao promotes mental health through four types of care: self-provided care, care provided by one's supervisors ("line care"), care through onsite industrial health care staff, and care through outside resources (external specialist facilities and specialists). Kao has also introduced a system of Mental Health Checkups that are incorporated into regular employee health examinations, to encourage employees to be alert for any possible mental health issues and facilitate early preventive measures.

In 2015, in the area of "line care," Kao held seven mental health training courses for managers (basic course); topics covered included the importance of corporate mental health measures and the role that managerial personnel are expected to play in relation to these measures, as well as the current state of workers' mental health and the key trends in this area. Kao also held eight mental health training sessions for managers (advanced course), at which participants used role

play exercises to learn how to communicate effectively with subordinates and how to help employees who are returning to the workplace after an extended absence.

With regard to self-provided care, in addition to regular self-provided care training, Kao also implements training that makes use of the Assertion\*<sup>1</sup> and Egogram\*<sup>2</sup> techniques.

In addition, a mental health measures conference was also held, at which HR staff, nursing staff and counselors met together to consult with one another regarding mental health issues.

**\*1 Assertion**

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

**\*2 Egogram**

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

# Occupational safety and health, process safety and disaster prevention 【LA6】

**Kao conducts activities to ensure occupational safety and health and disaster prevention based on the Kao Responsible Care Policy activities in order to protect employees from accidents and disasters in the course of conducting business activities.**

## 2015 activities

In regard to safety and disaster response, we set standard KPIs applicable to the entire Kao Group, and implement related activities in accordance with specified priority items.

When occupational accidents occur, we examine the accident or disaster carefully, and identify and analyze the causes. The results of the analysis are shared throughout the Kao Group, helping to prevent similar accidents from occurring again in the future.

Kao continues to implement training in company-wide reporting and communication assuming an earthquake scenario, and also implements various plant safety and stable production measures that include earthquake-proofing reinforcement of plant buildings and Tsunami countermeasures.

## Policies/structures

Activities ensuring “occupational safety and health” and “process safety and disaster prevention” are clearly described in the Kao Responsible Care Policy.

Accordingly, when occupational accidents occur, we examine the accident or disaster carefully, and identify and analyze the causes. The results of the analysis are shared throughout the Kao Group, helping to prevent similar accidents from occurring again in the future, thereby protecting our employees while maintaining safe and stable operations. In addition, Kao provides extensive safety education to all employees regardless of their employee status at the general training sessions for new hires and training sessions organized by individual divisions in order to boost safety awareness.

Our daily activities for occupational safety and health,

process safety, and disaster prevention are conducted as part of the Responsible Care promotion system. In particular, when accidents or disasters occur, we have a framework in place to keep track of them through our global emergency reporting network. In addition, when a large-scale disaster such as a major earthquake occurs, we will establish an Emergency Response Team Organization headed by the President. Together as a Group, our initial response places top priority on human life as we implement measures including our business continuity plan (BCP).

The Kao Responsible Care Policy, together with details of the implementation framework and related activities, can be found on the following page:

➡p.140 Responsible Care Activities

## 2015 targets and results

Global

We implemented activities in line with the three priorities of “Eradication of Occupational Accidents,” “Creating a Pleasant Working Environment and Improving Employees’ Health,” and “Maintenance of Safe, Stable Operations (Eradication of Accidents for Security, Disaster-Prevention Activities).”

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

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

health promotion activities, and implementing risk assessment for chemical substances.

Regarding maintenance of safe, stable operations (eradication of accidents for security, disaster-prevention activities), we have given each promotion division the themes and objectives of implementing thorough Change Management,\* risk assessments of chemical facilities, regular inspections, enhanced patrols, enriched disaster drills, and strengthened security; each division has been required to formulate, and put into effect, detailed implementation plans. Starting from 2014, the scope of these activities has been expanded to include subcontractors.

\* Change Management

Management activities anticipating and accommodating risks before changes are implemented, along with preventive measures for issues such as failure, defects, and accidents.

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

### 2015 targets and results

Category	Scope	Indicator	2015		2014 results
			Targets	Results*5	
Occupational accidents	All divisions inside Japan All sites outside Japan (including both regular employees and temporary workers)	Death and Serious lost time accidents*1 (persons) Kao Group	0	0	0
		Lost time accidents frequency rate*2 Kao Group	0.39 or less	0.59	0.55
		Total accidents frequency rate*3 Kao Group	1.92 or less	2.02	2.67
		Total accidents frequency rate*3 Kao Group in Japan	1.00 or less	1.62	1.75
	All sites (subcontractors)	Death and Serious lost time accidents (persons) Kao Group	0	0	0
		Lost time accidents frequency rate*2 Kao Group	0.41 or less	0.82	0.45
		Total accidents frequency rate*3 Kao Group	0.95 or less	2.18	2.36
		Total accidents frequency rate*3 Kao Group in Japan	1.40 or less	2.09	2.41
Traffic accidents	Sales, logistics	100% negligence accidents causing bodily injury (no. of accidents) Kao Group in Japan	0	14	17
		Accidents other than 0% negligence per 100 vehicles*4 Kao Group in Japan	6.6 or less	7.75	8.67
Accidents	All divisions inside Japan All sites outside Japan	Fires, explosions, leaks, etc. (no. of accidents) Kao Group	0	6	6

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

\*2 Lost time accidents frequency rate: Number of persons dead or seriously injured in occupational accidents per million hours worked (including only accidents involving at least one lost work day and also loss of a part of the body or a bodily function)

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

\*4 Accidents other than 0% negligence accidents per 100 vehicles: Number of traffic accidents other than 0% negligence / No. of vehicles in fleet × 100

\*5 From 2015 onwards, the boundary of data collection was expanded to include all sites outside Japan; data includes all sites outside Japan that had already completed the necessary preparations for inclusion

### Targets for 2016

Global

Of the targets set for 2016, with the exception of the work-related traffic accident target, all other targets have been set on all Kao Group basis, and we are working to prevent the occurrence of accidents and disasters throughout the Kao Group.

Traffic accident targets will also be set on a global Kao Group basis in the future once we have a grasp of the current situation in Kao's sites outside Japan in this regard.

### Targets for 2016

Category	Scope	Indicator	2016 targets
Occupational accidents	Regular employees and temporary workers (Kao Group)	Death and Serious lost time accidents*1 (persons)	0
		Lost time accidents frequency rate*2	0.31 or less
		Total accidents frequency rate*3	1.60 or less
	Subcontractors (Kao Group)	Death and Serious lost time accidents*1 (persons)	0
		Lost time accidents frequency rate*2	0.34 or less
		Total accidents frequency rate*3	0.88 or less
Traffic accidents	Sales, logistics (Kao Group in Japan)	100% negligent accidents causing bodily injury (no. of accidents)	0
		Accidents other than 0% negligence per 100 vehicles*4	6.1 or less
Accidents	Kao Group	Fires, explosions, leaks, etc. (no. of accidents)	0
		Logistics-related leakage incidents (no. of incidents)*5	0

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

\*2 Lost time accidents frequency rate: Number of persons dead or seriously injured in occupational accidents per million hours worked (including only accidents involving at least one lost work day and also loss of a part of the body or a bodily function)

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

\*4 Accidents other than 0% negligence accidents per 100 vehicles: Number of traffic accidents other than 0% negligence / No. of vehicles in fleet × 100

\*5 Logistics-related leaks: Accidents involving leakage while products etc. are being transported



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

### Status of occupational accident occurrences

Global

In 2015, 150 employees were involved in accidents across the Kao Group, of whom 44 lost work days as a result (including temporary workers).

Across the Kao Group in Japan, a total of 93 employees suffered occupational accidents, up by five compared to the previous year. This total included 16 employees who suffered injuries resulting in lost time (of whom four lost time due to traffic accidents in which they were 0% negligent), up by two compared to the previous year. As in 2014, the most common types of accident were fall and slip accidents (38 employees), accidents involving cuts and scratches (16 employees), and accidents involving reactional action (10 employees); these three types of accident combined accounted for over 60% of all occupational accidents. Measures are being taken to reduce the number of fall and slip accidents.

In the Kao Group outside Japan, a total of 57 employees suffered occupational accidents (including 28 who suffered injuries resulting in lost time), down by 14 compared to the previous year. The most

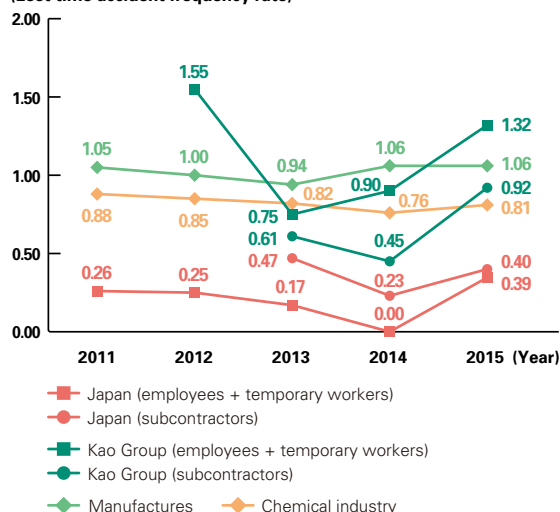
common causes included coming into contact with hazardous materials etc. or with substances at very high or very low temperatures (17 employees), cuts and scratches (9 employees) and accidents involving reactional action (9 employees); these three types of accident combined accounted for over half of all occupational accidents. Operational risk assessment is being carried out.

As regards occupational accidents involving subcontractors, the number of persons affected in 2015 was 45 (of which 17 suffered injuries resulting in lost time), an increase of eight compared to the previous year.

The number of people in our SCM and R&D divisions worldwide involved in operating production equipment who were victims of occupational accidents fell by 11 from 2014 to 78 in 2015 (with 30 employees losing time as a result of accidents). For the Kao Group in Japan, the corresponding figure was 24 (of which five involved lost time), down by six compared to 2014.

#### Lost time accident frequency rate in the SCM and the R&D divisions★

(Lost time accident frequency rate)

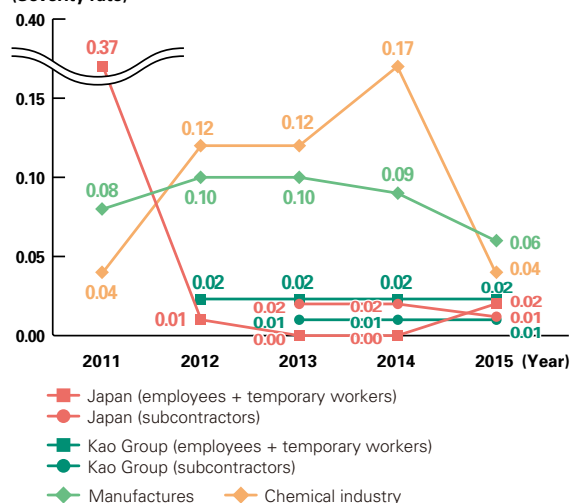


Lost time accidents frequency rate: Number of persons dead or seriously injured in occupational accidents per million hours worked (including only accidents involving at least one lost work day and also loss of a part of the body or a bodily function)

\* Figures for manufactures and chemical industry are based on data from Ministry of Health, Labour and Welfare in Japan "Survey on Industrial Accidents 2015."

#### Severity rate in the SCM and the R&D divisions

(Severity rate)



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

\* Figures for manufactures and chemical industry are based on data from Ministry of Health, Labour and Welfare in Japan "Survey on Industrial Accidents 2015."

### Drills to prepare for large-scale disasters

Japan

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

#### Group-wide training in the use of the system for reporting the safety of Kao employees

In both March and September 2015, Group-wide training was held over two days on inputting data into the employee safety confirmation system for use in confirming the safety of all Kao Group employees following a serious natural disaster. In both training instances, the successful data inputting rate was 100%. Given that a 100% successful inputting rate was also achieved in the September 2014 training exercise, this means that a 100% score has been achieved three times in a row. We will continue to implement this type of training in the future.

#### Earthquake scenario company-wide reporting and communication training

Recognizing the possibility that a major earthquake may occur in the

Tokyo metropolitan area where the Kao head office is located, the Kao Group has adopted an organizational structure that permits the establishment of a disaster response headquarters either in Eastern Japan or Western Japan as appropriate.

In May 2015, we implemented training that assumed that establishment of a disaster response headquarters in Eastern Japan following a hypothetical major earthquake on the Sea of Japan coast, and in October 2015 we implemented training that assumed the establishment of a disaster response headquarters in Western Japan following a hypothetical major earthquake with its epicenter directly under the Tokyo metropolitan area.

During these training exercises, communication with regard to the data collected from the employee safety reporting system and with regard to information concerning on-site roll-call and damage assessment was undertaken by means of a meeting system that utilized satellite phones and Kao's internal disaster response bulletin board and website. The training method used is currently being reviewed in light of the lessons learned from past training exercises.

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

### Safety and disaster prevention audits

Global

As a general rule, safety and disaster prevention audits are implemented once every two years at Kao chemical plants in the Asia region (six plants in five countries).

In 2015, audits were carried out at Fatty Chemical (Malaysia) and Pilipinas Kao. Both plants were deemed to have made improvements in regard to the issues that were pointed out in

the previous audits. In the future, we will continue to implement follow-up audits on an ongoing basis.

Auditing staff from Thailand and Indonesia participated in the audit at Fatty Chemical (Malaysia), and staff from Malaysia participated in the audit at Pilipinas Kao, with the aim of enhancing the overall level of safety and disaster response capabilities at all plants in the region.

### Occurrence of small-scale accidents (fire, leaks)

Global

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

#### Five small-scale fires occurred:

- A fire involving an electrical component that had suffered deterioration
- A fire caused by a charging cord shorting out after being accidentally cut
- A fire caused by earth leakage from a power cable that had suffered deterioration
- Smoke emission caused by a leak from a tank piping connector which caused raw material to seep into insulating material, oxidize, and give off heat
- A fire that occurred when insect pest extermination equipment was being used on an area of green space

#### One leak occurred:

- A leak caused by accidentally opening a valve

Regarding the small-scale fires, Kao has strengthened its procedures for regular replacement of electrical components and for regular inspections; and regarding the leak, Kao has tightened up its implementation of equipment management and work management procedures.

### Strengthening safety and disaster prevention

Japan

The SCM Division is working to identify latent risks and implement suitable measures in response, and is continuing to promote earthquake response measures, as part of the strengthening of chemical equipment risk assessment.

In 2015, regarding the identification of latent risks, we have implemented measures to prevent fires involving low-flash-point substances, measures to prevent dust explosions, measures to prevent spontaneous combustion, and measures

to ensure the safety of equipment used for polymerization and exothermic reactions.

With regard to earthquake response measures, we have implemented building seismic resistance diagnostics and reinforcement, liquefaction prevention measures, measures to strengthen protection against tsunamis, measures to ensure that equipment is automatically switched off in the event of a major earthquake, and measures to prevent leakage from tanks.

### High-pressure gas safety inspection, auditing and verification

Japan

Wakayama Plant has been designated an Accredited Safety Inspection Executor\* pursuant to the High Pressure Gas Safety Act. Wakayama Plant's certification came up for renewal in 2015 (renewal is required every five years). Under the direction of the President, who also serves as head of safety management, starting from January 2015 the Safety Management division and Wakayama Plant began the preparations for applying for certification renewal. Following a field survey in September that was attended by the President, renewal of Wakayama Plant's certification as an Accredited Safety Inspection Executor was granted by the Ministry of Economy, Trade and Industry (METI) on December 9, 2015.

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

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

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

**Kao endeavors to build and maintain a managerial framework and internal control system with the aim of continuously enhancing corporate value.**

## 2015 activities

In FY 2015 Kao endeavored to further improve corporate governance. The Compensation Advisory Committee met three times in FY 2015, including reconfirming and revising its basic stance on compensation for revisions in FY 2016, and the results of the examination were reported at the meeting of the Board of Directors. The Committee for the Examination of the Nominees for the Members of the Board of Directors met three times in FY 2015, and in addition to examining the appropriateness of Director nominees, it discussed the composition and diversity of the Board of Directors, including the proportion of Inside Directors and Outside Directors, and the qualities and abilities required of the Chief Executive Officer and Members of the Board of Directors of the Company, among other issues, and reported the results of its examination to the meeting of the Board of Directors.

## Policies/structures

### Basic views

Kao's basic stance on measures related to corporate governance is to implement the necessary policies and fulfill its accountability by setting up and operating a management structure and internal control system in order to rapidly realize efficient, sound, fair and highly transparent management with the aim of continuously increasing corporate value and achieving the long-term targets and mid-term plan. This is positioned as one of its most important management tasks. Kao conducts annual reviews and implements appropriate measures while integrating social trends and responding to the requests of our shareholders and all other stakeholders.

### Structure outline

Kao has introduced, within the framework of a "Company with an Audit & Supervisory Board," the Executive Officer system in order to separate the supervision function from the execution function. Following the conclusion of the 110<sup>th</sup> Annual General Meeting of Shareholders held in March 2016, Kao has: seven (7) members of the Board of Directors, including three (3) Outside Directors (seven (7) out of seven (7) are male); five (5) Audit & Supervisory Board Members, including three (3) Outside Audit & Supervisory Board Members (four (4) out of five (5) are male and one (1) is female); and twenty-seven (27) Executive Officers, including five (5) Executive Officers, with the title of Senior Managing Executive Officer or Managing Executive Officer and without concurrent positions in the Board of Directors (twenty-five (25) out of twenty-seven (27) are male and two (2) are female). All Outside Directors and all Outside Audit & Supervisory Board Members maintain their neutrality, independent from the Company's management. In order to improve the transparency and other aspects of discussions in the Board of Directors, an Independent Outside Director has become the chairman of the Board after the 108<sup>th</sup> Annual General Meeting of Shareholders held in March 2014. The term of office for Directors and Executive Officers is one year.

### Board of Directors

Kao convenes meetings of the Board of Directors in principle once a month, notifying all members of the annual schedule prior to the beginning of the fiscal year so as to facilitate their attendance. In the fiscal year ending December 2015, the Board of Directors met 15 times, including extraordinary meetings. The average attendance rate in the fiscal year

ending December 2015 was 100% for Outside Directors and about 98% for Outside Audit & Supervisory Board Members.

To allow for active discussions at meetings of the Board of Directors, the Board of Directors Secretariat provides Outside Directors and Outside Audit & Supervisory Board Members with sufficient explanations by distributing materials on matters such as the background, purposes, and content of the respective agenda items, prior to the meeting of the Board of Directors as necessary. At meetings of the Board of Directors, the participants mainly hold discussions from multiple angles, including risk assessment, and decide on the medium- to long-term direction of management strategy. In consideration of the need to ensure plenty of time for questions and answers and discussions, less than half of the meeting time is taken up by explanations by presenters; the remainder is set aside for Q&A and discussions.

### Compensation Advisory Committee and Committee for the Examination of the Nominees

Kao has established the Compensation Advisory Committee and the Committee for the Examination of the Nominees for the Members of the Board of Directors, which fulfill functions similar to the compensation committee and nominating committee of a "Company with Committees."

### The Compensation Advisory Committee

The Compensation Advisory Committee consists of the Chairman of the Board of Directors (the Chairman of the Board of Directors has been absent since the meeting of the Board of Directors held on March 28, 2014) and all Representative Directors to deepen the members' understanding of Kao's compensation system and the responsibilities of each position, and all Outside Directors and all Outside Audit & Supervisory Board Members to incorporate an independent and objective perspective (eight males and one female), with the chairman chosen by the members, and in FY 2015 an Independent Outside Director held the position. The Committee conducts examinations by soliciting opinions on the compensation system and compensation standards for Members of the Board of Directors and Executive Officers, and met three times in FY 2015, including reconfirming and revising its basic stance on compensation for revision in FY 2016. The results of the examination were reported at the meeting of the Board of Directors.

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

### Committee for the Examination of the Nominees

To incorporate an independent and objective perspective, the Committee for the Examination of the Nominees for the Members of the Board of Directors consists exclusively of all Outside Directors and all Outside Audit & Supervisory Board Members (five males and one female), with the chairman chosen by the members, and in FY 2015 an Independent Outside Director held the position. Prior to the election or re-election of Members of the Board of Directors (including Representative Directors), the Committee conducts examinations and submits its opinions of the nominees' appropriateness to the Board of Directors. The Chairman of the Board of Directors and the President and Chief Executive Officer contribute by submitting necessary and sufficient documents for an examination (including a summary of the new management structure, incorporating a classification of duties of the Members of the Board of Directors and Executive Officers, in addition to materials related to the subjects of the examination) to each member of the Committee and work to enhance the examination by making arrangements such as creating opportunities for the Director nominees and the Committee members to meet beforehand. The Committee met three times in FY 2015, and in addition to examining the appropriateness of Director nominees, it discussed the composition and diversity of the Board of Directors, including the proportion of Inside Directors and Outside Directors, and the qualities and abilities required of the Chief Executive Officer and Members of the Board of Directors of the Company, among other issues, and reported the results of its examination to the meeting of the Board of Directors.

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

For improving the auditing effectiveness and strengthening the auditing function, Kao increased the number of its outside Audit & Supervisory Board Member by one from the 107<sup>th</sup> Annual General Meeting of Shareholders held in March 2013. Five Audit & Supervisory Board Members, including three Outside Audit & Supervisory Board Members (possessing qualifications as certified accountants or lawyers) who are independent from Kao's management, exchange opinions regularly with Representative Directors, attend the meeting of Board of Directors, the Management Committee and other important meetings, participate in regular Conferences by Audit & Supervisory Board Members of Domestic Group Companies, and share auditing information with the Department of Internal Audit, Global and Kao's Accounting Auditor. Audit & Supervisory Board Members also conduct hearings with internal divisions and our subsidiaries regularly or as necessary.

### Policy on determining the amount of remuneration of Board of Directors, Audit & Supervisory Board Members and Executive Officers

Kao's compensation system for Members of the Board of Directors, Audit & Supervisory Board Members and Executive Officers is aimed at (1) securing and retaining diverse and excellent personnel to establish and improve competitive advantages; (2) promoting prioritized measures for lasting increases in corporate value; and (3) sharing interests in common with shareholders.

Remuneration of Members of the Board of Directors, other than Outside Directors, and Executive Officers consists of

base salary, a bonus as short-term incentive compensation, and stock options as long-term incentive compensation, and is designed to provide an impetus for continuing annual improvement in business results and medium- to long-term growth. Linkage of remuneration to business results increases with rank, based on the responsibility for duties and business results of each position. An overview of the components of remuneration is as follows.

#### (1) Base salary

Paid as fixed monthly remuneration in an amount determined in accordance with duties as an Executive Officer and rank.

#### (2) Bonus as short-term incentive compensation

When the full amount is paid, the bonus is set at 50% of base salary for the President and Chief Executive Officer, 40% of base salary for the Chairman of the Board of Directors and Executive Officers with titles other than the Chief Executive Officer, and 30% of base salary for other Executive Officers. The rate of payment of the bonus is set within a range of 0–200%, depending on the degree of achievement of targets for net sales and income (gross profit less selling, general and administrative expenses), the degree of their improvement from the previous year, and the degree of achievement of the target for Economic Value Added (EVA), the Company's main management metric, which takes capital cost into account.

#### (3) Stock options as long-term incentive compensation

Set at around 30% of base salary for each position.

Compensation for Outside Directors, who are independent from the execution of business operations, consists of fixed monthly remuneration only.

The compensation system and compensation standards for Members of the Board of Directors and Executive Officers are examined by the Compensation Advisory Committee, which is chaired by an Outside Director, and determined by resolution of the Board of Directors from the standpoint of ensuring the objectivity and transparency of the determination process. The Compensation Advisory Committee is composed of the Chairman of the Board of Directors, all Representative Directors, all Outside Directors and all Outside Audit & Supervisory Board Members. Independent Directors and Audit & Supervisory Board Members constitute a majority of the members of the committee, which meets at least once a year during the remuneration adjustment period.

Compensation for Audit & Supervisory Board Members consists of fixed monthly remuneration. Compensation standards are determined at meetings of the Audit & Supervisory Board.

Compensation standards for Members of the Board of Directors, Executive Officers and Audit & Supervisory Board Members are determined after ascertaining standards at other major manufacturers of a similar size, industry category and business type to the Company each year using officer compensation survey data from an external survey organization.

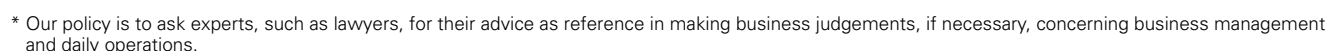
The Company has no retirement bonus system for Directors or Audit & Supervisory Board Members.

The total amount of remunerations for Members of the Board of Directors in FY 2015 is available in the Report Concerning Corporate Governance.

➡For details, refer to the Report Concerning Corporate Governance [http://www.kao.com/jp/en/corp\\_imgs/corp\\_info/governance\\_001.pdf](http://www.kao.com/jp/en/corp_imgs/corp_info/governance_001.pdf)



**Corporate governance organization including internal control system**



➡For details, refer to Standards for Independence of Outside Directors/  
Audit & Supervisory Board Members of Kao Corporation  
[http://www.kao.com/ip/en/corp\\_imgs/corp\\_info/governance\\_002.pdf](http://www.kao.com/ip/en/corp_imgs/corp_info/governance_002.pdf)

To promote discussions from diverse perspectives, independent Outside Directors hold meetings exclusively for independent Outside Directors on their own initiative at intermissions of meetings of the Board of Directors or by setting up separate opportunities to exchange information and share awareness of issues related to the Company's management and the activities of the Board of Directors, development of future senior management, and other matters. Given the current situation of having good communications, ad hoc meetings among Outside Directors/Outside Audit & Supervisory Board Members are considered more appropriate for such communication than regular meetings scheduled by the Company.

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

### Policies/structures Internal control

Kao formulated its Basic Policy Regarding the Internal Control System in May 2006 and, after confirming the level of compliance every year, reports to the Board of Directors and makes revisions as necessary.

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

In addition, six committees have been placed under the Internal Control Committee to analyze and confirm the situation surrounding internal control. They develop the internal control system and make improvements as necessary by employing the PDCA (Plan, Do, Check, and Act) cycle. Executive Officers who sit on these six committees as key members also serve on the Secretariat of the Internal Control Committee to confirm the status of maintenance and promotion of the internal control system, including the status of individual committees' activities.

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

Kao will continue to improve its internal control system.

#### Six Committees under the Internal Control Committee

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

Kao's Business Report carries an outline of management of systems to assure appropriate business operations of Kao in 2015.

➡For details, refer to the Convocation Notice of the 110<sup>th</sup> Annual General Meeting of Shareholders  
[http://www.kao.com/jp/en/corp\\_ir/imgs/shareholders\\_01.pdf](http://www.kao.com/jp/en/corp_ir/imgs/shareholders_01.pdf)

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

Japan

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

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

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

### Global harmonization of internal control

Global

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

field of responsibility.

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

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

### Outside Director message



#### Toru Nagashima

Independent Outside Director  
Senior Advisor  
Teijin Limited

I have been a member of Kao's Board of Directors for more than three years, with expectations placed on my global experience as an executive of a company that, like Kao, is a manufacturer. During that period, I have mainly been involved in discussions of:

- 1) Ongoing consideration of further innovations in and execution of corporate governance; in other words, consideration of the corporate governance system we consider best for Kao's sustained growth under our present conditions;
- 2) Clearly working out and implementing risk management for Kanebo Cosmetics, a subsidiary that faced the management crisis of a voluntary product recall in July 2013. As the parent company of a consumer goods business group, we put the recovery and care of customers first, with an unwavering stance of wholeheartedly providing fair and equitable compensation and support; and
- 3) Ambitious initiatives for further growth and the investment to fund them, amid strong performance consisting of six consecutive fiscal years of increases in sales and profits.

In these discussions, I give my opinion whenever I have doubts

about proposals for execution. So far, however, I have enthusiastically supported the decisions that have been made.

Kao's true value lies in its "*Yoki-Monozukuri*," backed by research and technological development. Therefore, I always listen to these innovative proposals with excitement. For Kao's products and brands of excellent value to be used by people worldwide, I have been urging my fellow Directors to tell a story—in other words, to build a business model that not only creates excellent products through *Yoki-Monozukuri* but also conveys their excellence to the public. Last year, we started a project to communicate Kao's value. We considered how to accurately convey the essential value of Kao's products to our partners in the retail industry and the consumers who actually use the products. We are now carrying out those measures. I am pleased that my experience seems to have been useful in these discussions. Conversely, I would also like Kao to aim for *Yoki-Monozukuri* and a new business model from the viewpoint of its markets and its customers.

Stimulating discussion at Board of Directors meetings is a topic that is often raised. At Kao, the President puts forth immediate and medium- to long-term issues and regularly directs the itinerary for discussions held at Board meetings throughout the year. As a result, we Outside Officers, including Audit & Supervisory Board Members, are always aware of the progress and purposes of current discussions, enabling us to participate with a grasp of the bigger picture. With this broad perspective, I would like to make my next proposal to Kao as it aims to become a company with a global presence: I suggest that the company should look beyond its past successes in Japan to discover and cultivate human assets who can perform on a global level for the growth that will take Kao to the next stage.

### Third-party opinion



#### Toshiaki Oguchi

Representative Director  
Governance for Owners Japan KK  
A member of The Council of Experts  
Concerning the Follow-up of Japan's  
Stewardship Code and Japan's  
Corporate Governance Code

We at Governance for Owners Japan KK have been engaging in constructive dialogue with Kao Corporation on behalf of our global institutional investor clients for more than five years since 2010. Although there was a voluntary product recall by Kanebo Cosmetics, a subsidiary of Kao, in 2013, Kao's clear policies and conscientious explanations minimized its downward impact, and as a result, Kao's shareholder value (stock price) has more than tripled during this period.

We would summarize our impression of Kao's corporate governance as the manifestation of the "Innovation" expressed in the Kao Way. When we began our dialogue with Kao, its Board of Directors was made up of 13 Inside Directors and two Independent Outside Directors. The composition of the Board has changed substantially, now consisting of three Inside Directors, two Independent Outside Directors and one Non-Independent Outside Director, and the position of chairman is held by an Independent Outside Director rather than an Inside Director.\* We realize that these changes have been the result of ongoing reexamination, as

well as trial and error.

For example, we have learned about the circumstances that led to the inclusion of a non-independent bank executive as an Outside Director. This was a result of Kao's emphasis on diversity, with Directors from the fields of manufacturing, finance and management consulting, all possessing the global experience required by the Board of Directors as their common thread. We have also been told about the various methods used to enhance discussions at Board of Directors meetings, as well as the process of trial and error used in setting the scope of the Committee for the Examination of the Nominees for the Members of the Board of Directors. Hearing about these matters, we believe that because Kao has gone through such processes, it has developed unique, firmly grounded corporate governance. The results have been sustained growth and increased corporate value, which in turn have earned approbation from institutional investors outside the company.

Innovation in corporate governance has no end. For example, we have discussed the necessity of diversity—in gender, nationality or otherwise—among the members of the Board of Directors, based on factors such as the nature of Kao's businesses and its further expansion outside Japan. We also believe ongoing discussion is required to select the most appropriate form of corporate organization for Kao. Global institutional investors, including our company's clients, will remain closely attentive to Kao's initiatives to contribute to sustainability—including social and environmental issues—while working for profitable growth, as it has advocated.

We look forward to Kao's continued use of "Innovation" to resolve these issues.

\* As of April 2016, there are four Inside Directors and all Outside Directors are independent.

# Information disclosure

**Disclosing information in a timely, accurate and fair manner in accordance with its Disclosure Guidelines.**

## 2015 activities

In addition to the timely and fair information disclosure to and ongoing dialogue with shareholders and investors that we carry out, in July we released a Report Concerning Corporate Governance that describes the implementation status of each principle stated in the Corporate Governance Code established by the Tokyo Stock Exchange, and subsequently revised the report several times.

## Policies/structures

As for information disclosure, Kao's basic policy is to disclose information in a timely, accurate and fair manner in accordance with its Disclosure Guidelines. Kao discloses information which it is obligated to release publicly and information useful to shareholders and investors, in English and Japanese, on the online Timely Disclosure Network (TDnet)\* based on the Securities Listing Regulations of the Tokyo Stock Exchange. This information is also simultaneously posted in the Investor Relations section of Kao's website.

Kao will continue to seek improvement of IR activities through reinforcing strategic information disclosures, such as enhanced delivery of messages from top management and

intensified dialogue with institutional investors inside and outside Japan.

\* TDnet (Timely Disclosure Network)

A service to distribute information on listed companies on a real time basis; operated by the Tokyo Stock Exchange

➡For details, refer to Investor Relations

[http://www.kao.com/jp/en/corp\\_ir/investors.html](http://www.kao.com/jp/en/corp_ir/investors.html)

➡For details, refer to Disclosure Guidelines

[http://www.kao.com/jp/en/corp\\_ir/disclosure.html](http://www.kao.com/jp/en/corp_ir/disclosure.html)

➡p.145 Recognition by outside organizations > SRI indexes and evaluations

## Publicizing shareholder meetings and facilitating the exercise of voting rights

Japan

To provide shareholders with sufficient time to examine agenda items, Kao sends a convocation notice about one month prior to the Annual General Meeting of Shareholders (AGM) every year. Furthermore, Kao posts the convocation notice on the online TDnet and on the corporate website ahead of sending the convocation notice, and to provide prompt and fair information disclosure to foreign shareholders, who hold about half of its shares, a summarized English translation of the convocation notice is provided.

To encourage the exercise of voting rights, Kao uses electronic means for voting, including the Internet and an electronic voting platform operated by ICJ, Inc.

Kao works to enhance the content of its convocation notices for AGM by conducting regular revisions to proactively incorporate information considered conducive to appropriate judgments by shareholders, in addition to items required by law. Also, Kao provides institutional investors and others with explanations as necessary.

At the AGM, Kao provides shareholders with easy-to-

understand explanations of the main parts of the business report, major issues and the medium- to long-term outlook using projected images and a thorough question-and-answer session.

Kao also provides opportunities for shareholders who desire to make the acquaintance of Directors and Executive Officers to do so after the close of the AGM.

After the conclusion of the AGM, Kao also posts presentation materials used at the meeting and a summary of voting resolutions from the meeting in both Japanese and English on its website.

### The 110<sup>th</sup> Annual General Meeting of Shareholders

(Held in March 2016)

Total number of shareholders who attended: 1,901



## Information disclosure

### Holding dialogue between Kao and its shareholders and individual investors

Japan

Kao strives to promote two-way communication between Kao and its shareholders and investors.

In 2015, Kao conducted tours of the Kao Museum, the Kawasaki Plant and the Wakayama Eco-Lab Museum for shareholders over seven days during June, with a total of about 480 people attending.

After the about one-hour tours, Executive Officers explained Kao's performance, mid-term management plan and status of shareholder returns, and responded to questions from

shareholders.

We received many favorable comments from participants in the tours, including, "The at-home atmosphere was nice, and quite different from the AGM," and "I now clearly understand where Kao is headed and the company's approach to shareholders thanks to the Executive Officers' explanations."

We continue to incorporate such feedback as we plan and implement future events to bring higher satisfaction to shareholders.

### Overview of IR activities

Global

Kao recognizes its shareholders and investors as important stakeholders and carries out activities aimed at earning the trust of markets and receiving fair assessments. Kao's policy is to disclose information to shareholders, analysts, and institutional investors in Japan and outside Japan in a timely, accurate and fair manner through constructive and purposeful dialogue that takes a long-term view. Outside opinions are provided as feedback to management as appropriate. Through such activities, we aim to sustain and improve corporate value.

- Financial results briefings (on the same day as half-year and full-year financial results are announced)
- IR road show in North America, Europe and Asia
- Small meeting with the President: twice a year
- Business briefings and facility tours: seven times a year
- One-on-one meetings: about 400 interviews in and outside of Japan
- Disclosure of information on corporate website
- Reports to shareholders (half-year and full-year) (Japanese version)
- Annual Report (English version)
- IR information through RSS feed distribution\*

\* RSS feed distribution: A distribution system that automatically provides subscribers with a newsfeed every time a website is updated

### Dialogue with a long-term view and information disclosure to institutional investors

Global

#### Report Concerning Corporate Governance

Kao is constantly engaged in enhancing corporate governance.

Kao issued its Report Concerning Corporate Governance (hereafter, "the Report") in July 2015 that contains an itemized list of the state of implementation of the Corporate Governance Code (hereafter, "the Code") set forth by the Tokyo Stock Exchange, Inc. Since its publication, Kao has updated the Report several times in the effort to improve it.

The Report systematically organizes Kao's corporate governance efforts and state of compliance to date regardless of the order in which the Code is presented, in order to facilitate a better understanding of Kao's implementation status with regard to principles of disclosure sought by the Code.

#### Concerning dialogue with a long-term view

Kao works to increase corporate value by engaging in dialogue with a long-term view in line with the Code. In 2015, meetings were held with institutional investors in which ideas were exchanged on the company's corporate governance and other aspects of Environment, Social, Governance. Insights gained from these exchanges are being used to improve information disclosure and expand dialogue. One example of improved information disclosure is the incorporation of insights gained in the exchanges into presentation materials used in the results briefing and annual report.

➡ For details, refer to the Report Concerning Corporate Governance  
[http://www.kao.com/jp/en/corp\\_imgs/corp\\_info/governance\\_001.pdf](http://www.kao.com/jp/en/corp_imgs/corp_info/governance_001.pdf)

## Information security and protection of personal information [14,58]

**The Kao Group has an Information Security Committee whose purpose is to protect information assets including confidential information (trade secrets) and personal information. The Committee has established an administrative system based on extensive discussion that aims to set internal rules and to see that internal control is thoroughly implemented and rules are observed. The Committee also carries out educational activities for employees.**

### 2015 activities

Improvements were made in two areas targeted in 2015 with regard to confidential information (trade secrets) and personal information—implementing education of measures and keeping records thereof and having rules relating to making confidential documents understood and followed of each division.

The Kao Group has conducted paper audits for 258 outsourcing contractors to confirm how personal information is handled. Additionally, training is being conducted to cope with a possible targeted e-mail attack, a current society-wide problem.

### Policies/structures

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

Kao endeavors to improve the Kao Group's level of TS and personal information management.

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

### Implementing divisional self-patrols

Japan

In April and May of every year, divisional members for protection of trade secrets (TS) and supervisors who handle personal information conduct self-inspection to examine the conditions under which trade secrets and personal information are managed within their own divisions.

Improvements were confirmed in two areas targeted in

2015—implementing education of measures and keeping records thereof and having rules relating to making confidential documents understood and followed of each division. Targets for improvement in 2016 were also set—a thorough revision of the confidential information list and full implementation of trade secret classification.

### The 22<sup>nd</sup> TS & Personal Information Protection Promotion Meeting

Japan

The Kao Group in Japan holds regular meetings for the purpose of protecting TS and personal information, which are attended by divisional committee members for protection of TS and supervisors who handle personal information.

At the 22<sup>nd</sup> TS & Personal Information Protection Promotion Meeting held in September 2015, a guest speaker from a leading IT security company explained about the targeted e-mail attack using specific examples from other companies, raising awareness at Kao.

### Re-confirming the information technology systems for personal information management

Japan

Personal information obtained by Kao Group companies in Japan is managed in information systems operated by each company and by outsourcing contractors outside the Kao Group. As there were cases of large-scale leaks of personal information at other companies, the Kao Group has re-investigated how personal information is being managed in the information systems of Kao Group companies and outsourcing contractors, and is taking steps to maintain and improve the

security level of those information systems.

In 2015, Kao conducted paper audits of 258 companies in response to new calls for periodic status checks of personal information handling at outsourcing contractors that handle personal information. Such audits are stipulated by the Ministry of Economy, Trade and Industry in its Guidelines Targeting Economic and Industrial Sectors Pertaining to the Act on the Protection of Personal Information, revised in December 2014.

**Information security and protection of personal information [14,58]****Topic****Training to cope with a targeted e-mail attack**

In 2015, incidents of targeted e-mail attacks at other companies to spread computer virus infections resulted in the leaking of the personal information of 1.25 million people. The mass media including newspapers and television covered these incidents extensively, alerting the public to the large-scale nature of this societal problem.

Kao alerted its employees to possible targeted e-mail attacks using its internal portal site, KOMPASS. Training was carried out through an e-learning program, reaching 16,292 employees in December. The training entailed sending e-mail from the fictitious organizations "Monthly Meeting Secretariat" and "Information Security Council" and checking who opened the file attachment.

Ongoing training is scheduled to be carried out in 2016, as well.

# Risk and crisis management [2,14,45,46,49]

**Kao maintains a management framework and takes appropriate action in response to risks and crises that could negatively impact achievement of the Kao Group's targets and business activities.**

## 2015 activities

With the aim of enhancing our ability to deal effectively with risk, in 2015 the most important corporate risks affecting the Kao Group were identified, and organizations were established for responding to corporate risks in order of priority.

In regard to major risks, besides implementing activities to reduce risk, we have also strengthened the organization and our response for a crisis occurrence, assuming the manifestation of such risks.

## Policies/structures

Kao regards the potential negative impact on its management targets and business activities as a "risk" and the manifestation of such risk as a "crisis," and has established an organization for appropriate risk and crisis management.

Based on the Risk and Crisis Management Policy, the Risk and Crisis Management Committee, chaired by the member of the Board of Directors or Executive Officer in charge of risk and crisis management, ascertains the situation of company-wide risk management and establishes a system and operating plans for risk and crisis management activities.

Based on this policy and plan, departments, subsidiaries and affiliates appropriately manage risk by ascertaining and assessing risks and formulating and implementing necessary countermeasures.

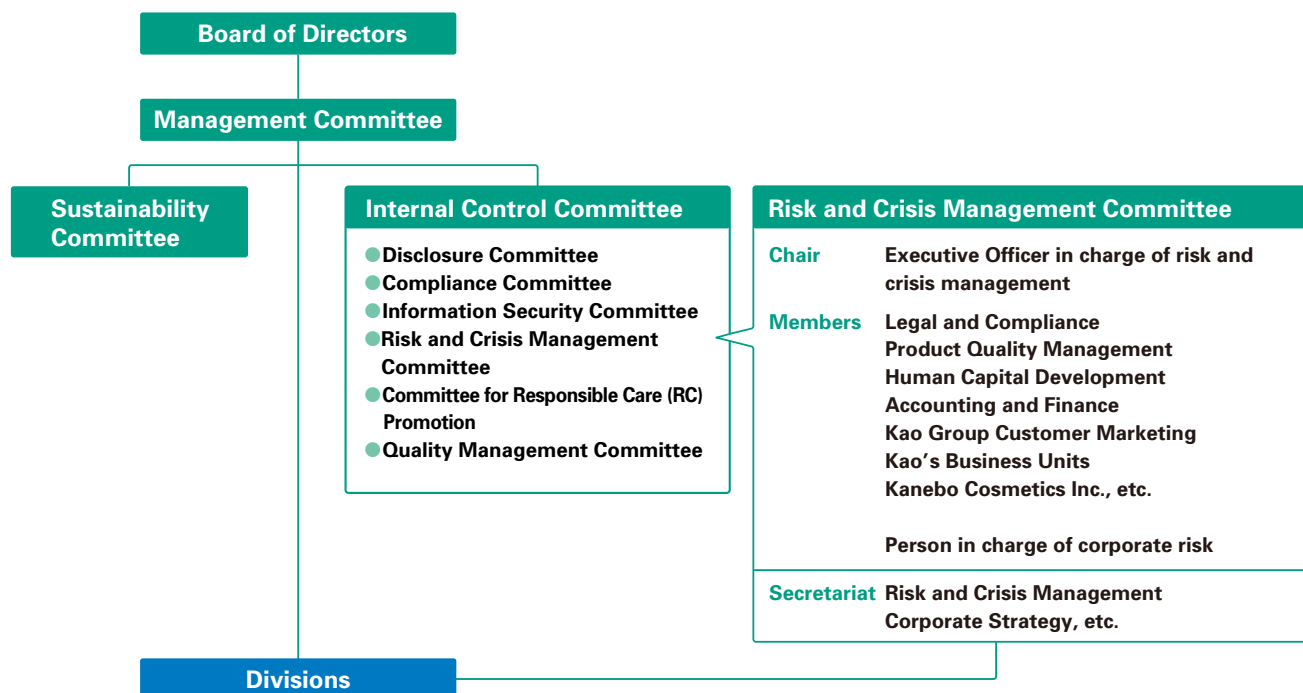
In addition, Kao specifies major company-wide risks as

"corporate risks" and appoints a person to appropriately manage each risk.

When a crisis occurs, Kao responds promptly to minimize injury and damage by establishing an organization for countermeasures centered on the person in charge of corporate risks, and on departments, subsidiaries and affiliates concerned with other risks. In addition, depending on the magnitude of the impact on the Kao Group as a whole, Kao also establishes a countermeasures headquarters with the President and Chief Executive Officer or other person as its general manager.

Management of the abovementioned risks and crises is reported to and discussed at meetings of the Board of Directors or the Management Committee on a regular basis as well as in a timely fashion whenever necessary.

### Risk and crisis management organization





## Risk and crisis management [2,14,45,46,49]

### Building a new risk and crisis management organization

Global

The globalization of our business increases the uncertainty and complexity of the management environment, as well as the scale and speed of the impact on business activities when a risk becomes manifest. In light of this situation, Kao worked as follows in 2015 to build a new risk and crisis management organization.

#### (1) Expanding the scope for strengthening risk management

The scope for strengthening risk management was expanded to include not only the former operational risks such as accidents and disasters, product problems and issues with compliance, but also strategy risks that would hinder the achievement of short-term and mid-term plans as well as risks involving trust in the company, which are closely related to these risks.

#### (2) Clarifying major risks to be handled by management and building an organization for response

Kao has specified major company-wide risks as "corporate risks," appointed an Executive Officer in charge of managing

such risks, and built a new organization to promote risk management.

Corporate risks include not only risks that have an impact on business continuity, such as an earthquake with an epicenter in the Tokyo metropolitan area, for which Kao has been enhancing countermeasures, but also other risks such as those related to management strategy.

#### (3) Strengthening the organization and initial response when a crisis occurs

Previously, dealing with risks has mainly been consideration of risk reduction activities to prevent the manifestation of risks and activities to minimize their impact. For major risks, in addition to these risk reduction activities, we have decided to strengthen the organization and our initial response when a crisis occurs, assuming the manifestation of such risks.

In 2016, we will further strengthen our risk reduction activities and implement speedy and appropriate responses under our new risk and crisis management organization when a crisis occurs.

### Identifying risks that could seriously affect achievement of management targets and business activities, and strengthening countermeasures

Global

For operational risks, Kao conducts risk surveys at key divisions and subsidiaries in Japan as well as at Kao Group companies outside Japan to identify events that could seriously affect Kao Group business activities, factors in their occurrence, current countermeasures and issues.

Risk surveys at Kao Group companies outside Japan in 2015 ascertained the establishment of organizations to deal with emergency situations, the creation of action plans and the implementation status of education and training in order to confirm that such companies are going through the PDCA cycle in dealing with emergency situations that affect lives and business continuity. As a result, we were able to understand

the differences in the response levels of Kao Group companies outside Japan with regard to their establishment of organizations to deal with social disorder caused by factors such as terrorist attacks, which have occurred in many countries in recent years, and pandemics of new types of influenza or other diseases.

In 2016, we will work to enhance the level of response of the entire Kao Group to emergency situations related to social disorder or pandemics by revising global guidelines and strengthening response organizations at Kao Group companies outside Japan.

### Strengthening the Business Continuity Plan (BCP)\*

Global

We have been working to strengthen our supply chain to ensure delivery of products to customers by revising our raw materials procurement and production and logistics systems assuming a large-scale earthquake that may strike in the future.

In 2015, we considered alternate locations for continuing the functions of headquarters, assuming a situation in which we were unable to secure key personnel or use main locations due to an earthquake with an epicenter in the Tokyo metropolitan area. In addition, we identified issues such as a response

organization and standards for business continuity assuming a pandemic of a new type of influenza or other disease, and made revisions.

In 2016, we will deal with these issues in greater depth to strengthen the BCP.

\*Business Continuity Plan (BCP)

A plan for continuing key corporate activities through procedures to decide in advance which operations and functions should be continued, and which methods should be applied to continue activities, assuming various situations that cause the interruption and/or shutdown of business activities due to various events and the factors in their occurrence.

# Responsible Care Activities [14,DMA]

**Kao vigorously implements Responsible Care (RC) activities, which are self-monitoring activities by companies engaged in the chemical industry, to ensure ongoing occupational safety and environmental conservation.**

## 2015 activities

We have established Kao Responsible Care Policy, set targets for the year, and are continuously implementing activities based on an annual plan.

In 2015 we began pursuing a shift to a new system for efficiently sharing our environmental and safety data in the Kao Group. The RC Secretariat began officially conducting audits of Group companies outside Japan identical to the audits conducted in Japan.

For RC education, employees of the Kao Group in Japan were given training through an online system for the first time, and study materials were provided to Group companies outside Japan in various languages.

## Policies/structures

Kao carefully safeguards individuals and the environment at every step of business, from product development to manufacturing, distribution, use and disposal, and part of its mission is to help bring about sustainability in society.

To achieve this objective, we have established the Kao Responsible Care Policy based on the basic elements of the Responsible Care (RC) activities\*<sup>1</sup> (self-monitoring efforts governing the environment, safety and health set out by the chemical industry). The Kao Group as a whole, including subcontractors, sets targets each year, and implements those activities based on an annual plan.

Specific activities are divided among eight divisions\*<sup>2</sup> based on their role in the Kao Group in Japan and are implemented with the inclusion of all Group companies outside Japan.

The Responsible Care Promotion Committee is chaired by

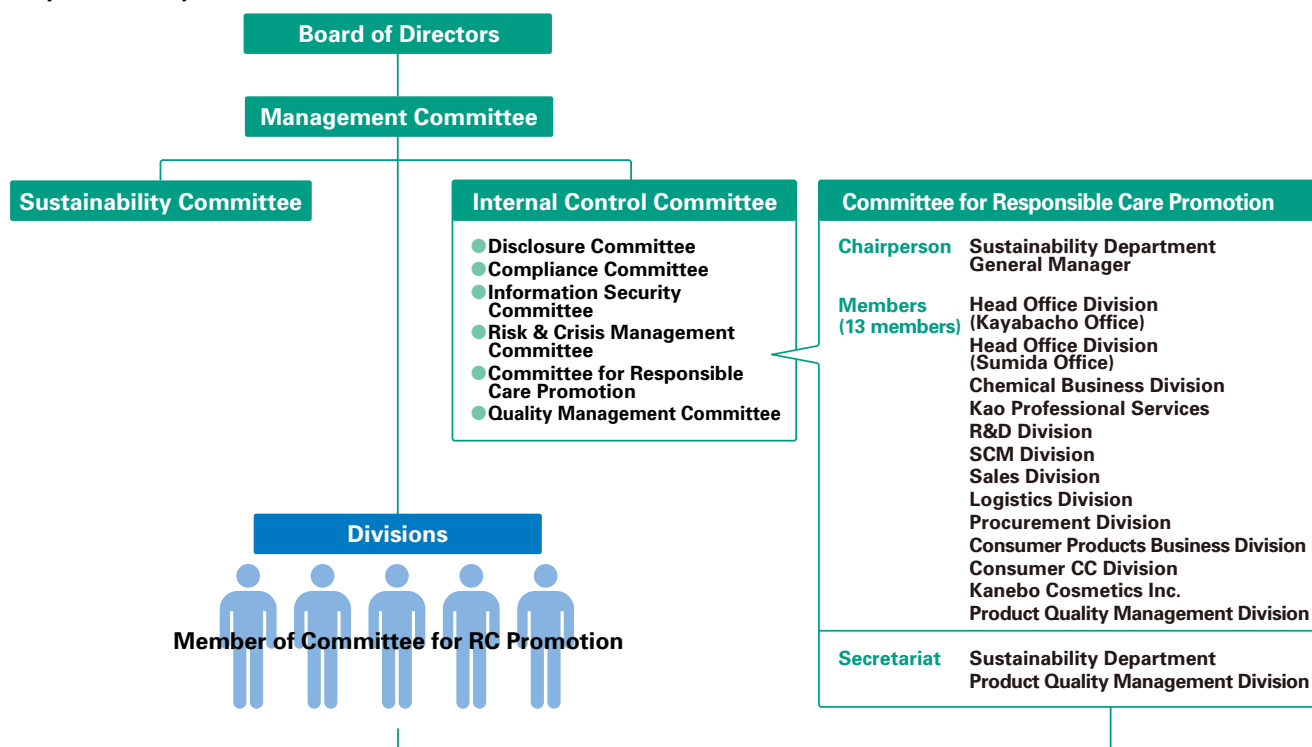
the head of the Sustainability Department and is composed of 13 members: representatives from the above-mentioned eight divisions, plus four divisions, and the head of the Product Quality Management Division. The RC Promotion Group of the Sustainability Department and Product Quality Management Division serve as the secretariat.

\*1 Basic elements of RC activities: Five objectives (environmental conservation, process safety and disaster prevention, occupational safety and health, chemical and product safety, distribution safety) and communication with society

\*2 Eight promotion divisions: Head Office Division (Kayabacho Office), Head Office Division (Sumida Office), Chemical Business Division, Kao Professional Services, R&D Division, SCM Division, Sales Division, Logistics Division

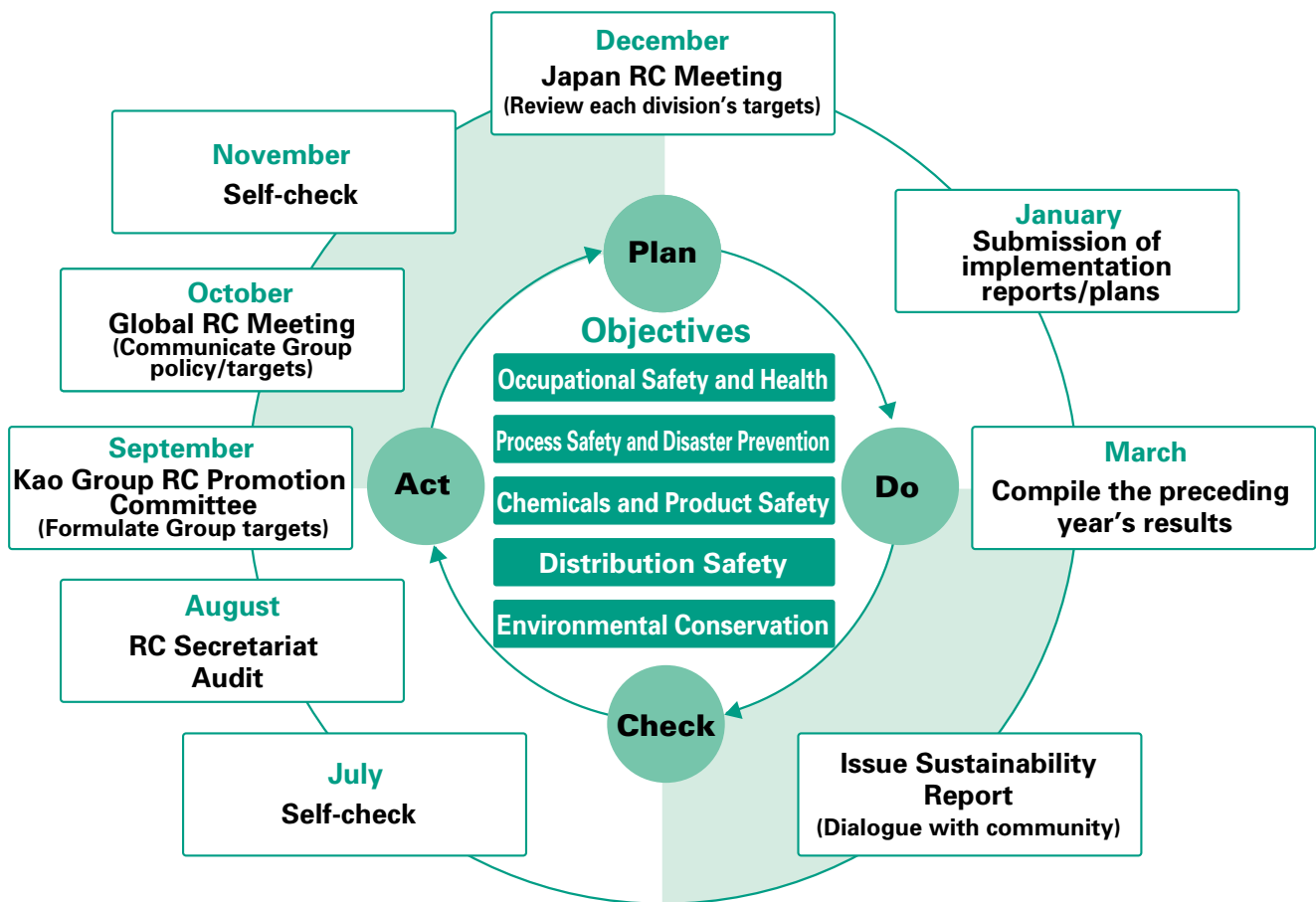
➡For details, refer to Kao Responsible Care Policy  
[http://www.kao.com/jp/en/corp\\_csr/eco\\_activities\\_05\\_00.html](http://www.kao.com/jp/en/corp_csr/eco_activities_05_00.html)

### RC promotion system



## Responsible Care Activities [14,DMA]

### Annual cycle of RC activities



## Responsible Care Activities [14,DMA]

### The standardization of RC activities

Global

At the Kao Group RC Promotion Committee held in September, members discuss initiatives to clarify courses of action and strengthen the management system, and deliberate over the Kao Group's mid-term targets as well as the following year's numerical targets and activity targets based on the results of the RC Secretariat Audit conducted in August.

At the Global RC Meeting held in October since 2014, the RC Secretariat explains the Kao Group's mid-term targets and targets for the upcoming year, decided at the Kao Group RC Promotion Committee, and requests each company to devise its respective targets and plan for the upcoming year. Representatives from each company present the status of their RC activities and share information with the Kao Group.

At the Japan RC Meeting held in December, based on these numerical targets and activity targets for the Kao Group decided at the Kao Group RC Promotion Committee, RC Promotion Committee members announce their respective division plan for the upcoming year, each of which the committee then discusses. The RC Promotion members convey the deliberation results to their respective divisions, relating the content in detail to their activity units in an effort to improve and enhance RC activities closely connected to each worksite.

The Kao Group RC Promotion Committee meeting was held on October 1, 2015. The RC Secretariat announced the Kao Group's overall first-half results in relation to 2015 RC targets, and the

results of the RC Secretariat Audit. The four promoting divisions\* also announced the current state of their promotion activities. Finally, two items were agreed upon for deliberation—adding to the committee rules the ongoing holding of Global RC Meetings to accompany the global rollout of RC in the Kao Group; and the Kao Group's RC targets for 2016.

The Global RC Meeting was held in Tokyo on October 13 and 14, with attendance by 15 people from 13 companies outside of Japan (up from nine the previous year). The meeting promoted understanding of Kao RC Policy and 2016 targets were confirmed. Participants could observe how RC activities and advice were implemented in other companies, analyze strengths and weaknesses, and share best practices, with the interactive communication leading to enhanced global RC activities.

At the Japan RC Meeting held on December 18, each RC Promotion Committee members announced their 2016 draft plans; the plans were then discussed and approved. The RC Secretariat then reported on the Group's 2015 environmental and safety record and proposed the formation of the RC promotion structure to boost the effectiveness of each promotion division to coincide with the reorganization, which was then approved.

\* Four promotion divisions: R&D Division, Sales Division, Logistics Division, Head Office Division (Kayabacho Office)



Kao Group RC Promotion Committee



Global RC Meeting

### Utilization of environmental and safety database

Global

Kao has developed the Environmental & Safety Data Management System (KANCHAN System)\* to further reduce both environmental impacts and occupational accidents.

The KANCHAN System automatically calculates Kao's total GHG emissions and the annual frequency and severity rate of occupational accidents, along with other data-based practical information used to reduce our environmental impacts and eliminate occupational accidents.

We began to shift to a new system that will enable effective sharing of data, aiming for 2017 implementation.

\* Environmental & Safety Data Management System (KANCHAN System)  
Data shared among the Kao Group under this system includes those related to energy consumption, GHG emissions, soot and dust emissions, water use, wastewater amounts, wastewater concentration measurements, soil and groundwater measurements, amounts of handling, release and transfer of PRTR materials, waste generated, discharged, and final disposed of waste, occupational accident statistics, and traffic accident statistics.



## Responsible Care Activities [14,DMA]

### Conducting the RC Secretariat Audit

Global

At Kao, individual divisions in charge of RC promotion conduct a self-check in July, and the RC Secretariat implements an audit of individual divisions in charge of RC promotion in August to determine the progress of RC activities and challenges to be addressed.

These results are reported at the RC Promotion Committee held each September and help formulate the next year's activity targets.

Between July and September, 2015, the RC Secretariat Audit was conducted at eight promotion divisions\* in Japan and 17 companies outside of Japan (an increase of seven from the previous year) using a checklist sheet adhering to the RC code revised in 2014.

In Japan, in meetings with the promotion divisions, various situations were confirmed—the current state of compliance with regulatory requirements and criteria, progress in planning

and achievement of numerical targets, etc. Improvements were observed in many areas pointed out in the 2014 audit—in risk assessment, identification of regulatory requirements, and the procedures, criteria and implementation of record-keeping for education and training, etc.

Outside of Japan, in consideration of the impact of safety and environmental factors, the checklist sheet was sent to companies with plants, and a paper audit was conducted of the response results. Particular requests were made concerning the implementation of risk assessments of occupational safety and the drafting of a plan to reduce waste.

The audit results were presented at the RC Promotion Committee meeting held on October 1.

\* Eight promotion divisions  
Head Office Division (Kayabacho Office), Head Office Division (Sumida Office), Chemical Business Division, Kao Professional Services, R&D Division, SCM Division, Sales Division, Logistics Division

#### Results of RC Secretariat Audit (2015)

	SCM	R&D	Business divisions	Corporate Division	Group companies in Japan* <sup>1</sup>	Group companies outside Japan* <sup>2</sup>
No. of questions	154	147	174	395	378	3,002
No. of items requiring continued observation	3	4	2	6	11	—
Average evaluation score (5-point scale)	4.88	4.95	4.67	4.85	4.66	3.98

\*1 Group companies in Japan: Kanebo Cosmetics Inc., Kao Customer Marketing Co., Ltd., Kao Transport & Logistics Co., Ltd.

\*2 Group companies outside Japan: 17 companies (10 in Asia, 7 in Europe and the Americas)

### Implementing continuous RC education

Japan

The RC Secretariat and RC promotion staff of the individual divisions in charge of RC promotion regularly provide RC education on the environment, occupational safety and health activities for Kao employees and the staff of its business partners.

In 2015, the RC Secretariat carried out group training 15 times, reaching a total of 214 employees.

Furthermore, to spread education on Kao RC Policy, structures and activities, and to improve employees'

understanding of these things, an online study program for about 20,000 employees was run from April to August that involved text-based study, proficiency level tests, and questionnaires on basic knowledge of responsible care and Kao's RC activities.

Additionally, study materials in different languages were supplied to 13 group companies outside Japan that participated in the Global RC Meeting. The study program at companies outside Japan is expected to be completed in 2016.

#### Results of RC Secretariat education (2015)

	SCM	R&D	Business divisions	Corporate Division	Group companies in Japan*	Total
No. of training sessions	6	1	2	2	4	15
No. of participants	144	11	8	6	45	214

\*Group companies in Japan: Kanebo Cosmetics Inc., Kao Customer Marketing Co., Ltd., Kao Transport & Logistics Co., Ltd.

## Responsible Care Activities [14,DMA]

### Topic

### Kao receives award from the Japan Chemical Industry Association

Kao received the Outstanding Prize in the ninth Responsible Care Awards organized by the Japan Chemical Industry Association for its earthquake preparedness measures.

The award is recognition for Kao's implementation since 1998 of various plant safety and stable production measures that include earthquake-proofing reinforcement of plant buildings, measures to prevent liquefaction of high-pressure gas equipment and storage tanks for hazardous materials, and measures to prevent leakages in equipment that handles hazardous or toxic materials.

The award is Kao's second consecutive one, following a 2014 award for Kao Customer Marketing Co., Ltd.'s community-directed communication activities.



Awards ceremony and award speech

➡Other awards received for 2015 RC activities

p.24 Highlights: Conservation > Reducing CO<sub>2</sub> emissions across the product lifecycle > Environmental improvement activities at Pilipinas Kao

## Status of environmental management system certification (ISO 14001, etc.)

Global

Kao has introduced a RC management system in all Kao Group sites, and has also received the ISO 14001 certification and certification from various countries for its plants that manufacture finished products. The percentage of Kao plants that have this certification is 94% (based on total production volume).

The certifications of the nine sites in Japan obtained separately were integrated in 2015 to standardize and upgrade activities. Certification will be integrated at more plants, along with more sites becoming certified in the future.

➡For details, refer to Certification Status of ISO and Other Standards [http://www.kao.com/jp/en/corp\\_csr/eco\\_activities\\_02\\_11.html](http://www.kao.com/jp/en/corp_csr/eco_activities_02_11.html)

# Recognition by outside organizations

## SRI indexes and evaluations (as of June 1, 2016)

Global

### SRI indexes

Kao was selected for inclusion in the 2014 Dow Jones Sustainability World Index, among the world's most renowned socially responsible investment (SRI) indices, for the second straight year. In addition, of 24 companies, Kao received the highest score among industrial groups in the Household & Personal Products category and was selected as the Industry Group Leader. Kao continues to be included in a number of other world-leading indexes as well.



➡ For details, refer to FTSE4Good Index Series

[http://www.ftse.com/Indices/FTSE4Good\\_Index\\_Series/index.jsp](http://www.ftse.com/Indices/FTSE4Good_Index_Series/index.jsp)

➡ For details, refer to MS-SRI Morningstar Socially Responsible Investment Index

<http://www.morningstar.co.jp/sri/index.htm> (Japanese)

### Evaluation

Switzerland-based RobecoSAM, a leading global SRI assessment company, selected Kao for its Gold Class award in its 2015 sustainability rating as well as an Industry Mover in 2015.



## Recognition by Outside Organizations

### List of recognition by outside organizations in 2015

Global

Various initiatives conducted by the Kao Group to contribute to realizing a sustainable society have earned high recognition.

#### Conservation

Date of award	Group recognized	Name and details of recognition	Sponsoring organization
2015/02	Kashima Plant Kao Corporation	Received the Environment Minister's Prize as a plant working to conserve greenery areas with consideration for regional biodiversity.	Contest for Corporate Activities on Biodiversity
2015/02	Kao Corporation	Received the Olive Leaf Award in the Business and Biodiversity Awards for presenting an ideal raw materials procurement policy in the Guidelines for Sustainable Procurement of Raw Materials.	World Wildlife Fund Japan (WWF Japan)
2015/02	Kao Customer Marketing Co., Ltd.	Received the grand prize in the 4 <sup>th</sup> Simplified Packaging Award (2015) for practice of eco-packaging for <i>Bioré Cleansing Oil Cotton Facial Sheets</i> .	Hokkaido Council to Promote Simplified Containers and Packaging
2015/04	Pilipinas Kao, Inc	Received the PEZA Environmental Performance Award for improvements achieved in saving energy and reducing CO <sub>2</sub> emissions and efforts and achievements in environmental protection projects.	Philippine Economic Zone Authority (PEZA)
2015/05	Kao Corporation	Received the WorldStar Award in the Household Category for <i>Wide Haier EX Power</i> fabric bleach, 600ml bottle, for its excellent environmental design.	World Packaging Organisation
2015/06	Kawasaki Plant Kao Corporation	Received the 2015 Kawasaki City Environmental Merit Commendation for promoting protection of greenery and tree planting at the plant as well as contributions to improving the community environment.	Kawasaki City
2015/10	Kao Corporation	Received a commendation of merit for urban greening in FY 2015 urban greening and urban park development, conservation, and beautification campaigns from the Ministry of Land, Infrastructure, Transport and Tourism for activities conducted over 15 years in the "Kao Creating Forests for Everyone" program.	Ministry of Land, Infrastructure, Transport and Tourism
2015/11	Kao Corporation	Selected as a Top Public Disclosure Company briefing for the Kao Group's environmental conservation activities and approach to disclosing information to stakeholders.	CDP

#### Community

Date of award	Group recognized	Name and details of recognition	Sponsoring organization
2015/05	Kao Corporation	Received the 39 <sup>th</sup> Kinoshita Prize in the Research and Development category for the one-push container with a measuring feature adopted in <i>CuCute One-push Clear Gel</i> dishwasher detergent.	Japan Packaging Institute
2015/08	Kao Corporation, Kanebo Cosmetics Inc.	Received the Japan Star Award, President of The Accessible Design Foundation of Japan Award, in the 2015 Japan Packaging Contest for new tactile cues adopted in <i>Bioré-u</i> body soap containers. Another four Kao Group products, including Kanebo Cosmetics' <i>LISSAGE MEN</i> series, also received awards.	Japan Packaging Institute
2015/10	Wakayama Plant Kao Corporation	Received a Minister of Health, Labour and Welfare commendation for being an excellent ordering company in FY 2015 for Kao's long-term support of the Sumiya Wasa Welfare Factory.	Ministry of Health, Labour and Welfare
2015/11	Kao Corporation	Received the 16 <sup>th</sup> Kawai Commemorative Award for a joint research paper on research related to daily walking speed using an activity meter and lowering ADL based on the health condition and walking speed of seniors.	Health and Welfare Statistics Association
2015/12	Kao Corporation	Received the Society Award for receiving approval in OECD Test Guidelines of the alternative cell-based short time exposure (STE) eye irritation test, an original test developed by Kao to conduct safety assessments without relying on animal testing.	The Japanese Society for Alternatives to Animal Experiments
2015/12	Kao Corporation	Received the Encouragement Award of The Society for Risk Analysis Japan for a series of research outcomes including research papers and textbook content creation mainly focused on risk assessments and Society activities.	The Society for Risk Analysis Japan

#### Culture

Date of award	Group recognized	Name and details of recognition	Sponsoring organization
2015/03	Kao Corporation	Selected for the World's Most Ethical Companies list in 2015, which honors companies that excel in ethical business standards and practices from the perspectives of corporate ethics, governance, social responsibility, citizenship activities and corporate culture.	Ethisphere Institute
2015/03	Kao Corporation	Selected as a Health & Productivity Stock as a company strategically working from a management perspective to manage the health of employees and others.	Ministry of Economy, Trade and Industry, The Tokyo Stock Exchange
2015/03	Kao Corporation	Designated in FY 2012 and 2014 as a Nadeshiko Brand for supporting women's careers and supporting work-life balance.	Ministry of Economy, Trade and Industry, The Tokyo Stock Exchange
2015/05	Kao Corporation	Received the Outstanding Prize in the 9 <sup>th</sup> Responsible Care Awards for earthquake preparedness measures aimed at safe and stable plant production conducted since 1998.	Japan Chemical Industry Association
2015/12	Kao Corporation	Selected for the Asia IP Elite list for 3 consecutive years as an Asian company with an excellent intellectual property strategy.	Intellectual Asset Management (IAM)



# Independent assurance report



## Independent Assurance Report

To the President and CEO of Kao Corporation

We were engaged by KAO Corporation (the “Company”) to undertake a limited assurance engagement of the environmental and social performance indicators marked with a star ★ for the period from January 1, 2015 to December 31, 2015 (the “Indicators”) included in its Sustainability Report 2016 found under [www.kao.co.jp/corp/sustainability-reports/en/](http://www.kao.co.jp/corp/sustainability-reports/en/) (the “Report”) for the fiscal year ended December 31, 2015.

### The Company's Responsibility

The Company is responsible for the preparation of the Indicators in accordance with its own reporting criteria (the “Company's reporting criteria”), as described in the Report, which are derived, among others, from the G4 Sustainability Reporting Guidelines of the Global Reporting Initiative and Environmental Reporting Guidelines of Japan's Ministry of the Environment.

### Our Responsibility

Our responsibility is to express a limited assurance conclusion on the Indicators based on the procedures we have performed. We conducted our engagement in accordance with ‘International Standard on Assurance Engagements (ISAE) 3000, Assurance Engagements other than Audits or Reviews of Historical Financial Information’, ‘ISAE 3410, Assurance Engagements on Greenhouse Gas Statements’, issued by the International Auditing and Assurance Standards Board, and the ‘Practical Guidelines for the Assurance of Sustainability Information’ of the Japanese Association of Assurance Organizations for Sustainability Information. The limited assurance engagement consisted of making inquiries, primarily of persons responsible for the preparation of information presented in the Report, and applying analytical and other procedures, and the procedures performed vary in nature from, and are less in extent than for, a reasonable assurance engagement. The level of assurance provided is thus not as high as that provided by a reasonable assurance engagement. Our assurance procedures included:

- Interviewing with the Company's responsible personnel to obtain an understanding of its policy for the preparation of the Report and reviewing the Company's reporting criteria.
- Inquiring about the design of the systems and methods used to collect and process the Indicators.
- Performing analytical reviews of the Indicators.
- Examining, on a test basis, evidence supporting the generation, aggregation and reporting of the Indicators in conformity with the Company's reporting criteria, and also recalculating the Indicators.
- Visiting to the Company's Wakayama Plant and Kao (Taiwan) Corporation selected on the basis of a risk analysis.
- Evaluating the overall statement in which the Indicators are expressed.

### Conclusion

Based on the procedures performed, as described above, nothing has come to our attention that causes us to believe that the Indicators in the Report are not prepared, in all material respects, in accordance with the Company's reporting criteria as described in the Report.

### Our Independence and Quality Control

We have complied with the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants, which includes independence and other requirements founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior. In accordance with International Standard on Quality Control 1, we maintain a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

*KPMG AZSA Sustainability Co., Ltd.*

KPMG AZSA Sustainability Co., Ltd.

Tokyo, Japan

August 5, 2016

## Third-party opinion



**Eiichiro Adachi**  
Counselor

**The Japan Research Institute, Limited**

After graduating from Hitotsubashi University in Japan in 1986 with a Bachelor's degree in Economics, Mr. Adachi joined The Japan Research Institute, Limited (JRI) in 1990. Currently Counselor at JRI, he previously served in the Management Consulting Department and Technology Research Department. He is mainly engaged in conducting industrial surveys and corporate evaluations from the perspective of corporate social responsibility. He was one of the experts in the Japanese delegation to the ISO/Social Responsibility Standards (ISO 26000) Working Group (March 2005–May 2009).

He has co-authored numerous books including *CSR Management* and *SRI* (Kinzai, 2004), *Businesses That Grow with Global Warming* (Toyo Keizai Inc., 2007), *Introduction to Environmental Management* (Nikkei Publishing Inc., 2009), *Ten New Things to Know about Environmental Management: From Carbon Risk to Natural Capital* (Nikkei Publishing Inc., 2015), and *Introduction to Natural Capital: The Challenge of the Nation, Local Governments, and Companies* (NTT Publishing, 2015).

The Kao Group completed the Kao Group Mid-term Plan 2015 (K15), which started in fiscal 2013, by setting new high records for sales and profit. It achieved each of its fiscal 2015 management targets of consolidated sales of 1.4 trillion yen, consolidated profit of 150 billion yen, and an overseas sales ratio of more than 30%. The annual dividend per share for fiscal 2015 increased by 10 yen, marking 26 consecutive terms of increased dividends.

While continuing to increase returns to shareholders, the Kao Group aims for both sustained “profitable growth” by increasing the added value of its products and “contributions to the sustainability of the world” by making proposals to resolve social issues through its business activities and conducting social contribution activities. As such, it is only natural that more expectations than ever are also placed on the Kao Group's returns to society.

The expectations on the Kao Group's returns to society do not stop at paying taxes, employing people, and social contributions. At the core of returns to society is nothing less than mitigating the negative social and environmental impacts of doing business as much as possible, and exerting positive impacts as much as possible.

I read the Kao Sustainability Report 2016 from this perspective. I had the impression that the Kao Group described the results of its efforts to give returns to society from a focus on integrating the returns with its main business. I also felt that several issues remained upon detailed examination.

The highlights included in this year's report cover “Kao's recognition of social issues” and “Kao's approach.” This style of reporting is more persuasive for the reader, but deeper exploration of the content is still possible based on its correlation with and importance to the Kao Group's business.

For example, the problem of plastic debris in the oceans, which was mentioned in the third-party opinion last year, has attracted global attention including at the G7 summit. One of the sources of plastic debris, plastic microbeads are used in personal care products. The Kao Group has discontinued use of plastic microbeads as a scrubbing agent in toothpaste and other products and announced its plan to complete the replacement of plastic microbeads with other materials by the end of 2016. It

would be beneficial to disclose the progress of this initiative, which is closely aligned with the Kao Group's main business. The Kao Group is working to reduce the amount of plastic used in its packaging and containers through efforts including promotion of refill and replacement products, but it still produces 56,000 tons of plastic waste in Japan from packaging and containers. As the consumer products business in Asia is expected to see accelerated growth, countermeasures for plastic waste in countries that do not have developed recycling programs will become even more important.

In the same vein, the 2016 report states in regards to the United Nations' adoption of the Sustainable Development Goals (SDGs), “We are supporting people to live healthy lives through products and services that incorporate technologies we have cultivated.” Yet the report does not share information such as analysis of the 17 goals' and 169 targets' correlation with the Kao Group's business and their order of priority. The company's future business strategy states that it is preparing to enter businesses related to food and health and to create businesses in peripheral areas such as hygiene, meaning there is plenty of opportunity to design a story of giving returns to society based on the SDGs from both angles of its main business and contributions to society.

This is my third time to contribute the third-party opinion to the Kao Group's sustainability report. In terms of the content covered and level of detail, I judge the report as fully meeting the objective of providing comprehensive information for targeting professionals that enables accurate evaluation of its initiatives. As a corporate group leading Japan in business performance, however, the Kao Group should recognize that stakeholders are placing greater expectations on it than ever.

I have provided a third-party opinion on the Kao Group's activities contributing to the sustainability of the world described in this report and on the way in which the Group disclosed relevant information from the perspective of a provider of corporate information to financial institutions to serve their decision-making regarding socially responsible investments. This opinion does not express a view on whether this report presents, in all material respects, matters measured, calculated, and prepared in accordance with environmental reporting guidelines generally accepted.

# GRI/ISO 26000 Content Index

## GRI G4 Guidelines Content Index

This report contains **Standard Disclosures** from the **GRI Sustainability Reporting Guidelines**

## GENERAL STANDARD DISCLOSURES

### STRATEGY AND ANALYSIS

Indicator	Description	Relevant Sections in Reports	
		Website	PDF
1	Statement from the most senior decision-maker of the organization (such as CEO, chair, or equivalent senior position) about the relevance of sustainability to the organization and the organization's strategy for addressing sustainability	•CEO Message	P4
2	Description of key impacts, risks, and opportunities	•CEO Message •Kao Sustainability Statement •Risk and crisis management	P4 P12 P138

### ORGANIZATIONAL PROFILE

Indicator	Description	Relevant Sections in Reports	
		Website	PDF
3	Name of the organization	•Kao Group Overview (external link)	—
4	Primary brands, products, and services	•Kao's businesses	P10
5	Location of the organization's headquarters	•Kao Group Overview (external link)	—
6	Number of countries where the organization operates, and names of countries where either the organization has significant operations or that are specifically relevant to the sustainability topics covered in the report	•Principal locations and business development	P11
7	Nature of ownership and legal form	•Kao Group Overview (external link)	—
8	Markets served (including geographic breakdown, sectors served, and types of customers and beneficiaries)	•Global Gateway (external link)	—
9	Scale of the organization, including: a. Total number of employees b. Total number of operations c. Net sales (for private sector organizations) or net revenues (for public sector organizations) d. Total capitalization broken down in terms of debt and equity (for private sector organizations) e. Quantity of products or services provided	•Kao Group Overview (external link)	—
10	Composition of the workforce, including: a. Total number of employees by employment contract and gender b. Total number of permanent employees by employment type and gender c. Total workforce by employees and supervised workers and by gender d. Total workforce by region and gender e. Report whether a substantial portion of the organization's work is performed by workers who are legally recognized as self-employed, or by individuals other than employees or supervised workers, including employees and supervised employees of contractors f. Report any significant variations in employment numbers (such as seasonal variations in employment in the tourism or agricultural industries)	•Promoting Diversity & Inclusion and respecting human rights	P113
11	Percentage of total employees covered by collective bargaining agreements	—	—
12	Organization's supply chain	—	—
13	Report any significant changes during the reporting period regarding the organization's size, structure, ownership, or its supply chain	—	—

### Commitment to External Initiatives

14	Report whether and how the precautionary approach or principle is addressed by the organization	•Kao Sustainability Statement •Information security and protection of personal information •Risk and crisis management •Responsible Care Activities	P12 P136 P138 P140
15	List of externally developed economic, environmental and social charters, principles, or other initiatives to which the organization subscribes or which it endorses	•Principal locations and business development •Recognition by outside organizations	P11 P145
16	List of memberships of associations (such as industry associations) and national or international advocacy organizations in which the organization is participating in	—	—

## IDENTIFIED MATERIAL ASPECTS AND BOUNDARIES

Indicator	Description	Relevant Sections in Reports	
		Website	PDF
17	a. List of all entities included in the organization's consolidated financial statements or equivalent documents b. Report whether any entity included in the organization's consolidated financial statements or equivalent documents is not covered by the report	•Global Gateway (external link)	—
18	a. Process for defining the report content and the Aspect Boundaries b. How the organization has implemented the Reporting Principles for Defining Report Content	•Editorial Policy •Materiality for Kao	P2 P12
19	List of all the material Aspects identified in the process for defining report content	•Three Key Areas and Target Fields	P13
20	For each material Aspect, report the Aspect Boundary within the organization	•Editorial Policy	P2
21	For each material Aspect, report the Aspect Boundary outside the organization	—	—
22	Effect of any restatements of information provided in previous reports, and the reasons for such restatements	•Non-financial highlights	P9
23	Significant changes from previous reporting periods in the Scope and Aspect Boundaries	Not applicable	Not applicable

## STAKEHOLDER ENGAGEMENT

Indicator	Description	Relevant Sections in Reports	
		Website	PDF
24	List of stakeholder groups engaged by the organization	•Stakeholder communication	P16
25	Report the basis for identification and selection of stakeholders with whom to engage	•Kao Sustainability Statement	P12
26	Organization's approach to stakeholder engagement, including frequency of engagement by type and by stakeholder group, and an indication of whether any of the engagement was undertaken specifically as part of the report preparation process	•Kao Sustainability Statement •Third-party opinion	P13 P148
27	Key topics and concerns that have been raised through stakeholder engagement, and how the organization has responded to those key topics and concerns, including through its reporting. Report the stakeholder groups that raised each of the key topics and concerns	•Kao Sustainability Statement	P12

## REPORT PROFILE

Indicator	Description	Relevant Sections in Reports	
		Website	PDF
28	Reporting period (such as fiscal or calendar year) for information provided	•Editorial Policy	P2
29	Date of most recent previous report (if any)	•Editorial Policy	P2
30	Reporting cycle (such as annual, biennial)	•Editorial Policy	P2
31	Contact point for questions regarding the report or its contents		back cover

## GRI Content Index

32	a. The 'in accordance' option the organization has chosen b. GRI Content Index for the chosen option c. Reference to the External Assurance Report, if the report has been externally assured	•Editorial Policy •Independent assurance report •GRI G4 Guidelines Content Index	P2 P147 P149
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## Assurance

33	a. Organization's policy and current practice with regard to seeking external assurance for the report b. If not included in the assurance report accompanying the sustainability report, report the scope and basis of any external assurance provided c. Relationship between the organization and the assurance providers d. Report whether the highest governance body or senior executives are involved in seeking assurance for the organization's sustainability report	•Editorial Policy •Independent assurance report	P2 P147
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## GOVERNANCE

Indicator	Description	Relevant Sections in Reports	
		Website	PDF
Governance Structure and Composition			
34	a. Governance structure of the organization, including committees of the highest governance body b. Identify any committees responsible for decision-making on economic, environmental and social impacts	•Corporate governance	P129
35	Process for delegating authority for economic, environmental and social topics from the highest governance body to senior executives and other employees	•Kao Sustainability Statement	P12
36	Report whether the organization has appointed an executive-level position or positions with responsibility for economic, environmental and social topics, and whether post holders report directly to the highest governance body	•Kao Sustainability Statement	P15

37	Processes for consultation between stakeholders and the highest governance body on economic, environmental and social topics. If consultation is delegated, describe to whom and any feedback processes to the highest governance body	—	—
38	Composition of the highest governance body and its committees	•Corporate governance	P131
39	Report whether the Chair of the highest governance body is also an executive officer (and, if so, his or her function within the organization's management and the reasons for this arrangement)	•Corporate governance	P131
40	Nomination and selection processes for the highest governance body and its committees, and the criteria used for nominating and selecting highest governance body members	•Corporate governance	P130
41	a. Processes for the highest governance body to ensure conflicts of interest are avoided and managed b. Report whether conflicts of interest are disclosed to stakeholders, including, as a minimum: •Cross-board membership •Cross-shareholding with suppliers and other stakeholders •Existence of controlling shareholder •Related party disclosures	•Corporate governance •Integrity	P131 P99
<b>Role of Highest Governance Body in Setting the Purpose, Value and Strategies</b>			
42	Highest governance body's and senior executives' roles in the development, approval, and updating of the organization's purpose, value or mission statements, strategies, policies, and goals related to economic, environmental and social impacts	•Kao Sustainability Statement •Corporate governance	P12 P129
<b>Ability of the Highest Governance Body and Evaluation of its Performance</b>			
43	Measures taken to develop and enhance the highest governance body's collective knowledge of economic, environmental and social topics	—	—
44	a. Processes for evaluation of the highest governance body's performance with respect to governance of economic, environmental and social topics. Report whether such evaluation is independent or not, and its frequency. Report whether such evaluation is a self-assessment b. Actions taken in response to evaluation of the highest governance body's performance with respect to governance of economic, environmental and social topics	—	—
<b>Role of the Highest Governance Body in Risk Management</b>			
45	a. Highest governance body's role in the identification and management of economic, environmental and social impacts, risks, and opportunities. Include the highest governance body's role in the implementation of due diligence processes b. Report whether stakeholder consultation is used to support the highest governance body's identification and management of economic, environmental and social impacts, risks, and opportunities	•Corporate governance •Risk and crisis management	P129 P138
46	Highest governance body's role in reviewing the effectiveness of the organization's risk management processes for economic, environmental and social topics	•Risk and crisis management	P138
47	Frequency of the highest governance body's review of economic, environmental and social impacts, risks, and opportunities	—	—
<b>Role of the Highest Governance Body in the Sustainability Report</b>			
48	Highest committee or position that formally reviews and approves the organization's sustainability report and ensures that all material Aspects are covered	•Kao Sustainability Statement	P15
<b>Role of the Highest Governance Body in the Evaluation of Social, Environmental and Social Performance</b>			
49	Process for communicating critical concerns to the highest governance body	•Risk and crisis management	P138
50	Nature and total number of critical concerns that were communicated to the highest governance body and the mechanism(s) used to address and resolve them	—	—
<b>Remuneration and Incentives</b>			
51	Remuneration policies for the highest governance body and senior executives	•Corporate governance	P130
52	Process for determining remuneration	•Corporate governance	P130
53	How stakeholders' views are sought and taken into account regarding remuneration	•Corporate governance	P130
54	Ratio of the annual total compensation for the organization's highest-paid individual in each country of significant operations to the median annual total compensation for all employees (excluding the highest-paid individual) in the same country	—	—
55	Ratio of percentage increase in annual total compensation for the organization's highest-paid individual in each country of significant operations to the median percentage increase in annual total compensation for all employees (excluding the highest-paid individual) in the same country	—	—

## ETHICS AND INTEGRITY

Indicator	Description	Relevant Sections in Reports	
		Website	PDF
56	Organization's values, principles, standards and norms of behavior such as codes of conduct and codes of ethics	•The Kao Way •Kao Sustainability Statement •Culture	P3 P12 P99-128



57	Internal and external mechanisms for seeking advice on ethical and lawful behavior, and matters related to organizational integrity, such as helplines or advice lines	• Integrity	P100
58	Internal and external mechanisms for reporting concerns about unethical or unlawful behavior, and matters related to organizational integrity, such as escalation through line management, whistleblowing mechanisms or hotlines	• Integrity • Information security and protection of personal information	P100 P136

## SPECIFIC STANDARD DISCLOSURES

Indicator	Description	Relevant Sections in Reports	
		Website	PDF
DMA	(DMA: Disclosures on Management Approach) a. Report why the Aspect is material. Report the impacts that make this Aspect material b. Report how the organization manages the material Aspect or its impacts c. Report the evaluation of the management approach, including • The mechanisms for evaluating the effectiveness of the management approach • The results of the evaluation of the management approach • Any related adjustments to the management approach Include all DMAs for General Aspects and Specific Aspects	• Kao Sustainability Statement • Conservation • Community • Culture • Responsible Care Activities • Integrity • Partnering with our suppliers • Human capital development	P12 P36-37 P68-98 P99-128 P140 P99 P106 P110

## ECONOMIC

Indicator	Description	Relevant Sections in Reports	
		Website	PDF
ASPECT: ECONOMIC PERFORMANCE			
EC1	Direct economic value generated and distributed	•Investor Relations on the Kao website (external link) •Financial highlights	— P8
EC2	Financial implications and other risks and opportunities for the organization’s activities due to climate change	•Highlight: Reducing CO <sub>2</sub> emissions across the product lifecycle •2020 initiatives based on the Kao Environmental Statement •Reducing CO <sub>2</sub> emissions across the product lifecycle	P21 P36 P38
EC3	Coverage of the organization’s defined benefit plan obligations	Investor Relations on the Kao website (external link)	—
EC4	Financial assistance received from government	—	—
ASPECT: MARKET PRESENCE			
EC5	Ratios of standard entry level wage by gender compared to local minimum wage at significant locations of operation	—	—
EC6	Proportion of senior management hired from the local community at significant locations of operation	—	—
ASPECT: INDIRECT ECONOMIC IMPACTS			
EC7	Development and impact of infrastructure investments and services supported	•Environmental communication •Corporate citizenship activities	P63 P89
EC8	Significant indirect economic impacts, including the extent of impacts	—	—
ASPECT: PROCUREMENT PRACTICES			
EC9	Proportion of spending on local suppliers at significant locations of operation	—	—

## ENVIRONMENTAL

Indicator	Description	Relevant Sections in Reports	
		Website	PDF
ASPECT: MATERIALS			
EN1	Materials used by weight or volume	•Environmentally-conscious containers and packaging •Product lifecycle and environmental impact	P56 P59
EN2	Percentage of materials used that are recycled input materials	•Other environmental topics •Product lifecycle and environmental impact	P53 P59
ASPECT: ENERGY			
EN3	Energy consumption within the organization	•Non-financial highlights •Reducing CO2 emissions across the product lifecycle •Product lifecycle and environmental impact	P9 P38 P59
EN4	Energy consumption outside of the organization	—	—

EN5	Energy intensity	•Reducing CO <sub>2</sub> emissions across the product lifecycle	P39
EN6	Reduction of energy consumption	•Reducing CO <sub>2</sub> emissions across the product lifecycle	P39
EN7	Reductions in energy requirements of products and services	•Reducing CO <sub>2</sub> emissions across the product lifecycle	P39
ASPECT: WATER			
EN8	Total water withdrawal by source	•Measures for water resources conservation	P41
EN9	Water sources significantly affected by withdrawal of water	—	—
EN10	Percentage and total volume of water recycled and reused	—	—
ASPECT: BIODIVERSITY			
EN11	Operational sites owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas	Not applicable	Not applicable
EN12	Description of significant impacts of activities, products, and services on biodiversity in protected areas and areas of high biodiversity value outside protected areas	•Measures for biodiversity conservation	P48
EN13	Habitats protected or restored	Not applicable	Not applicable
EN14	Total number of IUCN Red List species and national conservation list species with habitats in areas affected by operations, by level of extinction risk	—	—
ASPECT: EMISSIONS			
EN15	Direct greenhouse gas (GHG) emissions (Scope 1)	•Reducing CO <sub>2</sub> emissions across the product lifecycle	P39
EN16	Energy indirect greenhouse gas (GHG) emissions (Scope 2)	•Reducing CO <sub>2</sub> emissions across the product lifecycle	P39
EN17	Other indirect greenhouse gas (GHG) emissions (Scope 3)	•Product lifecycle and environmental impact	P59
EN18	Greenhouse gas (GHG) emissions intensity	•Reducing CO <sub>2</sub> emissions across the product lifecycle	P39
EN19	Reduction of greenhouse gas (GHG) emissions	•Reducing CO <sub>2</sub> emissions across the product lifecycle	P39
EN20	Emissions of ozone-depleting substances (ODS)	—	—
EN21	NO <sub>x</sub> , SO <sub>x</sub> , and other significant air emissions	•Other environmental topics	P54
ASPECT: EFFLUENTS AND WASTE			
EN22	Total water discharge by quality and destination	•Measures for water resources conservation •Other environmental topics	P41 P55
EN23	Total weight of waste by type and disposal method	•Other environmental topics	P53
EN24	Total number and volume of significant spills	•Other environmental topics	P55
EN25	Weight of transported, imported, exported, or treated waste deemed hazardous under the terms of the Basel Convention Annex I, II, III, and VIII, and percentage of transported waste shipped internationally	•Other environmental topics	P53
EN26	Identity, size, protected status, and biodiversity value of water bodies and related habitats significantly affected by the organization’s discharges of water and runoff	—	—
ASPECT: PRODUCTS AND SERVICES			
EN27	Extent of impact mitigation of environmental impacts of products and services	•Conservation	P36-67
EN28	Percentage of products sold and their packaging materials that are reclaimed by category	—	—
ASPECT: COMPLIANCE			
EN29	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with environmental laws and regulations	•Other environmental topics	P55
ASPECT: TRANSPORT			
EN30	Significant environmental impacts of transporting products and other goods and materials for the organization’s operations, and transporting members of the workforce	•Highlight: Reducing CO <sub>2</sub> emissions across the product lifecycle	P22
		•Reducing CO <sub>2</sub> emissions across the product lifecycle	P40
		•Product lifecycle and environmental impact	P59
ASPECT: OVERALL			
EN31	Total environmental protection expenditures and investments by type	•Environmental accounting	P61
ASPECT: SUPPLIER ENVIRONMENTAL ASSESSMENT			
EN32	Percentage of new suppliers that were screened using environmental criteria	—	—
EN33	Significant actual and potential negative environmental impacts in the supply chain and actions taken	•Highlight: Responding to the hopes and expectations of the global community	P33
		•Reducing CO <sub>2</sub> emissions across the product lifecycle	P38
		•Measures for biodiversity conservation	P48-49
ASPECT: ENVIRONMENTAL GRIEVANCE MECHANISMS			
EN34	Number of grievances about environmental impacts filed, addressed, and resolved through formal grievance mechanisms	Not applicable	Not applicable

## SOCIAL

## Labor Practices and Decent Work

Indicator	Description	Relevant Sections in Reports	
		Website	PDF
ASPECT: EMPLOYMENT			
LA1	Total number and rates of new employee hires and employee turnover by age group, gender and region	●Promoting Diversity & Inclusion and respecting human rights	P114
LA2	Benefits provided to full-time employees that are not provided to temporary or part-time employees, by significant locations of operation	—	—
LA3	Return to work and retention rates after parental leave, by gender	●Work-life balance	P120
ASPECT: LABOR/MANAGEMENT RELATIONS			
LA4	Minimum notice periods regarding operational changes, including whether these are specified in collective agreements	—	—
ASPECT: OCCUPATIONAL HEALTH AND SAFETY			
LA5	Percentage of total workforce represented in formal joint management-worker health and safety committees that help monitor and advise on occupational health and safety programs	—	—
LA6	Type of injury and rates of injury, occupational diseases, lost days, and absenteeism, and total number of work-related fatalities, by region and by gender	●Occupational safety and health, process safety and disaster prevention	P126
LA7	Workers with high incidence or high risk of diseases related to their occupation	—	—
LA8	Health and safety topics covered in formal agreements with trade unions	—	—
ASPECT: TRAINING AND EDUCATION			
LA9	Average hours of training per year per employee by gender, and by employee category	—	—
LA10	Programs for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings	●Human capital development	P110
LA11	Percentage of employees receiving regular performance and career development reviews, by gender and by employee category	—	—
ASPECT: DIVERSITY AND EQUAL OPPORTUNITY			
LA12	Composition of governance bodies and breakdown of employees per employee category according to gender, age group, minority group membership, and other indicators of diversity	●Promoting Diversity & Inclusion and respecting human rights	P114
ASPECT: EQUAL REMUNERATION FOR WOMEN AND MEN			
LA13	Ratio of basic salary and remuneration of women to men by employee category, by significant locations of operation	—	—
ASPECT: SUPPLIER ASSESSMENT FOR LABOR PRACTICES			
LA14	Percentage of new suppliers that were screened using labor practices criteria	—	—
LA15	Significant actual and potential negative impacts for labor practices in the supply chain and actions taken	●Human rights initiatives ●Partnering with our suppliers	P105 P106-107
ASPECT: LABOR PRACTICES GRIEVANCE MECHANISMS			
LA16	Number of grievances about labor practices filed, addressed, and resolved through formal grievance mechanisms	Not applicable	Not applicable

## Human Rights

Indicator	Description	Relevant Sections in Reports	
		Website	PDF
ASPECT: INVESTMENT			
HR1	Total number and percentage of significant investment agreements and contracts that include human rights clauses or that underwent human rights screening	—	—
HR2	Total hours of employee training on human rights policies or procedures concerning aspects of human rights that are relevant to operations, including the percentage of employees trained	•Highlight: Responding to the hopes and expectations of the global community •Integrity •Human rights initiatives	P33  P101 P104
ASPECT: NON-DISCRIMINATION			
HR3	Total number of incidents of discrimination and corrective actions taken	—	—
ASPECT: FREEDOM OF ASSOCIATION AND COLLECTIVE BARGAINING			
HR4	Operations and suppliers identified in which the right to exercise freedom of association and collective bargaining may be violated or at significant risk, and measures taken to support these rights	—	—
ASPECT: CHILD LABOR			
HR5	Operations and suppliers identified as having significant risk for incidents of child labor, and measures taken to contribute to the effective abolition of child labor	—	—

ASPECT: FORCED OR COMPULSORY LABOR			
HR6	Operations and suppliers identified as having significant risk for incidents of forced or compulsory labor, and measures to contribute to the elimination of all forms of forced or compulsory labor	—	—
ASPECT: SECURITY PRACTICES			
HR7	Percentage of security personnel trained in the organization's human rights policies or procedures that are relevant to operations	—	—
ASPECT: INDIGENOUS RIGHTS			
HR8	Total number of incidents of violations involving rights of indigenous peoples and actions taken	Not applicable	Not applicable
ASPECT: ASSESSMENT			
HR9	Total number and percentage of operations that have been subject to human rights reviews or impact assessments	—	—
ASPECT: SUPPLIER HUMAN RIGHTS ASSESSMENT			
HR10	Percentage of new suppliers that were screened using human rights criteria	—	—
HR11	Significant actual and potential negative human rights impacts in the supply chain and actions taken	<ul style="list-style-type: none"> <li>•Human rights initiatives</li> <li>•Partnering with our suppliers</li> </ul>	P104 P106-107
ASPECT: HUMAN RIGHTS GRIEVANCE MECHANISMS			
HR12	Number of grievances about human rights impacts filed, addressed, and resolved through formal grievance mechanisms	•Integrity	P102

## Society

Indicator	Description	Relevant Sections in Reports	
		Website	PDF
ASPECT: LOCAL COMMUNITIES			
SO1	Percentage of operations with implemented local community engagement, impact assessments, and development programs	—	—
SO2	Operations with significant actual and potential negative impacts on local communities	Not applicable	Not applicable
ASPECT: ANTI-CORRUPTION			
SO3	Total number and percentage of operations assessed for risks related to corruption and the significant risks identified	—	—
SO4	Communication and training on anti-corruption policies and procedures	•Highlight: Striving to maintain sound business practices •Integrity	P31 P99
SO5	Confirmed incidents of corruption and actions taken	Not applicable	Not applicable
ASPECT: PUBLIC POLICY			
SO6	Total value of political contributions by country and recipient/beneficiary	Not applicable	Not applicable
ASPECT: ANTI-COMPETITIVE BEHAVIOR			
SO7	Total number of legal actions for anti-competitive behavior, anti-trust, and monopoly practices and their outcomes a. Report the total number of legal actions pending or completed during the reporting period regarding anti-competitive behavior and violations of anti-trust and monopoly legislation in which the organization has been identified as a participant b. Report the main outcomes of completed legal actions, including any decisions or judgments	Not applicable	Not applicable
ASPECT: COMPLIANCE			
SO8	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with laws and regulations	Not applicable	Not applicable
ASPECT: SUPPLIER ASSESSMENT FOR IMPACTS ON SOCIETY			
SO9	Percentage of new suppliers that were screened using criteria for impacts on society	Not applicable	Not applicable
SO10	Significant actual and potential negative impacts on society in the supply chain and actions taken	•Partnering with our suppliers	P106-107
ASPECT: GRIEVANCE MECHANISMS FOR IMPACTS ON SOCIETY			
SO11	Number of grievances about impacts on society filed, addressed, and resolved through formal grievance mechanisms	Not applicable	Not applicable

## Product Responsibility

Indicator	Description	Relevant Sections in Reports	
		Website	PDF
ASPECT: CUSTOMER HEALTH AND SAFETY			
PR1	Percentage of significant product and service categories for which health and safety impacts are assessed for improvement	•Product quality management	P68
PR2	Total number of incidents of non-compliance with regulations and voluntary codes concerning the health and safety impacts of products and services during their life cycle, by type of outcomes	—	—
ASPECT: PRODUCT AND SERVICE LABELING			
PR3	Type of product and service information required by the organization's procedures for product and service information and labeling, and percentage of significant product and service categories subject to such information requirements	•Communication with consumers	P79
PR4	Total number of incidents of non-compliance with regulations and voluntary codes concerning product and service information and labeling, by type of outcomes	Not applicable	Not applicable
PR5	Results of surveys measuring customer satisfaction	—	—
ASPECT: MARKETING COMMUNICATIONS			
PR6	Sale of banned or disputed products	Not applicable	Not applicable
PR7	Total number of incidents of non-compliance with regulations and voluntary codes concerning marketing communications, including advertising, promotion, and sponsorship, by type of outcomes	Not applicable	Not applicable
ASPECT: CUSTOMER PRIVACY			
PR8	Total number of substantiated complaints regarding breaches of customer privacy and losses of customer data	Not applicable	Not applicable
ASPECT: COMPLIANCE			
PR9	Monetary value of significant fines for non-compliance with laws and regulations concerning the provision and use of products and services	Not applicable	Not applicable



## ISO 26000 Content Index

Core subjects and issues		Pages of the Sustainability Report 2016	
		Website	PDF
6.2	Organizational governance	<ul style="list-style-type: none"> <li>•CEO Message</li> <li>•Kao Sustainability Statement</li> <li>•Governance</li> <li>•Communication with consumers</li> <li>•Communication with corporate customers</li> <li>•Partnering with our suppliers</li> <li>•Human capital development</li> <li>•Promoting Diversity &amp; Inclusion and respecting human rights</li> </ul>	P4 P12 P129-139 P79 P84 P106 P110 P113
6.3	Human rights	<ul style="list-style-type: none"> <li>•Human rights initiatives</li> <li>•Kao Business Conduct Guidelines (external link)</li> </ul>	P104 —
6.3.3	Due diligence	<ul style="list-style-type: none"> <li>•Kao Sustainability Statement</li> <li>•Highlight: Responding to the hopes and expectations of the global community</li> <li>•Integrity</li> <li>•Human rights initiatives</li> <li>•Partnering with our suppliers</li> <li>•Promoting Diversity &amp; Inclusion and respecting human rights</li> </ul>	P12 P33  P99 P104 P106 P113
6.3.4	Human rights risk situations	<ul style="list-style-type: none"> <li>•Highlight: Responding to the hopes and expectations of the global community</li> <li>•Human rights initiatives</li> <li>•Promoting Diversity &amp; Inclusion and respecting human rights</li> </ul>	P33  P104 P113
6.3.5	Avoidance of complicity	<ul style="list-style-type: none"> <li>•Promoting Diversity &amp; Inclusion and respecting human rights</li> <li>•Partnering with our suppliers</li> </ul>	P113  P106
6.3.6	Resolving grievances	<ul style="list-style-type: none"> <li>•Integrity</li> <li>•Communication with consumers</li> </ul>	P99 P79
6.3.7	Discrimination and vulnerable group	<ul style="list-style-type: none"> <li>•Promoting Diversity &amp; Inclusion and respecting human rights</li> <li>•Corporate citizenship activities</li> </ul>	P113  P89
6.3.8	Civil and political rights	<ul style="list-style-type: none"> <li>•Integrity</li> <li>•Promoting dialogue with employees</li> </ul>	P99 P117
6.3.9	Economic, social, and cultural rights	<ul style="list-style-type: none"> <li>•Integrity</li> <li>•Promoting Diversity &amp; Inclusion and respecting human rights</li> <li>•Corporate citizenship activities</li> </ul>	P99 P113  P89
6.3.10	Fundamental principles and rights at work	<ul style="list-style-type: none"> <li>•Integrity</li> <li>•Promoting Diversity &amp; Inclusion and respecting human rights</li> </ul>	P99 P113
6.4	Labour practices		
6.4.3	Employment and employment relationships	<ul style="list-style-type: none"> <li>•Integrity</li> <li>•Promoting Diversity &amp; Inclusion and respecting human rights</li> </ul>	P99 P113
6.4.4	Conditions of work and social protection	<ul style="list-style-type: none"> <li>•Promoting dialogue with employees</li> </ul>	P117
6.4.5	Social dialogue	<ul style="list-style-type: none"> <li>•Promoting dialogue with employees</li> </ul>	P117
6.4.6	Health and safety at work	<ul style="list-style-type: none"> <li>•Occupational safety and health, process safety and disaster prevention</li> <li>•Responsible Care Activities</li> </ul>	P125 P140
6.4.7	Human development and training in the workplaces	<ul style="list-style-type: none"> <li>•Human capital development</li> </ul>	P110
6.5	The environment		
6.5.3	Prevention of pollution	<ul style="list-style-type: none"> <li>•Kao Sustainability Statement</li> <li>•Measures for water resources conservation</li> <li>•Sound management of chemicals</li> <li>•Other environmental topics</li> </ul>	P12 P41 P43 P53
6.5.4	Sustainable resource use	<ul style="list-style-type: none"> <li>•Kao Sustainability Statement</li> <li>•Measures for water resources conservation</li> <li>•Measures for biodiversity conservation</li> <li>•Partnering with our suppliers</li> </ul>	P12 P41 P48 P106

6.5.5	Climate change mitigation and adaptation	<ul style="list-style-type: none"> <li>•Kao Sustainability Statement</li> <li>•Highlight: Reducing CO<sub>2</sub> emissions across the product lifecycle</li> <li>•Reducing CO<sub>2</sub> emissions across the product lifecycle</li> </ul>	P12 P21 P38
6.5.6	Protection of the environment, biodiversity and restoration of natural habitats	<ul style="list-style-type: none"> <li>•Kao Sustainability Statement</li> <li>•Measures for biodiversity conservation</li> <li>•Partnering with our suppliers</li> </ul>	P12 P48 P106
6.6	Fair operating practices		
6.6.3	Anti-corruption	<ul style="list-style-type: none"> <li>•Highlight: Striving to maintain sound business practices</li> <li>•Corporate governance</li> <li>•Integrity</li> </ul>	P31 P129 P99
6.6.4	Responsible political involvement	<ul style="list-style-type: none"> <li>•Integrity</li> </ul>	P99
6.6.5	Fair competition	<ul style="list-style-type: none"> <li>•Highlight: Striving to maintain sound business practices</li> <li>•Corporate governance</li> <li>•Integrity</li> </ul>	P31 P129 P99
6.6.6	Promoting social responsibility in the value chain	<ul style="list-style-type: none"> <li>•Corporate governance</li> <li>•Integrity</li> <li>•Communication with corporate customers</li> <li>•Partnering with our suppliers</li> </ul>	P129 P99 P84 P106
6.6.7	Respect for property rights	<ul style="list-style-type: none"> <li>•Integrity</li> </ul>	P99
6.7	Consumer issues		
6.7.3	Fair marketing, factual and unbiased information and fair contractual practices	<ul style="list-style-type: none"> <li>•Communication with consumers</li> <li>•Communication with corporate customers</li> <li>•Partnering with our suppliers</li> </ul>	P79 P84 P106
6.7.4	Protecting consumers' health and safety	<ul style="list-style-type: none"> <li>•Communication with consumers</li> <li>•Product quality management</li> </ul>	P79 P68
6.7.5	Sustainable consumption	<ul style="list-style-type: none"> <li>•Conservation</li> <li>•Environmentally-conscious containers and packaging</li> </ul>	P36-67 P55
6.7.6	Consumer service, support, and complaint and dispute resolution	<ul style="list-style-type: none"> <li>•Communication with consumers</li> <li>•Product quality management</li> </ul>	P79 P68
6.7.7	Consumer data protection and privacy	<ul style="list-style-type: none"> <li>•Integrity</li> </ul>	P99
6.7.8	Access to essential services	<ul style="list-style-type: none"> <li>•Communication with consumers</li> </ul>	P79
6.7.9	Education and awareness	<ul style="list-style-type: none"> <li>•Communication with consumers</li> <li>•Product quality management</li> <li>•Environmental communication</li> <li>•Corporate citizenship activities</li> </ul>	P79 P68 P63 P89
6.8	Community involvement and development		
6.8.3	Community involvement	<ul style="list-style-type: none"> <li>•Kao Sustainability Statement</li> <li>•Conservation</li> <li>•Community</li> <li>•Culture</li> <li>•Responsible Care Activities</li> <li>•Environmental communication</li> <li>•Measures for biodiversity conservation</li> </ul>	P12 P36-67 P68-98 P99-128 P140 P63 P48
6.8.4	Education and culture	<ul style="list-style-type: none"> <li>•Community</li> <li>•Corporate citizenship activities</li> <li>•Measures for biodiversity conservation</li> <li>•Environmental communication</li> </ul>	P68-98 P89 P48 P63
6.8.5	Employment creation and skills development	<ul style="list-style-type: none"> <li>•Communication with corporate customers</li> </ul>	P84
6.8.6	Technology development and access	<ul style="list-style-type: none"> <li>•Conservation</li> <li>•Community</li> </ul>	P36-67 P68-98
6.8.7	Wealth and income creation	<ul style="list-style-type: none"> <li>•Community</li> <li>•Culture</li> <li>•Corporate citizenship activities</li> </ul>	P68-98 P99-128 P89
6.8.8	Health	<ul style="list-style-type: none"> <li>•Highlight: Raising awareness of the importance of good hygiene habits</li> <li>•Highlight: Supporting people to live healthily</li> <li>•Community</li> </ul>	P27 P28 P68-98
6.8.9	Social investment	<ul style="list-style-type: none"> <li>•Community</li> <li>•Culture</li> </ul>	P68-98 P99-128



Enriching lives, in harmony with nature.

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