



Kao Sustainability Report 2016

Highlights

Enriching lives,
in harmony with nature.

Kao

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Editorial Policy

- The Kao Group developed the Kao Sustainability Statement in July 2013 as its global policy on sustainability. The Kao Sustainability Statement clearly defines Kao’s policy of contributing to the resolution of global issues through the Kao Group’s business activities as well as the key areas of these activities.
- This booklet, Kao Sustainability Report 2016 Highlights, introduces examples of activities in each of the three key areas of Conservation, Community and Culture that represent material issues for the Kao Group.
- The Kao Sustainability Report 2016 (HTML and PDF versions) available online introduces various Kao Group initiatives in the three key areas of Conservation, Community and Culture, Kao’s management structure and detailed environmental and social performance data.

Kao Sustainability Report 2016

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

Scope of reporting

In general, we report the activities of the Kao Group (Kao Corporation, its subsidiaries and affiliates). Environmental and social performance data covers Kao Corporation and its subsidiaries.

Exceptions to this have been clearly stated in the text.

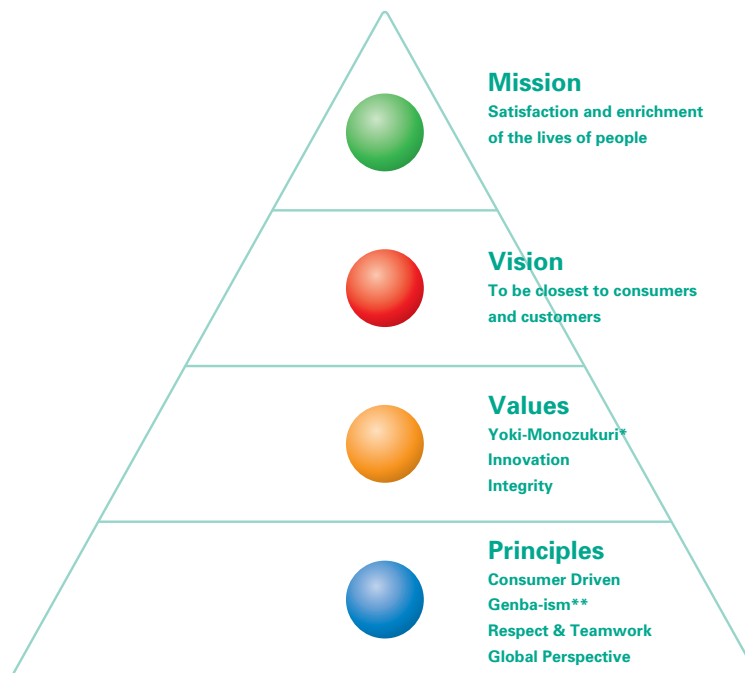
In this report, “Kao” means the Kao Group. We have stated the names of individual organizations covered if it is necessary to identify the scope.

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.

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 21st 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 CO₂ 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 10th 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
(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

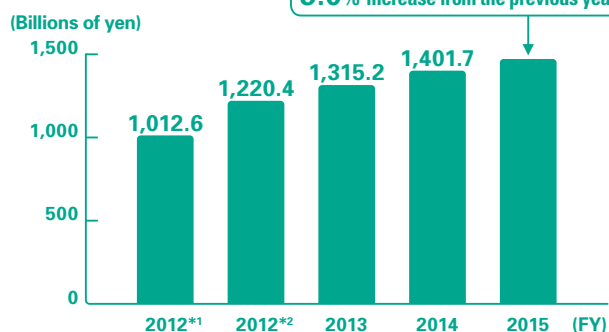
While verifying individual customers' skin problems and skin conditions, we offer advice on recommended products, how to use them, and how to care for skin. For customers with concerns about the use of cosmetics, we also provide a "skin and cosmetics compatibility check" that customers can do on their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

⑤ Continual safety inspections after market launch

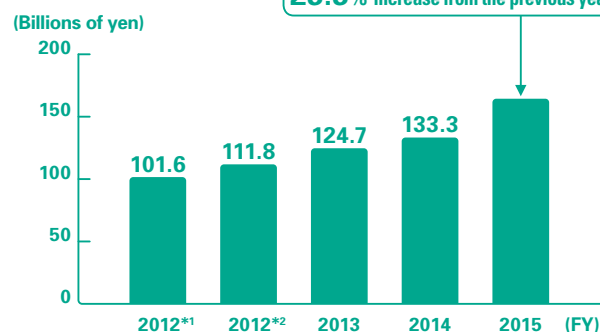
The details of every report received from customers and medical institutions are verified individually and used in safety inspections. At stores we listen intently to our customers. Opinions and requests from customers are used in improvement activities.

Financial highlights (consolidated)

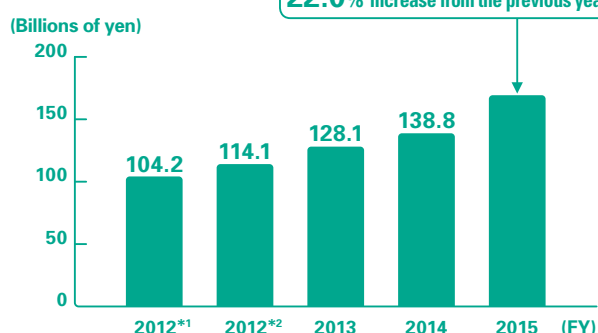
Net sales



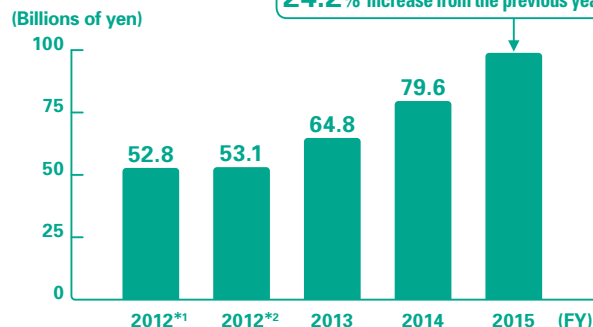
Operating income



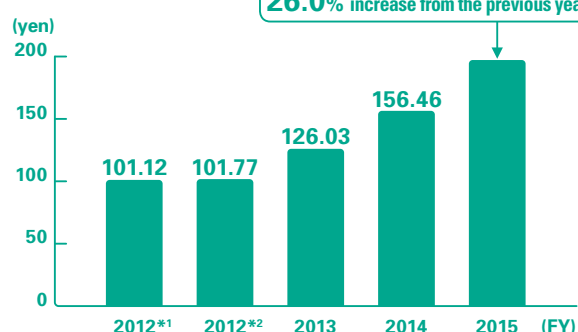
Ordinary income



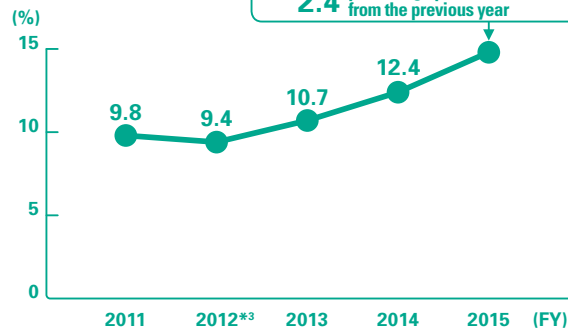
Net income



Net income per share



ROE



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

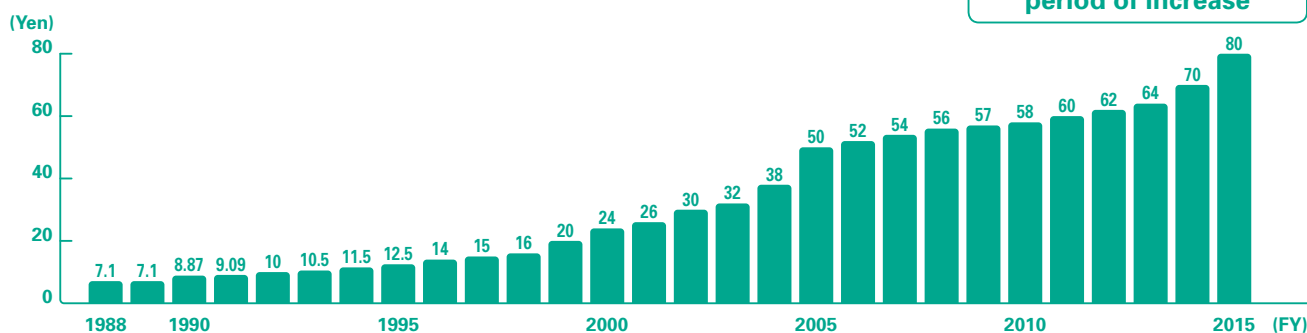
2. The Kao Group's fiscal year end changed from March 31 to December 31 from the year ended December 31, 2012.

*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



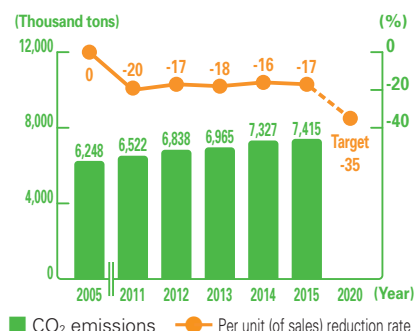
*Impacts of share splits are retroactively reflected.

Non-financial highlights

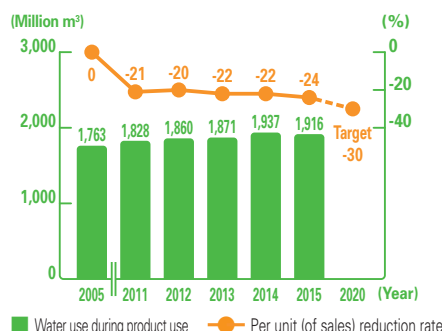
Based on the Kao Sustainability Statement, Kao is conducting a range of activities in three key areas. The following are results for some of Kao's representative activities. For details of activities, please see the Kao Sustainability Report 2016 available on the Kao website (http://www.kao.com/jp/en/corp_csr/reports.html).

Conservation Reducing environmental impacts across the product lifecycle

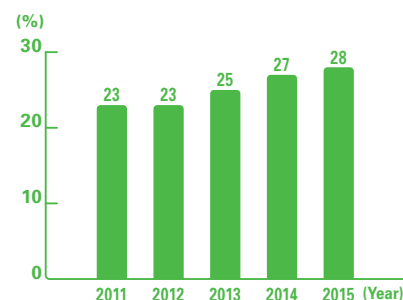
CO₂ emissions across the product lifecycle★ (Kao Group in Japan)*1



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

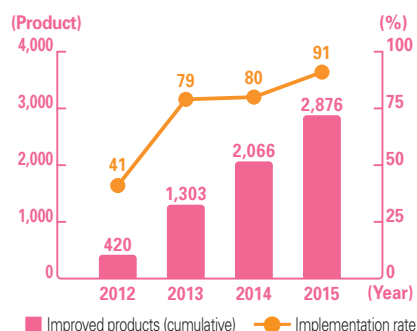


Percentage of sales from products displaying the "eco together" logo (consumer products in Japan)*3

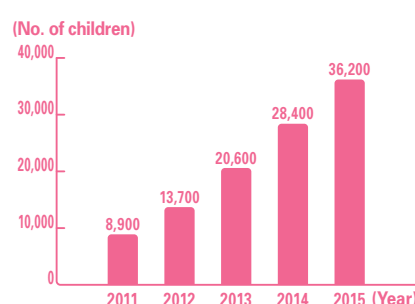


Community Offering products and communication to contribute to resolving social issues with consideration for the diversity of consumers

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

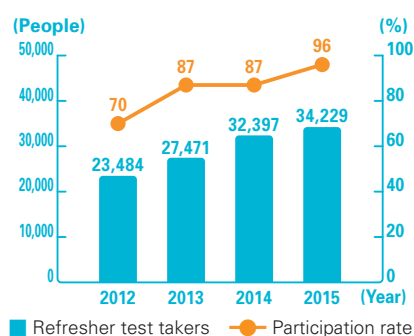


Cumulative number of children who have taken hand washing lessons (Kao Group in Japan)

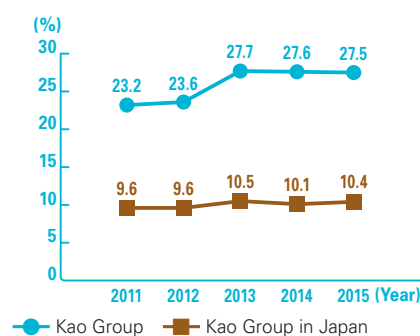


Culture Promoting Integrity including communicating the Business Conduct Guidelines (BCG) to all Group employees and Diversity and Inclusion

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



Percentage of female managers



*1 CO₂ emissions across the product lifecycle is defined as the total of emissions from production and distribution, and those from other stages calculated by multiplying lifecycle emissions, excluding those from production and distribution, mainly of individual consumer products in Japan by their annual sales quantity. However, this does not include CO₂ emissions from use and disposal of industrial products. Some data entries through 2005 have been retroactively modified.

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

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

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

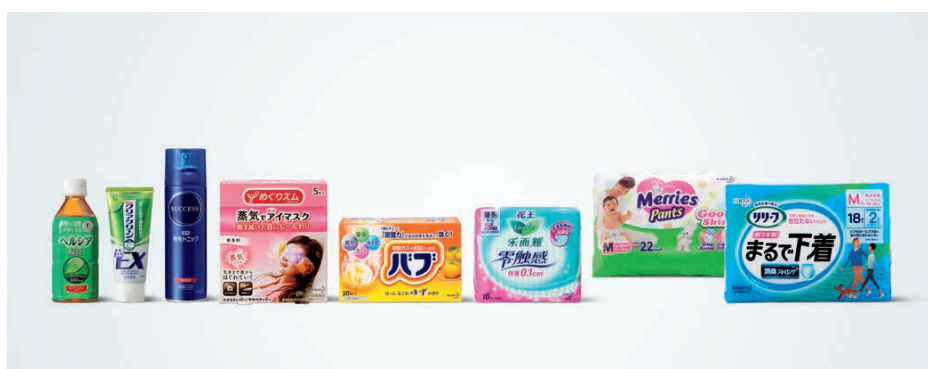
Kao's businesses

Consumer Products Business



Beauty Care Business

In order to allow every consumer to achieve their own unique beauty with leading technologies, Beauty Care offers products including cosmetics, skin care 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

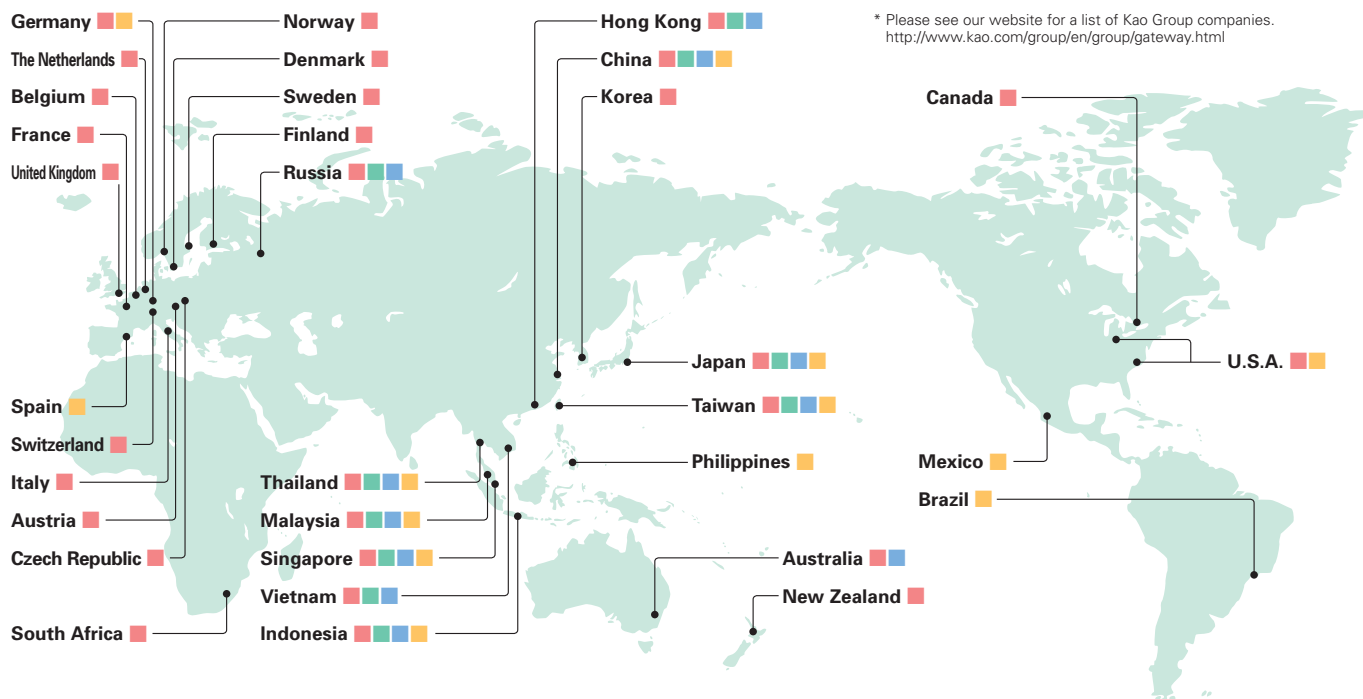


Chemical Business

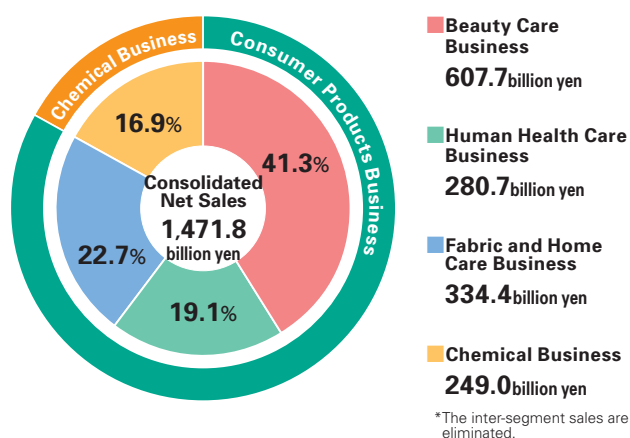
Our Chemical Business offers a broad variety of chemical products to the world, including oleo chemicals manufactured from natural fats and oils, surfactants, toners and toner binders, and fragrances and aroma chemicals.

Principal locations and business development

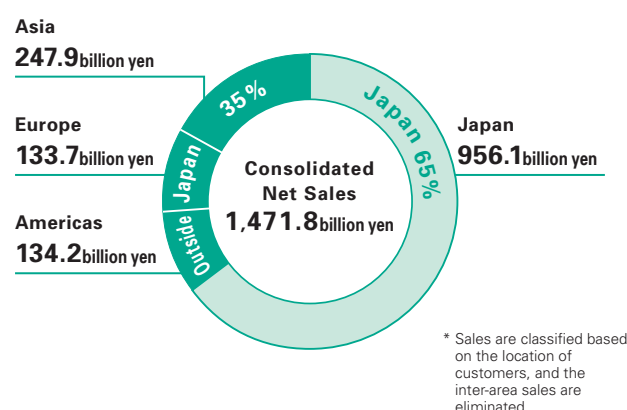
Beauty Care Business Human Health Care Business Fabric and Home Care Business Chemical Business



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.



RSPO

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

External recognition



Dow Jones Sustainability World Index

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



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 the corporate philosophy, the Kao Way. In the Kao Way, we define *Yoki-Monozukuri* as "a strong commitment by all members to provide products and brands of excellent value for consumer satisfaction." Our mission as defined in the Kao Way is "to strive for the wholehearted satisfaction and enrichment of the lives of people globally and to contribute to the sustainability of the world." As members of the Kao Group, in order to fulfill this

mission, we commit fully to working together to share joy with consumers and customers through products and brands of value, contributing to clean, beautiful and healthy living and, in the Chemical Business, contributing to the development of industries.

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.

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



Advancing sustainability activities

To advance activities based on the Kao Sustainability Statement under the Sustainability Committee chaired by the President, divisions engaged in each of the three key areas of Conservation, Community and Culture take responsibility to set targets, implement the PDCA cycle and manage Group-wide activities. To make sure that all Kao Group employees fully understand the thinking behind it, we conduct educational

activities for employees using various approaches, including briefing sessions for managers at Kao Group companies inside and outside Japan, publishing information to aid understanding on the company Intranet system, holding e-learning courses for employees with Internet access, and introducing the Statement in the in-house magazines published for all Kao Group employees.

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.

Conservation

Kao's recognition of social issues

In December 2015, the 196 countries and regions participating in the 21st 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 CO₂ 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 CO₂ emissions across the product lifecycle



Kao is using innovative technologies to develop products with low CO₂ 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 CO₂ 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 CO₂ emissions generated from Kao products across their lifecycle, a much larger volume of CO₂ are emitted

at stages other than development, production, sales and distribution, where Kao's efforts alone are able to achieve reductions. Therefore, to reduce CO₂ emissions at these other stages, we are conducting "eco together" activities with various stakeholders comprised of consumers, business partners, and society.

Ratio of CO₂ emissions at each stage of Kao products' lifecycle



* 2015 results

➡p.25 Highlights: Culture > Responding to the hopes and expectations of the global community > Sustainable procurement of raw materials

CO₂ emissions reductions in development, manufacture and sales

Global

We are conducting initiatives to reduce CO₂ 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 CO₂ emissions generated from the company cars used by our sales companies.



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

We are also working to reduce our indirect CO₂ emissions from the use of electricity.

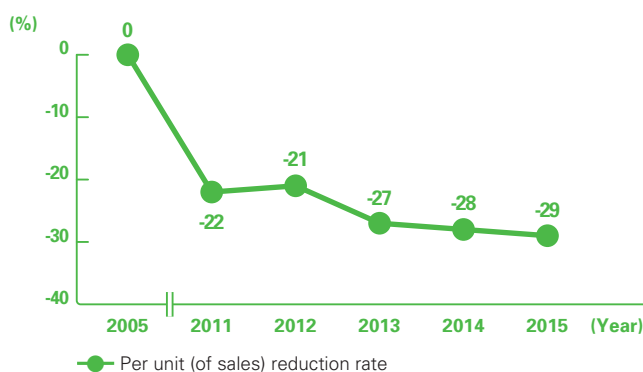
To improve electricity usage efficiency, in 2015 we announced a policy of switching mercury-containing lighting and general-purpose fluorescent lighting to LED lighting at plants, logistics centers and offices. In Japan alone, this represents a switch of about 90,000 mercury-containing and general-purpose fluorescent lights. We are also reducing CO₂ 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 CO₂ 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

CO₂ 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.

CO₂ 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 CO₂ 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

CO₂ reduction rate in the distribution stage (Japan)
(per unit of sales, 2005 baseline)

CO₂ 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 CO₂ emissions, at 50%. This fact is particularly noticeable for products that use hot water during use. For example, about 90% of the total CO₂ emissions across the product lifecycle for shampoo are from the CO₂ emissions to provide tap water and the CO₂ emissions from fuel to heat it.

Therefore, we are proposing water-saving products as an approach to reduce the volume of CO₂ emissions during the usage stage. If the amount of water use can be reduced with water-saving products, this will reduce the CO₂ 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.

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.

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 CO₂ emissions from the product lifecycle.

Global



Water-saving laundry detergents available in 7 countries and regions



Products that save water in the usage stage



Research on detergent technologies to reduce environmental impacts

24% reduction

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

Reducing CO₂ emissions across the product lifecycle

CO₂ reductions during disposal and recycling

The disposal and recycling stage accounts for 15% of the CO₂ emissions volume of Kao products, which is 2.5 times more CO₂ than during the production stage. In other words, this CO₂ is emitted after customers have used the products. Most of this CO₂ 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 CO₂ 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. 25) 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*¹ (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*² (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 CO₂ emissions per packaging are about 3% lower than with traditional refill packaging, making this a more environmentally friendly 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.



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 4th 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

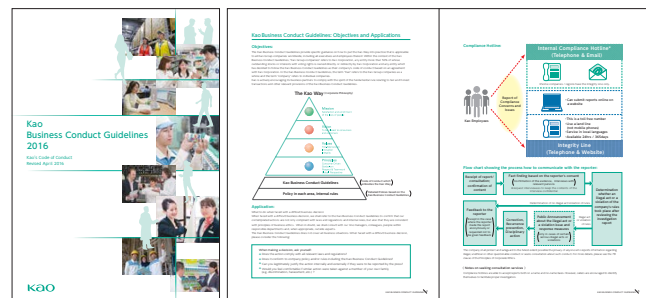
Kao's mission, as set out in the Kao Way (see p. 1) that constitutes Kao's basic corporate philosophy, is to strive for the wholehearted satisfaction and enrichment of the lives of people globally, and to contribute to the sustainability of the world, with products and brands of excellent value that 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.*¹ 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*² 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

Kao Business Conduct Guidelines

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 110th 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 108th Annual General Meeting of Shareholders held in March 2014. The term of office for Directors and Executive Officers is one year.



The 110th 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 Results & 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		<ul style="list-style-type: none">● Expand and improve water-saving products● Expand and improve refill products● Expand introduction of bioplastics in packaging	17% reduction	<ul style="list-style-type: none">● Launched improved <i>Bath Magiclean</i>● Launched refill pack for <i>Attack Antibacterial EX Super Clear Gel</i>● Expanded refill products for <i>CuCute</i>, skin care products● Used 30% bioplastic in <i>Merit Shampoo</i> and <i>Conditioner</i> bottles	<ul style="list-style-type: none">● Expand and improve water-saving products● Expand and improve refill products● Expand introduction of bioplastics in containers
	<CO ₂ > 35% CO ₂ reduction in consumer products by 2020 (across the product lifecycle, per unit of sales in Japan, relative to 2005)	Promote energy-saving activities at production sites, offices and in distribution		<Production> <ul style="list-style-type: none">● Reduce steam loss through use of steam traps (all sites)● Improve efficiency of heat-source equipment including refrigeration equipment <Distribution> <ul style="list-style-type: none">● Introduce energy-saving air conditioning facilities● Develop new routes with modal shift● Shared delivery with other companies and direct shipments from plants <All> <ul style="list-style-type: none">● Convert from fluorescent to LED lighting	<Production> <ul style="list-style-type: none">● Improved efficiency of heat-source equipment including refrigeration equipment through changes in set temperature of chilled water in intermediate seasons and winter (Wakayama)● Converted from fluorescent to LED lighting (ongoing) <Distribution> <ul style="list-style-type: none">● Introduced energy-saving air conditioning facilities (2 LCs)● Opened 2 new routes with modal shift● 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)● Completed switch to LED lighting at logistics centers
	<Water> 30% reduction in water use during product use by 2020 (per unit of sales in Japan, relative to 2005)	Expand water-saving products	<ul style="list-style-type: none">● Expand water-saving products	24% reduction	<ul style="list-style-type: none">● Launched improved <i>Bath Magiclean</i>● Expanded <i>CuCute</i> and <i>Attack Neo</i>
<Chemical Substances>	Appropriately manage chemical substances throughout their lifecycles in accordance with SAICM*2	<ul style="list-style-type: none">● Conduct risk assessments and preparation of risk assessment reports on priority assessment substances*3 according to the medium-term plan● Establish a fundamental base for a chemical substances lifecycle management system● Plan and implement risk mitigation measures at handling sites based on chemical substance risk assessments● Study hazardous labeling according to GHS at production sites● Publicly release deliverables for SAICM activities● Study two-way communication methods with stakeholders	<ul style="list-style-type: none">● 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● Studied re-establishing the SDS system introduced in 2000● Completed risk assessments at sites that handle PRTR substances, VOC substances and poisonous and deleterious substances, and implementation of risk mitigation measures is ongoing● Conducted trial hazardous labeling according to GHS at some plants according to plan● 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● Continuing to release GPS Safety Summaries*4 for chemical products (12 summaries released, and 89 cumulative*5 for the Kao Group)● Studied ways to utilize communication with local residents conducted at plants in Japan		<ul style="list-style-type: none">● Conduct risk assessments and prepare risk assessment reports on priority assessment substances*3 according to the medium-term plan (ongoing)● Establish a fundamental base for a chemical substances lifecycle management system (ongoing)● Propose and implement risk mitigation measures at handling sites based on chemical substance risk assessments (ongoing)● Begin hazardous labeling according to GHS at production sites● Disclose SAICM activities and deliverables to the public (ongoing)● Study two-way communication with stakeholders (ongoing)
<Biodiversity>	Expand use of certified raw materials	<ul style="list-style-type: none">● RSP0 certified oil purchasing Total of palm oil, palm kernel oil and derivatives: 40 kt● No. of RSP0 SCCS certified plants 2015: 15 companies, 18 plants	<ul style="list-style-type: none">● Percentage of RSP0 certified oil purchases using the Mass Balance system*6 2014: 88% 2015: 28%● RSP0 certified oil purchasing 2014: 5.2 kt of palm oil, 17.9 kt of palm kernel oil 2015: 5 kt of palm oil, 12.5 kt of palm kernel oil, 6.7 kt of derivatives● RSP0 SCCS certified plants 2014: 9 companies, 12 plants (of them, 9 outside Japan) 2015: 16 companies, 19 plants (of them, 16 outside Japan)		<ul style="list-style-type: none">● RSP0 certified oil purchasing Total of palm oil, palm kernel oil and derivatives: 40 kt● RSP0 SCCS certified plants 2016: 20 companies, 25 plants
	Promote biodiversity conservation activities at business sites	<ul style="list-style-type: none">● Promote activities at Wakayama and at other sites in Japan● Survey the current situation at sites outside Japan	<ul style="list-style-type: none">● Kashima Plant received Association for Business Innovation in Harmony with Nature and Community (ABINC) certification (a first for plants in Japan)● Kashima Plant received the Environment Minister's Prize in the fourth Contest for Corporate Activities on Biodiversity● Held a field observation at the Employees' Forest at Kashima Plant for the Eco-College, sponsored by the Ibaraki Prefectural Environmental Management Association● 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● Conducted educational activities at plants outside Japan		<ul style="list-style-type: none">● Promote activities at sites in Japan● Survey the current situation at sites outside Japan

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"> ● Distributed “eco together” diaries to 515 schools ● Conducted guest lectures on the environment at 43 schools ● 71 schools visited the Eco-Lab Museum ● Provided subsidies to 52 groups in the Kao Creating Forests for Everyone program ● Provided 9 teacher fellowships in the Kao Earthwatch Teachers’ Fellowship ● 167 incidents of communication at business partners and local government events ● Received 12,456 entries in the Kao International Environment Painting Contest for Children ● Received visitors in the event of Nationwide Cleanliness and Water-saving Initiatives (conducted jointly with Chinese government) 	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"> ● Continue product improvements with UD considerations ● Continue awareness-raising activities (lectures, etc.) ● Activities for the next step toward full-scale broadcasting of TV commercials with captions (Aim for trial broadcasts in programs sponsored by multiple companies) 	<ul style="list-style-type: none"> ● Implementation rate of products with UD considerations: 91% ● Conducted UD awareness-raising activities for employees (13 Workshops for Promoting Empathy with Elderly People) ● External activities promoting Kao's UD efforts (16 lectures, 4 events) ● 2 product information sessions for cancer patients ● UD lessons for elementary school students (7 schools) ● 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) 	<ul style="list-style-type: none"> ● Continue product improvements with UD considerations ● Continue awareness-raising activities (UD lessons for elementary schools, lectures, seminars, etc.) ● Activities for the next step toward full-scale broadcasting of TV commercials with captions (Aim for trial broadcasts in programs sponsored by multiple companies, approaches to captioning promotion council, etc.)
	Help prevent and treat obesity and Lifestyle-related Diseases	<ul style="list-style-type: none"> ● Sponsor walking events (Target participation in Japan: 100,000 people) ● Target QUPiO participation in Japan: 60 companies 	<ul style="list-style-type: none"> ● Sponsored walking events with 150,000 participants in Japan ● QUPiO participation in Japan: 69 participating companies, 2.5 million QUPiO users 	<ul style="list-style-type: none"> ● Sponsor walking events (Target participation in Japan: 100,000 people) ● Target QUPiO participation in Japan: 60 companies
	Promote baby health in consideration of local living environments and habits	<ul style="list-style-type: none"> ● Expand local production and country development for disposable baby diapers ● Conduct educational activities and provide product samples at childbirth and parenting classes (Japan: 680,000 people) ● Distribute samples of <i>Merries Tape Diaper</i> for newborns & size S (Japan: 1.21 million samples) 	<ul style="list-style-type: none"> ● Developed disposable baby diapers in Asia (Indonesia) ● Conducted educational activities and provided product samples at childbirth and parenting classes (Japan: 680,000 people, Asia: 3.66 million people) ● Distributed samples of <i>Merries Tape Diaper</i> for newborns & size S (Japan: 1.81 million samples, Asia: 3.66 million samples) 	<ul style="list-style-type: none"> ● Expand local production and country development for disposable baby diapers ● Conduct educational activities and provide product samples at childbirth and parenting classes (Japan: 780,000 people, Asia: 3.70 million people) ● Distribute samples of <i>Merries Tape Diaper</i> for newborns & size S (Japan: 2.01 million samples, Asia: 3.70 million samples)
	Improve hygiene through hand washing education	<ul style="list-style-type: none"> ● Educational activities by visiting preschools and elementary schools to give lessons (160 preschools, 100 elementary schools in Japan) ● Distribute samples for hand washing education (Japan: 540,000 samples for preschool and elementary school students, etc.; Asia total: 78,000 elementary school children in Taiwan, Thailand, Indonesia) 	<ul style="list-style-type: none"> ● Educational activities by visiting preschools and elementary schools to give lessons (160 preschools, 111 elementary schools in Japan) ● 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) 	<ul style="list-style-type: none"> ● Educational activities by visiting preschools and elementary schools to give lessons (160 preschools, 120 elementary schools in Japan) ● 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)
	Expand well-rounded education on beginning menstruation to realize greater comfort in daily life	<ul style="list-style-type: none"> ● Provide educational materials and educational activities on beginning menstruation (Japan: 6,000 schools, 480,000 kits; Asia total: 482,000 kits in Taiwan, Thailand, Indonesia) 	<ul style="list-style-type: none"> ● 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) 	<ul style="list-style-type: none"> ● 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)

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"> Propose activities that nurture the spirit of volunteering 	<ul style="list-style-type: none"> Information on volunteering provided through the Intranet 31 times Publicized information internally and externally 122 times 	<ul style="list-style-type: none"> Continue to propose activities that nurture the spirit of volunteering

Culture

Material issue: ● Integrity

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

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"> Propose and implement action plan 	<ul style="list-style-type: none"> Planned D&I promotion plan in line with actual conditions at each organization Made proposals to advance the participation of women and seniors in the Kao Group in Japan through HR utilization projects <ul style="list-style-type: none"> ⇒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 Percentage of women managers 27.5% (Group-wide) and 10.4% (Kao Group in Japan) 	<ul style="list-style-type: none"> Implement D&I promotion plan in each organization Gain understanding of issues for Kao Group outside Japan Address the Act to Advance Women's Success in Their Working Life

Kao

Enriching lives, in harmony with nature.

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